**The Basics of Cargo Insurance**

**Audience Questions Answered**

1. **In respect of CIF cover, can you explain further if the policy states %2B10%**

**Answer**: I believe that this question should read “CIF +10%”.

The application of the term “CIF” in the policy is in a different context to the INCOTERM CIF, even though the abbreviation stands for the same items, **C**ost **I**nsurance **F**reight.

Where it appears on a cargo policy schedule it relates to the basis of valuation of the goods, and therefore the basis of settlement of any claim. Since the insurance cost and freight costs are ‘insurable interests’ under the Marine Insurance Act 1906, it is perfectly legitimate to be paid out these costs in the event of a loss, in addition to the cost of the goods themselves. If say a buyer purchases on FOB INCOTERMS, they would still expect to be paid out all three elements i.e. Cost Insurance Freight.

10% (or more) is added to accommodate for additional costs and inflation, since it may take a while for a loss to be paid from first notice of loss to settlement.

In the context of INCOTERMS CIF, this simply means that the seller is responsible for supplying the goods as specified in the contract, and in addition they are responsible for arranging the transport and paying the freight charges, and for arranging the insurance. All three elements are then added together, and this forms the total invoice cost payable by the buyer. In respect to INCOTERM CIF the point where interest passes from seller to buyer is when the goods are loaded aboard the vessel. The right to claim under the insurance also passes at that point to the buyer. To my knowledge this is the only occasion in non-life insurance where the benefit is assigned to another. This is allowed under the Marine Insurance Act 1906 because under the Act, insurable interest must apply at the time of the loss, not at formation of the insurance contract.

1. **What is a bill of laden?**

**Answer**: The correct spelling is ‘Bill of Lading’. It is an old English term meaning ‘Receipt of Loading’. A bill of lading performs 3 functions:

1. It lays out the description of the goods, unit number, shipper and receiver (consignee/ consignor) and acts as a receipt to be provided to the shipper by the carrier
2. The conditions of carriage are noted on the back of the bill of lading - legally speaking, the back page is actually the front page of the bill of lading! The carriage terms will reference the appropriate convention applying, typically the Haugue Visby rules, limiting liability to 2 SDR’s per kilo or 666.67 SDR’s per package.
3. The bill of lading is also evidence of title in the goods. Each bill of lading is issued in sets of 3. One for the shipper (consignor), one for the carrier, and one is sent ahead of the vessel to the consignee, or their agent. The carrier is obliged to only release the cargo to the lawful holder of the bill of lading.
4. **We have a client who has fallen victim to a fraud by a person/persons unknown purporting to be from a bona-fide trading company in France. The delivery locations were all abandoned premises or location. The delivery addresses were changed last minute due to 'corona related incidents'. The carrier at no stage advised that they were having issued unloading. The claim has been turned down due to the insured being the victim of a fraud but what would your stance be on this?**

**Answer**: Mercari Risk is not an underwriter, we are a wholesale broker. However, theft is theft, whether perpetrated by fraud or any other means. Goods were sold in good faith and despatched to where your client instructed. To comment further we would need to see the full circumstances of the loss, the sale contract terms, the insurance policy and the insurers rationale for declining the claim. We would be happy to provide an independent assessment and refer your client to a marine lawyer if required.

1. **In regards to container contents theft, are you allowed to weld the containers shut?**

**Answer:** No, under International Maritime Organisation safety rules, the contents of containers must be accessible at all times in case of fire, or there being an imminent danger of a fire due to self-heating or spontaneous combustion.

1. **Are Institute clauses from the Institute of London Underwriters?**

**Answer:** The Institute Cargo Clauses are produced by the Joint Cargo Committee. Representing the interests of those writing marine cargo and related risks within the London market, this committee comprises underwriting representatives from both the Lloyd’s and IUA company markets. The committee is also supported by experts from the Legal, Claims and UK Cargo market. See <https://www.lmalloyds.com/JointCargo>

1. **Due to the recent Suez Canal delay, has this caused any unique problems that you have had to deal with?**

**Answer:** The Evergreen ship *Evergiven* is currently still under arrest by the Egyptian Suez Canal Authority pending finalisation of the penalty they expect Evergreen and the owners to pay in compensation. The vessel’s owner has declared General Average and therefore all costs incurred to save the adventure will be apportioned over all of the cargo interests onboard, as well as the owner, in rateable proportion to the declared values. This creates multi-faceted issues, e.g. Cargo interests may well contest the GA award, leading to years of litigation to settle the issue. If accepted, Cargo interests will either have to pay the whole amount prior to release of cargo, or seek a GA bond from their insurer, if they have one. Meanwhile probably USD $1bn of cargo sits idly in the arrested vessel leading to supply chain disruption on a massive scale. If you are wondering why shops like Halfords are running out of bike parts, the answer possibly lies with this incident.

