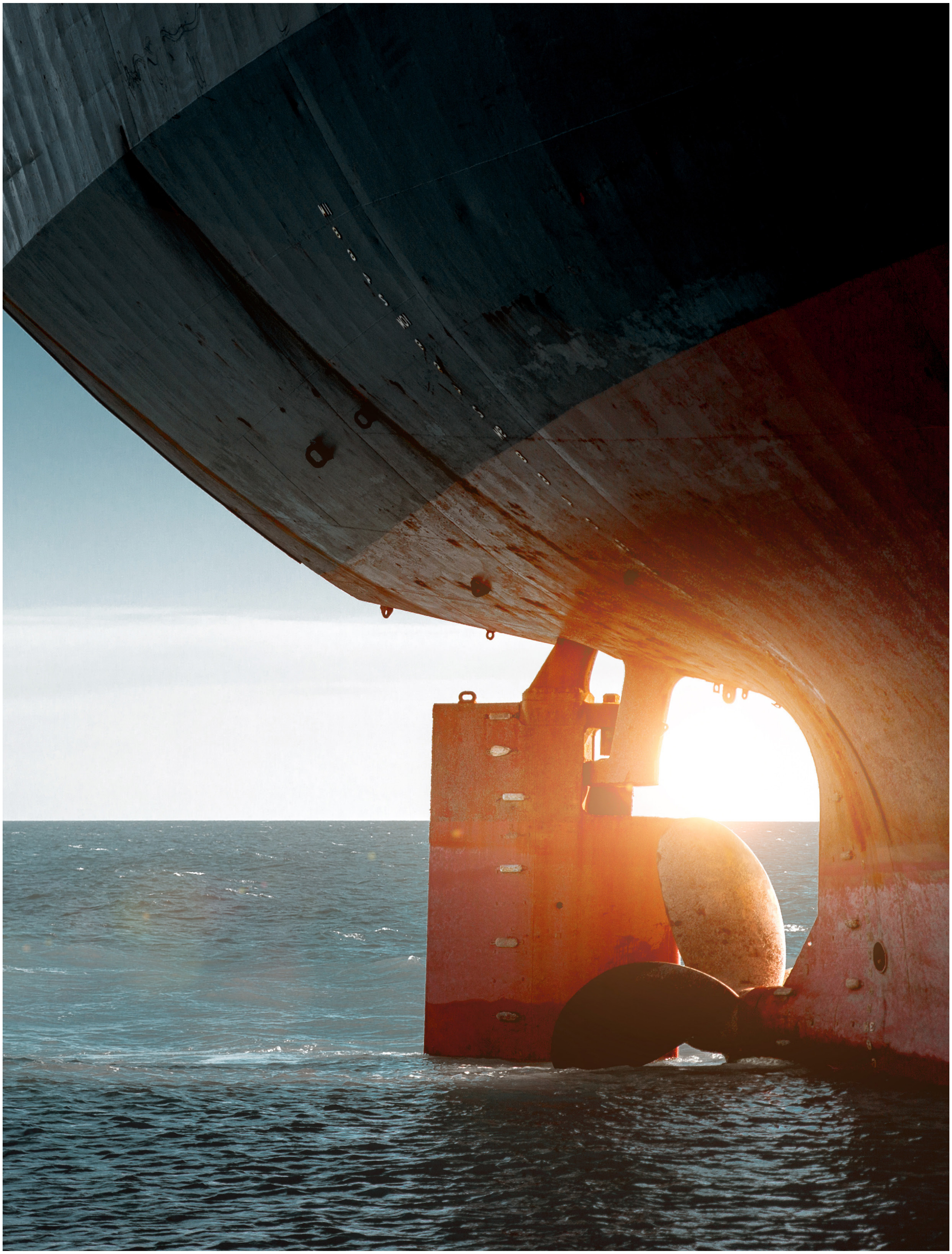
Pandemic Effect

Conditions & Limitations of Cargo Insurance



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The COVID-19 pandemic continues to cause catastrophic delays in the global supply chain. It has left many shippers and cargo owners scrambling to navigate unprecedented challenges in sending, receiving, and storing freight. Cargo flights and container ship sailings continue to be subject to cancellation. Retailers and manufacturers look to delay delivery of goods due to their inability to receive and unload containers at the destination. As a result, more pressure is being placed on storage facilities to accommodate for this increasing need.

