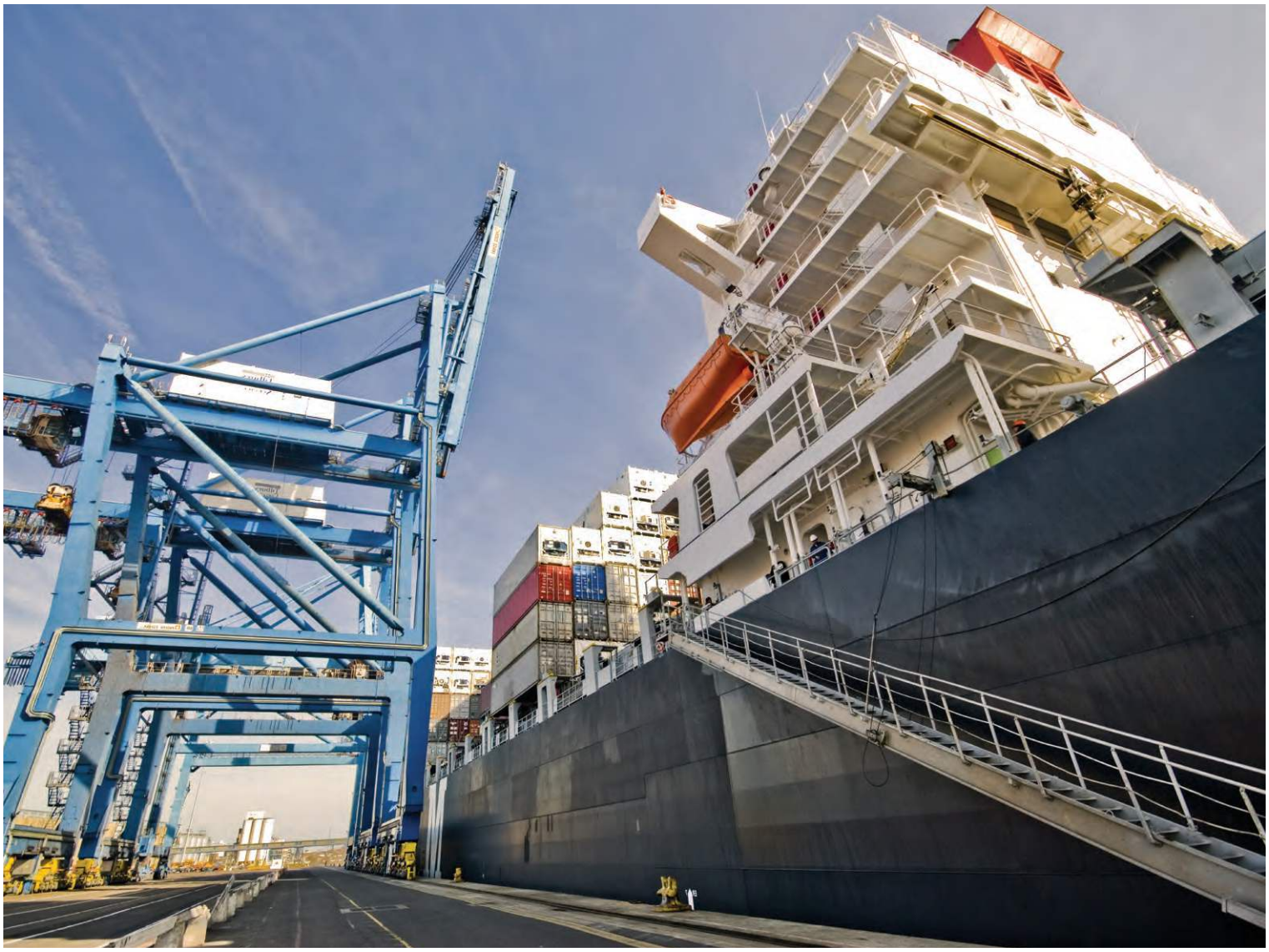
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# Marine Cargo Insurance:

## A market on the move

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**Cargo comes in all shapes and sizes and when moved around the world is faced with a myriad of perils. Insurance plays a crucial role in providing protection yet a lack of understanding in this area has shown that when an incident occurs, too many parties are found to be without cover and facing huge losses. However, recently we've seen developments in improving both accessibility and transparency in this sector.**

## More than marine

Whilst the insurance is known as 'marine cargo', the cover is certainly not just for sea-borne risks. Notably, this insurance is broader than goods in transit and can apply to both the domestic and overseas transport by any means including road, rail and air. Marine cargo will typically insure losses arising from physical damage incurred during both transit and whilst in storage.