1. **Is Clause A available for scrap metal?**

**Answer:** No, it is typically not possible to obtain accidental damage cover for scrap. This type of commodity is more properly insured on a limited peril basis, such as Institute Cargo Clauses B or C, with theft included if requested and the underwriter wishes to provide it.

1. **With the Suez issue - how quickly is it likely that insurers will sign bonds to allow goods to be released?**

**Answer:** Insurers will quickly issue GA bonds, certainly within days of the request if there has been a bona fide GA declaration and the client has the cover.

1. **I was surprised to find that one of my clients has an exhibition extension on their marine policy. Is this normal as I expected it to be standalone?**

**Answer:** Extensions to include cover to/from and whilst at exhibitions are common in the UK regional market. It is not automatically operative, clients/ brokers have to ask underwriters for the cover. It is available in the London market, however, brokers need to ensure their slip includes reference to the clause for it to be included.

1. **Is the cost of insuring air freight less that sea freight?**

**Answer:** The cost of transporting goods by air is more expensive, however, the insurance rate for goods carried by air is lower than by sea because the risk of loss or damage during the ordinary course of transit is lower.

1. **Is general average limited? If not how does Cargo insurance provide cover?**

**Answer:** General average contributions are limited to the value of the cargo itself and any policy limit. So, if GA is declared and GA contributions are assessed at 100% of the cargo value, insurers will pay out on a constructive total loss basis, up to the sum insured (single shipment policy), or up to value of the goods or the policy limit (annual policy), whichever the lesser.

1. **If a party has cargo onboard the EVER GIVEN which is uninsured ie no marine cargo policy, will there GA contribution be more than if they has an marine cargo insurance policy in place? Also who and how will their contribution be calculated?**

**Answer:** There is no difference between the way GA contributions are calculated for insured or non-insured cargo. The contribution is calculated on a rateable proportion of the value of the goods to the total GA award claimed by vessel owners.

1. **How do with get an agency with you and also do you have a minimum premium please?**

**Answer:** Send me a request by email to alan@mercaririsk.com together with the contact details for your firm’s signatory i.e. compliance officer or managing director. We use the REG UK system to issue and manage TOBAs. We do not have a minimum level of premium commitment.

1. **What solutions are available to the automotive industry when insurers will not provide cover for vehicles carriaged on a roll on / roll off basis?**

**Answer:** Roll on Roll off car carriers have suffered multiple losses due to capsize and fire aboard. This has hardened underwriter attitude to this type of risk and many will simply not entertain it. The sea carriers themselves are responsible under the carriage conditions for a certain amount of liability, typically 2 SDRs per kilo or 666.67 SDR’s per package, but this is not a great deal. If it is impossible to find an underwriter to underwrite the risk, the automotive industry will need to self-insure.

1. **Other than those highlighted in your slide which are added back in by the relevant institute clauses, are there any other excluded or uninsured events which can be added back in ? e.g. can an Assured obtain consequential loss cover ?**

**Answer:** Some underwriters will provide cove for consequential losses due to delay occasioned by certain specified events such as grounding of the vessel, fire, explosion, earthquake.

Stock outside of the ordinary course of transit can be included for additional rates and terms, for example, stock in warehouses prior to the Institute duration clause kicking in. This is known as a stockthroughput extension and underwriters will be looking for operations that have high stock turn and where the stock limits are low relative the volume of transits. i.e. they will not look to insure stock which sits around in store for a long period. Underwriters may, also want to, and should, assess the location, construction, security, sprinklers etc. in much the same way as a commercial underwriter would.

1. **What generally happens if a client has transportation cover on their property form and also cargo policies and both forms could respond? Do Other Insurances clauses make the cargo policy “more specific” protecting the overlap?**

**Answer:** See clause 14 (Increased Value) of the Institute Cargo Clauses A. This provides that if other insurance may apply, the cargo insurance will only pay up to its rateable value. There can be no ‘betterment’ accruing by having more than one policy which could respond – this assumes both policies may respond. To provide a more specific answer I would need to compare the cover provided under the ‘Goods in transit’ cover with that of the cargo policy.