Cargo insurance policies are designed to cover the cargo owner for loss or damage to their goods while in transit, including at transshipment points, and during delays. However, while coverage is quite broad, the consequences of the freight stagnation may give rise to the risk of exceeding cargo insurance policy limits or breaching policy terms that could limit or void coverage altogether.

The following are common cargo insurance coverage terms, conditions, and limitations that cargo owners should be aware of during this period of uncertainty:

Per Conveyance Limit

Cargo insurance policies provide coverage limits that apply on a per conveyance basis, which means coverage is capped regardless of the value of goods onboard any given ship, airplane, or truck. There are circumstances where companies may be at higher risk of exceeding their policy conveyance limits, especially in the current environment. An example is where a shipper could not secure space to move its goods on a container ship; instead of utilizing a common carrier where its goods would be moved along with the goods of other shippers, the shipper charters a vessel to move its goods exclusively. Doing so would increase the values exposed to loss exponentially and would most likely far exceed the applicable per conveyance limit, leaving the cargo owner severely underinsured.

Accumulation of Cargo

When goods in transit accumulate beyond your cargo insurance policy's conveyance limit at a single location, the insurer may cap the amount of coverage available in the event of a covered loss. It is important that cargo owners confirm the maximum value accumulated at any given port or warehouse with their logistics department and advise their insurance company if the value exceeds the allowed amount on the insurance policy. Notification must be given to the insurance company when the cargo owner becomes aware of the accumulation.

Consolidation/Deconsolidation

Goods in transit will often enter a transition point between legs of the journey to their final destination. Whether it is a warehouse, transloading facility, or consolidator/ deconsolidator, loss or damage that occurs to the goods during this period of transition is covered for a limited period of time, which is defined in the insurance policy. Often this time period can be extended at the request of the cargo owner.

Warehouse-to-Warehouse

Most cargo insurance coverage begins once a shipment leaves the origin warehouse and continues throughout transit until delivery at the final warehouse. Typically, however, there is a 30-day time limit to deliver after the container

is discharged at the destination. After that, the goods may not be fully covered.

Shipment Delay

The standard cargo insurance policy excludes coverage for consequential damages (financial loss due to loss of sale or breach of contract) due to delayed shipments. However, policy covers loss or damage to cargo that occurs during the delay period. (Coverage could still be subject to limitations under the Accumulation Clause or the Consolidation/Deconsolidation Clause.)

Demurrage Charges

Detention or storage of containers at port facilities and late return of containers, trailers, or railcars may result in an assessment of late fees or demurrage penalties. These charges generally are not covered under the cargo insurance policy. Note, however, that most insurance policies will cover these charges if the insurance company has instructed the cargo owner to hold the cargo for inspection following a covered loss.

Deviation

The cargo insurance policy holds coverage in-force in the event the vessel deviates from the intended route, whatsoever the reason outside the insured's control, until delivered at the intended location or a substitute location.

Force Majeure

Many contracts with transportation service providers, suppliers, or vendors may contain a force majeure clause. This clause can relieve a party from fulfilling its obligations under the contract due to an unexpected or uncontrollable event. The events that would constitute the force majeure should be clearly defined within the contract.

Marine cargo insurance policies offer broad and flexible coverage for goods in transit, but they do not address all exposures that exist in the supply chain. Indeed, not all exposures are insurable. However, there are policies available that address exposures in the supply chain not covered by the typical cargo insurance policy. Risk exposure like delay caused by a disruption in the supply chain that does not cause physical loss or damage, but that results in a significant financial loss or additional expense (like a natural disaster or a port strike), is an example of atypical insurance coverage.

ECIB's advisory team is on top of the latest developments and coverage implications of the COVID-19 pandemic. Please feel free to contact us if you have any questions or concerns.