## An expanding market

Marine cargo insurance continues to grow and is worth around £11.8 billion globally – the UK contributes around £1.48 billion of GWP. According to the Office for National Statistics, there are over 151,000 businesses importing goods into the UK every year and around 106,000 exporting. These goods are valued at over £59 billion[1]

The international liner shipping industry transports goods with an estimated value of €4 trillion each year – approximately one third of the total value of global trade. With 120 million containers packed with cargo and a reported increase in such containers lost annually, the requirements for measures to safeguard such goods is apparent.

## A long history

There are references to insuring goods from weather-related and piracy risks dating from Greek and Roman times but the cover evolved into its present form through development at Lloyd's. The original Lloyd's coffee house was founded in 1688 and was a hub for ship owners seeking ways to manage risk. As they discussed their needs with underwriters, distinct classes under the marine umbrella were formulated, resulting in separate classes for hull and machinery, freight liability and cargo.

A more detailed approach arrived following the Marine Insurance Act of 1906, which encompassed transport across seas but also via inland waterways, road and air. Indeed, marine cargo policies cover most types of transit while goods are being imported and exported and while these are in temporary storage.

Moves to reduce risk and improve safety also came about in Victorian times when approaches for a new law were made. It was argued lives were being lost at sea because 'greedy' ship owners were overloading vessels.

A campaign was launched in 1870 to improve conditions on merchant vessels and finally in 1876, Parliament was forced to pass the Unseaworthy Ships Bill into law.

1 Office for National Statistics 2016



## Overcoming misconceptions

Marine cargo policies can suit a huge range of exposures and be taken out by the largest multi-national to the smallest SME. In fact, the cover is often suited to smaller concerns since they may not be able to self-insure.

There are a number of common misconceptions about marine cargo insurance. One of which includes mistakenly believing that the responsibility to insure lies elsewhere. For example, hauliers and freight forwarders should possess insurance but this is to protect their legal liability and not the client's cargo.

Furthermore, the goods in transit section of a combined policy will not provide full storage or transit outside of the UK. In contrast marine cargo covers the world and offers insured storage both before and after the journey.

Lastly there can be a lack of knowledge about shipping emergencies. If all or part of the cargo is lost or damaged in order to save the ship in an emergency then cargo owners must contribute to the loss – even if their goods subsequently remain intact.

## What constitutes cargo?

Cargo covers a huge array of goods, from raw materials to finished items and ranging from low to high risk. In a few cases, it can also be uninsurable. This could be because of exceptionally high values or because the goods are too perishable. However in most cases, brokers can find suitable carriers and importantly help their clients decide if they need to insure their cargoes.

## Who needs cargo cover?

Marine cargo insurance is available for a range of different circumstances. The below activities are some examples for which a company may require marine insurance. Additionally companies should discuss the risk with a broker to see whether insurance is appropriate for their business.

- Exporters
- Importers
- Wholesalers
- Retailers
- Manufacturers
- Contractors
- Franchisors or franchisees
- Suppliers
- UK and overseas exhibitors

Insurers can also provide buyers' or sellers' contingency cover – this provides a safety net when someone is buying (or selling) goods and is unsure of the terms of the other party's insurance cover.

Understanding where responsibility for protecting cargo lies can be complicated. What's more, there is usually no legal obligation to protect goods being transported. However, since any loss could have severe financial implications the need for insurance is clear. Also, if a bank is providing finance then it is likely to insist on insurance being in place before funds are released.

**Companies should discuss the risk with a broker to see whether insurance is appropriate for their business.**





## Determining liability

In the case of transporting goods there may well be multiple parties involved. This means there can be confusion as to where liability lies and a presumption that another party is responsible for safe transportation who will pay compensation if things go wrong.

However, a carrier's liability will probably be strictly limited either via international conventions or according to their trading terms. Any compensation payable may also be well below the value of the goods; the Road Haulage Association in the UK for example, offers a maximum of £1,300 per tonne.

Beyond this, if the losses occur overseas there may well be even less protection. There are also often tight limits on making any claim, for example, being 'time barred' after a few days.

Freight forwarders' liability has its limitations. One important misunderstanding about transportation and insurance is that there may be higher limits of compensation involved than is actually the case.

Because freight forwarders and carriers are entitled to limit their liability, in the case of losses only a fraction of the values may be payable.

The British International Freight Association and the Road Haulage Association set limits of damage per tonne regardless of how valuable the freight is.

Their reasoning is that the carrier is only receiving freight money in return for their services and that this sum rarely bears any relationship to the value of the cargo being moved. Cargo owners should also note that delay in itself is not a reason to claim and any payments are made based on evidenced consequences.

