AMWINS
PROGRAM UNDERWRITERS

Navigating a Sea of Uncertainty: 5 Reasons to Select a Cargo Policy

Port accumulation and trans-shipment delays. Extreme weather events. Fires at sea.

These are just a few interconnected yet unpredictable components influencing our global economy every day — and for stakeholders in the risk-laden cargo industry, unknown layers of vulnerability are often revealed only at the worst of times.

While all cargo professionals understand the unlimited uncertainty in the industry, experts estimate 85% of containers at sea at this very moment are either uninsured or underinsured. Some believe the number is even higher. Given international limitation of liability agreements, a policy holder will be quite surprised to receive a check for a few hundred dollars after an onboard engine fire sinks a ship and leaves dozens of his luxury vehicles to rust at the bottom of the Pacific.

But what about the 10-15% of cargo that *is* insured?

Understanding — and being able to clearly explain — some of the high-level reasons for recommending a cargo policy is crucial to mitigating risk and catastrophic financial loss when the unthinkable strikes.

The experts at Amwins Program Underwriters have compiled five of the most common scenarios to consider when weighing the benefits of an all risk cargo or stock throughput policy (STP).

1. **Misdeclared, undeclared and co-mingled goods**
2. **Extreme weather patterns**
3. **The General Average and its impacts**
4. **Shipment delays, port accumulation and rise in fraudulent dock activity**
5. **The impact of exclusions and fine print**

1. Misdeclared, undeclared and co-mingled goods

In global logistics, the path from Point A to Point B is packed with dozens of stops and starts. Although the bulk of the process is digitized and tracked, the layers of manual intervention, handling, and processing leave space ripe for miscategorization and misdeclaration of goods.

Along with the potential for human error, another possibility exists. Undeclared goods may be packed into a shipping container intentionally, and in those instances, all parties involved — whether they know it or not — are essentially “hoping for the best.”

From a traditional perspective, property underwriters could argue that external exposures are known when goods travel first-party.

But, when goods are not categorized correctly from the start, no matter if intentional or unintentional, a broker can never accurately insure — with total confidence — the goods in question in the event of a loss.

Add a layer of third-party logistics (3PL) and aggregate shipments into the mix, and a cocktail of uncertainty emerges. Undeclared (and potentially hazardous) goods share rented space, and ultimately, it is the insured’s responsibility to declare cargo properly. In a 3PL scenario, all parties accept shared risks of which they are unaware.

If a container is lost or damaged, misdeclared or undeclared goods come back into play. A typical bill of lading lacks meaningful details. Without clear documentation to specify the type and quantity of units, any containers in question rest under the Carriage of Goods by Sea Act.

> **As of March 2022, the liability and payment for a lost or damaged container under the Carriage of Goods by Sea Act is a flat rate — $500.**

> **“With the widespread uncertainty in today’s cargo & logistics industry, the right coverage must be in place wherever your goods are.**
>
> **Understanding the value of a cargo policy can be the difference between complete coverage or millions of dollars in unnecessary loss.”**
>
> Samuel Chung
> **Senior Vice President - Head of Cargo Underwriting, Amwins Program Underwriters**

2. Extreme weather patterns and events

According to the National Oceanic and Atmospheric Administration's National Centers for Environmental Information, 2021 was "… in second place for the most disasters in a calendar year, behind the record 22 separate billion-dollar events in 2020. What really made 2021 stand out was the diversity of disasters."[1]

The high frequency and high-cost[1] of recent extreme weather events:

- **Hurricane Ida (August/September 2021):**
  - Fifth-costliest weather disaster in world history **($75 billion)**
- **European summer floods (July 2021):**
  - Costliest weather disaster in European history **($43 billion)**
- **Cold wave in central U.S. (February 2021):**
  - Second-costliest winter weather disaster in world history **($24 billion)**

Although weather-related risks are omnipresent in logistics and transportation, the significant scale of cargo ships is a notable vulnerability when Mother Nature makes herself known. It is essential to account for the new rush of storms appearing in regions across the globe that have, historically, been relatively calm.

