MOHAWK GLOBAL
TRADE ADVISORS

If my cargo is not adequately insured, what is my exposure?

Insuring cargo for international transport is very different from other forms of property insurance. There is an entire body of law, known as Admiralty Law, that has evolved around marine transportation. The coverage found in a marine cargo policy (which also covers international shipments by air) is written to insure against the many perils that may be faced during international transport. These include perils specific to case law that has been developed and tested throughout history. Most marine policies therefore add clauses to cover concepts unique to Admiralty law. Many of these risks are not contemplated by riders attached to property covers that attempt to protect goods in transit. As such, these riders fall short of the mark.

De Facto Self-Insurance

Self-insurance is a common fallback position for companies that move international cargo without the benefit of a marine policy. Whether mindfully done or not, moving cargo without adequate insurance coverage is de facto self-insurance; or at the very least, co-insurance—in cases where minimal insurance is in place but not written on the broad-form needed to provide truly adequate coverage. Even when using Incoterms correctly, where the responsibility to insure is with the other party, there may be exposure regarding difference in coverage for perils not specifically named in the transactional policy. Importers and exporters are cautioned to assess the risks and evaluate for adequate marine coverage.

General Average

A good example of an arcane concept fully covered by only a marine policy is General Average. It commonly occurs in cases where something happens to the conveyance, necessitating sacrifice of some of the cargo in order for the voyage to successfully continue. This might happen if a vessel is grounded or if a fire breaks out onboard. In either case, tugboats may need to be employed or the vessel may need to be taken to another port for repairs and inspection. Under such circumstances, the carrier would declare General Average as a mechanism to attach risk-sharing to all cargo interests aboard the vessel. After declaring General Average, a vessel operator would typically ask each cargo owner for a deposit based on their cargo's prorated value to the venture, with the goal of covering the cost of any other cargo damaged or extraordinary expenses incurred by the operator while saving the voyage. The self-insured cargo owner and the vessel operator would then continue correspondence on this issue for an average of about ten years, until all expenditures have been discharged. Based on this scenario, General Average could prove very costly and time consuming for the self-insured. Not so for the shipper covered by a broad-form policy, who would have their insurer attend to these matters on their behalf.

Types of Coverage

Types of marine coverage include:

- **Institute Cargo Clauses A, B, and C**; with A being the broadest coverage and C being the most restrictive.

- **Free of Particular Average,** which is bare-bones insurance, covering total loss only.

Without the benefit of a broad-form marine policy, such extensions or limitations might not be adequately addressed or defined, leaving the cargo owner with substantial exposure.

A good risk management program will usually uncover these idiosyncrasies of international transport and protect against them. Many companies employ the services of a marine insurance broker to set up the right program. Other companies may rely on the services and expertise of their freight forwarder or Customs broker to secure adequate coverage. Mohawk Global Trade Advisors can help you identify the many risks involved in international cargo transportation, the extent of liability that might be incurred, and the possible solutions available to minimize that risk.

RICH ROCHE—Vice President

About Us

Mohawk Global Trade Advisors helps companies determine their best options for cargo risk management. Our specialities include open cargo policy and contingent insurance.