## Who has responsibility to insure?

This can appear a difficult area when there are numerous parties involved in an international cargo transaction. The key issue will be the detail in the sales contract between the buyer and seller of goods and this will often be based on incoterms.

## What are incoterms?

Incoterms act as a set of international rules to show the contractual terms between the buyer and seller and determine who has an 'insurable interest'.

### Inco Terms Chart



| Services | Packing | Loading Charges | Inland Frieght | Terminal Charges | Insurance | Loading on Vessel | Freight | Arrival Charges | Duty and Taxes | Delivered to Destination |
|---|---|---|---|---|---|---|---|---|---|---|
| **EXW** Ex Works | Seller | Buyer | Buyer | Buyer | Buyer | Buyer | Buyer | Buyer | Buyer | Buyer |
| **FCA** Free Carrier | Seller | Seller | Seller | Buyer | Buyer | Buyer | Buyer | Buyer | Buyer | Buyer |
| **FAS** Free Alongside Ship | Seller | Seller | Seller | Seller | Buyer | Buyer | Buyer | Buyer | Buyer | Buyer |
| **FOB** Free On Board Vessel | Seller | Seller | Seller | Seller | Buyer | Seller | Buyer | Buyer | Buyer | Buyer |
| **CFR** Cost and Frieght | Seller | Seller | Seller | Seller | Buyer | Seller | Seller | Buyer | Buyer | Buyer |
| **CIF** Cost Insurance and Frieght | Seller | Seller | Seller | Seller | Seller | Seller | Seller | Buyer | Buyer | Buyer |
| **CPT** Carriage Paid To | Seller | Seller | Seller | Seller | Seller | Seller | Seller | Seller | Buyer | Buyer |
| **CIP** Carriage Insurance Paid To | Seller | Seller | Seller | Seller | Seller | Seller | Seller | Seller | Buyer | Buyer |
| **DAT** Delivered at Terminal | Seller | Seller | Seller | Seller | Seller | Seller | Seller | Seller | Buyer | Buyer |
| **CAP** Delivered at Place | Seller | Seller | Seller | Seller | Seller | Seller | Seller | Seller | Buyer | Seller |
| **DDP** Delivered Duty Paid | Seller | Seller | Seller | Seller | Seller | Seller | Seller | Seller | Seller | Seller |

Seller  Buyer

Source: John Good Shipping, 2015



Incoterms were first published in 1936 and the most recent edition was produced in 2010. As part of incoterms, there are 11 acronyms used to show who is responsible for the risk and costs of carriage during transit of international cargo from the seller to the buyer.

Only two of the 11 incoterms – 'CIP' and 'CIF' - make it contractually mandatory for the seller or buyer to purchase insurance. However, for the other nine incoterms there may well be a need to buy insurance because of the risk of loss or damage.

When an exporter sells goods overseas they have two options: they can sell the goods on terms that leave the insurance to be arranged by their buyer; or they can arrange an insurance that covers the entire voyage but the benefit of which passes from the seller to the buyer when the insurable interest passes from one to the other. In the instance of Cost, Insurance and Freight (CIF), the insurance is arranged by the seller but assigned to the buyer at the point that goods are loaded onto the vessel. Any claims for loss or damage which occur after this point of assignment are payable by the buyer.

In terms of managing a claim, should an incident abroad occur the insurance certificate will contain details of the name and address of the insurer's claims representative in the country of destination and it will be signed by the policyholder opening up or assigning the certificate to the benefit of the buyer.

This means the buyer can proceed to receive settlement for loss or damage to the goods in transit, as though they were the originals assured. From an insurers point of view, this means claims are paid to parties other than the named assured in other countries.

## When things go wrong

There are a host of risks that can result in huge losses. Perils of the sea include sinking, stranding and collision, while goods could be damaged as a result of bad weather, being jettisoned or washed overboard. Ships are at risk of fire and explosion and also subject to criminality and vandalism.

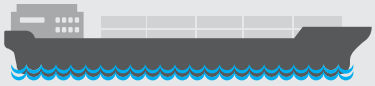
While all these may be extreme examples even the more mundane form of land transportation can produce some serious incidents.

## Claims – avoid being caught out

Buyers want certainty and marine cargo insurance covers a wider range of exposures than a traditional goods in transit policy. It has global reach and also protects goods whilst they are in storage as well as during loading and unloading. For those using sea transport there is also protection after a 'general average' incident.

This means if a vessel is at risk and part of the ship or cargo is sacrificed to prevent a total loss then general average dictates all parties contribute to the loss and cargo insurance ensures a business contribution is covered. In these uncertain times, it is also reassuring to know that war and terrorism are included as standard in such policies.