Multi-billion dollar catastrophe (CAT) seasons are here to stay.

Fluctuating atmospheric conditions can pose another challenge for cargo — rodent infestation. Warmer temperatures and collected moisture create a welcoming environment for critters. Multiplying quickly over a few weeks, it's not uncommon for containers to experience rodent infestations and widespread issues with cleanliness.

Again, these types of uncertainties are impossible to calculate, but stock throughput can offer all-risk cover, including cap.

3. The General Average and its impacts

It is almost impossible to grasp the massive size and scale without laying eyes on a fully loaded shipping vessel. The largest to ever dock on the East Coast is longer than the height of the Empire State Building, and even larger vessels will be introduced in time.

A typical cargo ship might contain 10,000 different containers, ranging from a handful of interests to a dozen times more interests involved. With thousands of Twenty-foot Equivalent Unit (TEU) containers packed in high and tight, the possibility of peril at sea is very real.

In an emergency such as a fire or extreme weather, the crew would aim to lighten the load quickly, performing a sacrifice of the cargo by arbitrarily jetting containers from the top of the stack. It may seem that those whose cargo was sacrificed for the good of the voyage will bear the financial burden, but that's not how it works.

Under the concept of General Average, all parties with containers on the ship will assume a contributory piece of the damage and loss. Yet, most people incorrectly assume the shipping line would cover this type of claim.

Some may be ill-advised about the financial impact a cargo loss would have on their business and make a deliberate choice to forgo a policy. Others take an uninformed chance, blindly assuming the goods are the responsibility of transportation companies such as Maersk or Hapag-Lloyd, which is never the case. (Find a list of carrier liability exclusions on page 5.)

In the absence of a cargo policy, a calculation will determine the exact amount each insured must contribute to the specific claim. General Average has been declared several times within the last few years, and the majority of those affected are blindsided by the obligation to help offset a loss.

4. Shipment delays, port accumulation and rise in fraudulent dock activity

Global trade continues to grow. As of 2021, it had reached record highs of $28.5 trillion[2], of which the U.S. accounted for $2.8 trillion in imports.[3]

Ports and loading docks worldwide are bustling with people, papers, documents and noise, and it is nearly impossible to track all of the independent parts in such a complex system. Constant movement creates a lucrative space for unscrupulous, criminal activity such as misrepresentation and fraud. And yet, when goods remain static or stalled at the port, there is a different loss of predictability and control.

Experts estimate global economic losses of more than $2 trillion annually due to fraud, smuggling and counterfeiting. The growth of criminal activity within the cargo realm can be directly correlated to volume. With so many shipping lines, insurers and other variables, deceitful individuals are pouncing when they find a pinhole in the system.

Fraudulent documents and bills of lading are commonly used to invoke or induce a company to send products or allow a truck driver to acquire a container. It can be as simple as someone accessing a key card to drift past security and say, "Here's my bill. I'm here to take this load." Without a cargo policy, losses are not recuperated.

Port accumulation and logjams cause cargo to remain afloat for additional days or weeks. As a general rule, the faster a container can move from Point A to Point B, the less risk is present.

Longer transit times allow potential exposure to adverse weather conditions. Imagine if the Port of Jacksonville — the busiest port in the state of Florida, moving 1.4M+ containers a year of cargo — experienced a backlog and a hurricane. Billions of dollars could be lost within hours.

Protection in action

Amwins Program Underwriters paid a $170,000 loss after Nigerian gang members posed as company representatives presenting fake bills of lading and purchase orders. Although they drove away with two truckloads of vitamins, the insured had elected a cargo policy. Without the right coverage in place, the stolen goods would have been a complete loss.

If delayed containers do arrive safely at the docks, there is an added urgency to move the goods quickly. Fraud can creep in during the rush — a blind spot even the most sophisticated logistics tracking and infrastructure can often not prevent.

Or, even worse than fraud, co-mingled goods can cause catastrophic loss. The Beirut port explosion in August 2020 that left 7,000 injured and 217 lives lost is a tragic example.

