Control Cost and Cover

Cargo Insurance

For hundreds of years, merchants have been protecting themselves against the risks of loss or damage during shipment.

A modern marine cargo policy typically covers imports and exports, including any temporary storage during transit, and domestic carriage.

A “stock throughput” policy extends this so as to cover import, storage after arrival and subsequent distribution (domestic or international) all under one policy.

Terms of Sale

Sales contracts generally incorporate the internationally-recognised terms of sale known as the Incoterms® Rules, which specify:

- various obligations of the seller and the buyer,
- how the various costs relating to the shipment are to be shared between the parties, and
- when risk in the goods passes from the seller to the buyer.

This last point is particularly important from a cargo insurance perspective because the seller and the buyer are strongly advised to insure the shipment while the goods are at their risk.

Additionally, under two of the terms – CIP and CIF – insurance is arranged by the seller for the buyer’s benefit during the main carriage.

What the Incoterms® Rules don’t do

At this point, it’s perhaps also worth briefly mentioning that the Incoterms® Rules do not:

- apply automatically,
- define when title to the goods pass from the seller to the buyer, nor
- define the contractual relationship between the seller or buyer and the carrier.

For more information about the Incoterms® Rules, speak to your local NMU cargo specialist.

Control cost and cover

This leaflet now explains some of the pitfalls of relying on others, and demonstrates the benefits to importers and exporters of arranging cargo insurance themselves.

NMU provides a range of innovative insurance solutions backed up by award winning service

Why NMU

At the heart of our business are competitiveness, service, attention to detail, innovation, flexibility and the fair treatment of customers

Local Service

We have the widest geographical spread of expertise of any specialist insurer in the UK

Products & Services

Our NMU branches underwrite:

- Cargo
- Freight Liabilities
- Engineering
- Marine Equipment
- Terrorism
- Motorsport
- Cyber
- Risk Control
- Claims Management

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Don’t rely on customers or suppliers

Why Not Let The Customer Insure?

Depending on the terms of sale and the terms of payment, exporters may lose control of a shipment to their buyer before it is paid for. If the shipment is then lost or damaged, but the customer is uninsured or their insurance does not respond, they may try to avoid paying for the goods.

Take Control
Exporters should take control by selling on CIP terms (or CIF terms for bulk cargo) and insuring the goods for the buyer’s benefit. Alternatively, exporters can retain risk and insurable interest by selling on one of the D-terms – DAT, DAP or DDP.

Why Not Let The Supplier Insure?

Importers are frequently quoted a “CIF” price by their supplier, which includes insurance coverage; however, the supplier’s insurance:

- will not normally be as wide as that available through NMU;
- will generally be more expensive (particularly if the supplier is relying on their freight forwarder to arrange the insurance);
- may not be backed by A-rated security;
- may cease on arrival of the goods at UK port.

Take Control
Importers should take control of freight and insurance costs and the level of policy cover by buying on FCA terms (or FOB terms for bulk cargo); or, if the seller can arrange the freight cheaper, importers can still take control of the insurance arrangements by buying on CPT terms (or CFR terms for bulk cargo).

Case Study

An importer of white goods from China asked their supplier for a breakdown of the “CIF” price, and found that the hidden cost of insurance was GBP 60,000 per annum.

By arranging the insurance themselves, they secured wider policy coverage, yet were able to make a premium saving of GBP 40,000.

Illustration

Under the FCA and CPT terms of sale, risk in the goods passes from the seller to the buyer once the goods are handed over to the main carrier. For containerised shipments, this might be at the exporter’s premises.

However, the customer may not be aware of this, and may consider any loss or damage occurring prior to loading on board the ship to be the seller’s problem, leading to a dispute and the withholding of payment for the goods.

Don’t rely on forwarders or carriers

Why Not Let The Freight Forwarder Insure?

While some freight forwarders can arrange “all risks” cargo insurance, this will still not normally be as wide as that available through NMU, and will generally be more expensive. Freight Forwarders often apply an administration charge to the premium they are charged by their insurer, further increasing the cost to the goods owner.

Take Control

Importers and exporters can get better coverage and value for money by arranging their own cargo insurance.