**Marine cargo**
**insurance covers a wider range of exposures than a traditional goods in transit policy.**





# Case study: MSC Napoli

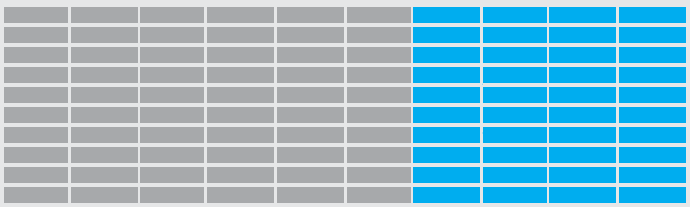
**In 2007, MSC Napoli, a 62,000 tonne container ship was damaged during a storm and grounded in Lyme Bay, Devon.**

The story made the headlines, not least because around 100 containers (of 2,300) washed ashore resulting in many people heading to Branscombe Beach and helping themselves to a range of goods including motorbikes, car parts, hair products and disposable nappies. A report by the Marine Accident Investigation Branch later found 'discrepancies in declared weights of containers' and this may have been a contributing factor to the disaster.

The total claims bill facing insurers following the disaster was around £120 million and covered the value of the vessel, salvage, clean-up costs and costs of lost insured cargo – it was reported that around 40% of the goods were uninsured. Without insurance it is clear such huge losses could have a devastating effect on businesses and commercial relationships.

Another incident occurred in June 2013, when container ship MOL Comfort split in half whilst sailing from Singapore to Saudi Arabia. All crew escaped the sinking. Both sections of the ship as well as 4,500 containers sank. The cause is still unknown but is likely to have been due, at least in part to undeclared overweight containers being stowed in the wrong positions, contributing to severe stresses on the hull.

**100** containers washed ashore **40%** of the goods were uninsured





## Risk management and marine cargo

Insurers and specialist brokers are often well placed to help when it comes to reducing risk. When dealing with the specialist risks connected to cargo and its transit and storage expert guidance can bring significant benefits.

There is scope to apply risk management across a range of operations from improving safety in warehouses to providing driver training.

The exportation of goods is a specialist area and those businesses which are less experienced may decide to seek advice on a number of areas; these include ensuring cargo is sufficiently well packed to avoid pilfering and able to withstand weather extremes; and checking that the right transport providers are selected along with reliable agents at the destination.

As the British International Freight Association (BIFA) says:

"An effective cargo risk management policy in a company will not remove the need for marine insurance cover. However, it should bring greater service reliability, improved loss prevention and an improved insurance contract between forwarder and insurance company or broker."[2]

The International Federation of Freight Forwarders (FIATA) has also published a Cargo Risk Management set of guidelines for forwarders on their website http://fiata.com/home.html

## Broadening access

Policies in previous years were jargon-packed requiring highly specialist brokers and shipping lawyers to interpret them.

However, insurers have since sought to demystify marine cargo insurance by offering broker training and simplifying policy wordings. This has allowed brokers across the UK to discuss cargo risks with clients and provide them with accessible guidance. Because marine cargo is now on platforms providing mainstream commercial package cover it means many straightforward cases can be arranged promptly with minimal fuss.

Enabling brokers to provide marine cargo online is an important innovation since it has ended the need to fill in detailed paper-based forms, although there is still direct contact with underwriters when needed.

**Insurers have sought to demystify marine cargo insurance by offering broker training and simplifying policy wordings**



2 Source: BIFA https://www.bifa.org/library/freight-management/products-services/insurance/cargo-risk-management



## Marine cargo in 2018 and beyond – topical issues

Take vast quantities of goods, a range of transportation methods around the world and the many uncertainties that come with handling, loading and storage. Throw in the vagaries of weather and add in unexpected events that can happen out of the blue, you have the perfect recipe for risk.

Marine cargo faces exposures on many levels and experts say these are increasing making the need for correct insurance even more important. For underwriters this is a demanding sector where change can happen fast. Some of the most recent developments on the insurance agenda include:

## Misdeclared cargo – the SOLAS regulations

From 1 July 2016, new regulations were introduced that stated shippers were required to provide verified information on container weights and port operators would be prohibited from loading if they lacked this information.

Overweight cargoes mean there is more chance of goods being damaged or personnel being injured, along with the chance of greater instability for the vessel. As was reported in the case of the grounded MSC Napoli some 20% of the containers were overweight and likely played a part in the ship running aground.

