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Taking Control
of Marine Cargo Insurances

Taking Control of Risk, Cover and Cost

The responsibility for arranging marine cargo insurance is largely dependent on the terms of the underlying sale/purchase contract between the seller of the goods and the buyer.

Most international sales are based on the Incoterms® rules, published by the International Chamber of Commerce. The principal advantage of using the Incoterms® rules in international trade is that they are known and accepted worldwide. The most recent edition of the rules was published in 2010, and like previous versions, describes the roles and responsibilities of the seller and the buyer during the transportation of the goods. In particular, the rules determine the point at which risk in the goods passes from the seller to the buyer.

This advice sheet highlights some of the factors that buyers and sellers should consider when making choices about their cargo insurance arrangements.

Don't Rely on the Supplier

Buyers should carefully check the terms on which imports are purchased and ensure that, where possible, these terms allow them to take control of the transit insurance. For example, if currently purchasing goods on CIF or CIP terms, buyers should consider the benefits of amending the terms of purchase to FCA terms, or similar.

If responsibility to insure imported goods is left with overseas suppliers, it is possible that the cargo insurance may:

- Only cover goods on restricted terms and conditions, over which the buyer has no control.
- Not be able to pay claims, if backed by unreliable security.
- Cease on arrival at the UK port or airport, rather than the final destination.
- Cost more than is realised, as the premium may be hidden in the total price of the goods.
- Require claims to be dealt with by a foreign insurer or their agent, who may not view the buyer as a customer to be helped.
- Perhaps, not even exist.

On the other hand, by taking control of their own cargo insurance needs, buyers will benefit from:

- Knowing that their cover is comprehensive and tailor-made.
- Having the backing of a financially-secure insurer.
- Obtaining cover on a warehouse-to-warehouse basis.
- Paying competitive premiums, and being able to budget accordingly.
- Dealing with a UK-based claims department.

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Don't Rely on the Carrier

Many businesses that buy and sell manufactured goods assume that carriers will provide insurance; but this is not usually the case. Indeed, most carriers operate under conditions of carriage that actually restrict their liability for any loss or damage to the goods that they carry. And, they may even be able to avoid liability altogether, if the loss or damage is beyond their control.

When using carriers, always bear in mind that their conditions of carriage:

- Protect the carrier's liability, not the goods themselves.
- Limit the carrier's liability by weight rather than value – any recoverable loss could be settled for as little as £1.30 per kilo.
- Assume liability for loss or damage only whilst goods are in the carrier's custody.
- Exclude liability for circumstances beyond the control of the carrier.
- Would not cover any general average or salvage contributions.

The benefits of buyers and sellers arranging their own insurance cover are that:

- The goods are fully protected.
- Cover is based on the value of the goods.
- Cover will include the period during loading, unloading and warehousing in the ordinary course of transit.
- Cover will be comprehensive and include protection against situations where the carrier might be able to defend his liability.
- Cover will include carriage in own vehicles as well as by carriers.

Typical Limitation Figures

UK road haulage – RHA conditions
GBP1.30 per kg

International road haulage – CMR
SDR8.33 (about GBP7.96*) per kg

Freight forwarding – BIFA conditions
SDR2.00 (about GBP1.91*) per kg

Carriage by air – Warsaw Convention
USD20.00 (about GBP12.42*) per kg

Carriage by sea – Hague-Visby Rules
SDR2.00 (about GBP1.91*) per kg

* as at October 2012

Example Defences

UK road haulage – RHA conditions
Act of God; war; riot; civil commotion

International road haulage – CMR Convention and Freight forwarding – BIFA conditions
Circumstances beyond the carrier's control and the consequences of which they could not prevent

Is Stock Throughput an Option?

Once manufactured goods arrive, they either go direct to the end customer or into a storage warehouse before onward distribution.

Marine stock throughput insurance can provide cover for the import, warehousing and any subsequent distribution under one policy document.

For an importer, a stock throughput policy can offer:

- Insurance coverage for the import, the transit from the port to storage premises, whilst there, and the subsequent delivery transit to the final customer.
- Certainty that the cover is correct for the risks involved.
- Cost benefits, by having one policy instead of three.
- No gaps in cover, as might occur if separate policies were arranged for the three component parts.
- A reduction in administrative costs.
- Coverage at own or third party storage premises.

In short, a stock throughput policy offers control of costs, control of cover and control of risk.