Why Not Let Carriers Pay For Loss or Damage?

Carriers’ and freight forwarders’ liability for loss or damage to goods can be limited to as little as GBP 1.30/EUR 1.80 per kilogram gross weight of the goods lost or damaged, and they may even be able to avoid liability altogether if the loss or damage is beyond their control – for example if caused by rioters.

Take Control

No matter whether goods are being carried round the world or round the corner, buyers and sellers can get better protection by arranging cargo insurance.

Since pursuing those responsible for loss or damage can take some time, cargo insurance also protects cash flow by offering a quicker route to reimbursement. Nevertheless, recovery possibilities are still followed up after settlement of claims, to protect the insured’s claims experience and contain premium cost.

Typical Limitation Figures

UK road haulage – RHA conditions
GBP 1.30 per kg

Irish road haulage – IRHA conditions
EUR 1.80 per kg

International road haulage – CMR
SDR 8.33 (GBP 8.80/EUR 10.03*) per kg

Freight forwarding – BIFA conditions
SDR 2.00 (GBP 2.11/EUR 2.41*) per kg

Carriage by air – Warsaw Convention
USD 20.00 (GBP 14.90/EUR 17.00*) per kg

Carriage by sea – Hague-Visby Rules
SDR 2.00 (GBP2.11/EUR 2.41*) per kg

* approx. at June ‘18 - fluctuates based on exchange rates

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

Rely on NMU

Peace of Mind for Brokers and Policyholders

NMU is a specialist marine cargo insurer with a reputation for innovation and flexibility.

Typical Policy Features and Benefits

As appropriate to the nature of the goods being shipped, the NMU policy wording can supplement the core cover provided by the Institute Clauses by covering additional costs and expenses, and can complement it further by protecting the policyholder's interest in a variety of ways; a number of optional extensions are also available.

Additional Costs and Peripheral Goods

- Additional discharge costs – following loss or damage
- Additional forwarding costs – following termination of transit
- Airfreight replacement costs – even if originally shipped by sea
- ISM forwarding charges – if carrying vessel detained for breach of safety regulations
- Stowage accessories – sheets and ropes covered

Protecting the Policyholder

- Accumulation of goods in excess of policy limits – when outside policyholder's control
- Attachment and termination – duration of cover extended
- Brands and trademarks – reputation protection
- Concealed damage – protection where damage is not immediately apparent on delivery
- Contingency cover – when the supplier or customer insures, or should insure
- Duration of cover – can be extended if necessary, subject to prompt notice
- General average – goods always treated as if insured for their full contributory value
- Insufficient packing exclusion waived – when outside the policyholder's control
- Insolvency exclusion waived – when outside policyholder's knowledge
- Presentation packaging – treated as part of the goods
- Seals intact – protection where shortage is not immediately apparent on delivery
- Terrorism – GBP 100,000 cover for storage risks in mainland Great Britain at locations only where storage is covered by the policy

Extensions Available (UK and Overseas)

- Engineer's tools
- Exhibitions and demonstrations
- Representative's samples
- Storage outside the ordinary course of transit
- Full terrorism cover on stock
- Installation risks

Local Expertise

Our network of branches, covering the whole of the UK and Ireland, places more than sixty specialists at the disposal of regional brokers.

Proven Claims Service

Our reputation for speed and fairness in settlement and flexibility on difficult claims is complemented by fast-track settlement of small claims.

Award-Winning Underwriting Excellence

Brokers have consistently praised our exceptional levels of service and expertise. We are proud of our track record and are always delighted when our success is recognised by the industry.

Lloyd's Security

NMU is part of Munich Re Specialty Group Ltd International Distribution and underwites cargo insurance on behalf of Munich Re Syndicate Ltd, delivering the benefits of A-rated Lloyd's security and access to the global Lloyd's Agency network.

In-House Risk Management

NMU is one of the few specialist marine insurers with in-house risk management capability, offering:

- risk management surveys,
- risk assessments, and
- training and advice.

Online Facilities

NMU Certs

Simplifying the process for issuing certificates of insurance with NMU Certs.

Electronic Trading Solutions

Increasing business process efficiencies.

For more information, please speak to your local NMU Development Underwriter