However, whilst this is expected to bring safety benefits it is far from certain if compliance is being achieved. It is likely that some will still attempt to supply overweight cargoes and fail to declare the weight accurately in an attempt to pay reduced costs.

SOLAS **has been ratified by 159 countries which flag about 99% of merchant ships in terms of gross tonnage – and so this applies globally.**



To try and tackle the problem, the International Maritime Organization (IMO) approved an amendment in July 2016 to the International Convention for the Safety of Life at Sea (SOLAS) requiring 100% verification of container weights prior to loading.

The amendment is not strictly a 'new' requirement - it merely reinstates an existing rule that shippers must provide correct container weights. What is new is the stipulation that a container cannot be loaded onto a ship without a verified weight.

The amendment provides two methods for verifying container weights:

**Method 1**: weigh the packed container with equipment that meets national certification and calibration requirements; or **Method 2**: weigh the contents – including packing materials, pallets, etc. – and add the container's tare (unladen) weight. Whichever method is used, the weight verification must be 'signed' by someone representing the shipper or acting on its behalf.

But, in some countries the infrastructure to weigh containers accurately is limited (or non-existent) and enforcement by the local authorities may not be a priority. Further, the regulation specifies that containers have to be weighed at the outset of the journey.

Even so, the new rule should improve safety and there are penalties for non-compliance of fines imposed under national legislation. A container that does not provide a verified weight should not be loaded onto the ship.

This requirement could have some implications to a shipper's liability exposures. However it should be noted that insurers are likely to exclude any claims if there is a delay caused by the policyholder failing to declare the correct weight.

## Tianjin catastrophe highlights accumulation risks

On 12 August 2015, a series of explosions occurred in the Port of Tianjin resulting in 173 deaths and hundreds injured. The cause was believed to be a container of dry nitrocellulose. Tianjin is said to be the largest single marine disaster in history and Swiss Re estimated a $3.5 billion property loss, whilst the International Union of Marine Insurance said the final bill could creep towards $6 billion.

The disaster also acts as a reminder of the dangers of risk accumulation. Around the port many goods were stored and Chinese authorities said 304 buildings, over 12,000 vehicles and 7,500 containers were destroyed.

Because of the close proximity of buildings and goods damage values soared and ongoing effects continued. This was partly due to supply chain issues. However, goods were also rendered useless due to permeation from the toxic fumes released from chemicals.

Experts have now called on the insurance industry to ensure there is sufficient work on modelling for catastrophes in highly industrialised regions so that pricing for insurance and reinsurance can be as accurate as possible. Although Chinese insurers were liable for many initial claims, the London market was also impacted through a wide range of claims including marine cargo.



## Crewless ships – creating new liabilities

Driverless cars are a hot topic as far as motor insurers are concerned and autonomous ships are now also being developed – giving rise to new liabilities in marine cargo.

It is thought that so-called 'drone ships' which do not have crews but are controlled from land could be in use by the end of the decade. The fact there is no historical data on crewless ships will make it difficult for insurers to assess the potential risks.

Europe is prime territory for their use, facing issues such as increased cargo volume and environmental requirements and a decline in the number of sailors. The Europe Commission funded the three-year Maritime Unmanned Navigation through Intelligence in Networks (MUNIN) research project to investigate the possibilities of unmanned ships.

The findings were positive and projected that an unmanned ship would have one-tenth of the risk of a manned ship in foundering and collision, in which human error often plays a role.

The analysis also believed there would be savings of $7 million over a 25-year period per ship in fuel use and crew supplies and wages.

However, not all are confident and there remain concerns that having no crew will mean new risks; these are certainly unchartered waters.

## Hanjin – an unfolding story for claims

In August, the Korean-owned Hanjin shipping line was declared bankrupt leaving giant container ships marooned and huge uncertainties as to how cargoes would be recovered.

Hanjin was the world's seventh-largest container shipper and its demise is expected to put additional pressure on others that are already working to capacity.

Many claims resulting from the insolvency are still under scrutiny and are likely to be decided on a case-by-case basis. The market is closely following events and solvency and credit ratings are yet another factor in the complex world of marine cargo.

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## Conclusion

As new risks emerge, and with so many uncertainties, the cargo market is facing challenging times.

Emerging technologies will undoubtedly offer both opportunities and threats. From the prediction of autonomous shipping to utilising blockchain to digitalise the supply chain. However, insurance provides much needed stability and with readily available and accessible cover there are solutions for companies of all sizes, allowing trade in its many forms to proceed with confidence.

**Insurance provides much needed stability and solutions for companies of all sizes.**

Commentary and guidance information in this publication are provided for information purposes only and are not intended to amount to advice on which reliance should be placed.

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