With the prevalence of disruptive port accumulation, trans-shipment movement, interruptions in transit and fraud, a cargo policy will provide journey-wide coverage for all types of circumstances.

5. The impact of exclusions and fine print

In March 2022, a 650-foot-long vessel was ablaze in the Atlantic. Two weeks after the fire broke out, the large cargo ship sank near Portugal along with an unknown number of luxury vehicles. The party bearing the brunt of that incredible loss depends entirely on the presence —or absence — of a cargo policy.

As mentioned at the beginning of this piece, an estimated 85% of cargo is uninsured or underinsured. Of the cargo that is insured, is it covered properly? Shipping lines assume limited responsibility for negligence or accidents; it's never full indemnity. This information often comes as a shock and is delivered at the worst of times — following a tremendous, unexpected loss of goods or, worse, life.

Clients must know exactly what is — or, more accurately, what is not — covered by a container transportation company. Receiving a check for a few hundred dollars after losing a $250,000 container is an unfortunate yet very real scenario.

Final thoughts

With drivers in artificial intelligence (AI) and Insurtech illuminating business insights, cargo insurance still comes down to a choice. Insurtech is a powerful tool, but it never takes the place of an informed decision-maker who truly understands the value of selecting complete coverage.

The experts at Amwins Program Underwriters are 100% dedicated to the cargo & logistics insurance market, and we know a better model can be found by combining knowledge, flexibility and service. This approach is a departure from the standard "one-size-fits-all" mindset found in the market and requires attention to detail to navigate the complex risk factors of this evolving industry.

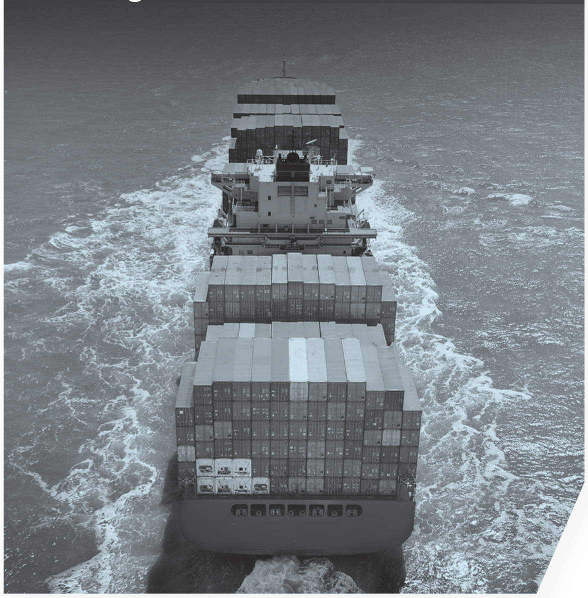
Data and Resources: 1. National Oceanic and Atmospheric Administration's (NOAA) National Centers for Environmental Information (NCEI) | 2021 U.S. billion-dollar weather and climate disasters in historical context, January 24, 2022 2. United Nations | United Nations Conference on Trade and Development, February 17, 2022 3. U.S. Customers and Border Protection | Trade statistics as of January 31, 2022

Carrier liability exclusions

- Act of God: i.e. natural disasters like hurricanes, floods, fires, earthquakes
- Heavy weather, rough seas, stranding, burning, collision, sinking
- Acts of war
- Fault of the shipper
- Improper packaging or loading
- Concealed damage

All risk cargo and stock throughput policies (STP) ensure seamless protection of raw materials, works in progress and finished goods stemming from the perils outlined above. Selecting the right coverage reduces risk, overhead and operating costs for the long term.

As trusted advisors and industry experts, we are committed to driving awareness and cultivating action from stakeholders and leaders in cargo, supply chain and logistics markets.



It goes without saying that logistics operations and their respective coverages are complex and dependent upon factors beyond those listed on an application. Standard forms lack the personalization necessary to avoid costly gaps in coverage; you need a thought partner who can create a research-based, tailor-made solution for your logistics insurance needs.

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