NFU Mutual

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BUSINESS WITHOUT BARRIERS™

Cargo FREQUENTLY ASKED QUESTIONS

01 When is Cargo insurance required?

For hundreds of years, merchants and traders have been protecting themselves against the risks of loss or damage to goods during shipment. A modern Marine Cargo policy typically covers imports and exports, including any temporary storage during transit, and domestic carriage.

02 Who needs to have Cargo Insurance cover?

Any business that manufactures, buys or sells finished products, components or raw materials.

Anyone who has a financial interest in goods being transported between locations should consider Cargo insurance to protect their interests.

03 What should buyers look out for?

Problems sometimes arise where buyers or sellers do not arrange their own insurance, relying instead on:

- their suppliers or customers arranging the insurance, or
- a freight forwarder arranging insurance for them.

Those who think that carriers will pay for loss or damage may be surprised that contracts of carriage generally limit the liability of the carrier and can exclude it altogether in circumstances beyond their control.

04 What is a Stock Throughput policy?

A "stock throughput" policy extends a Cargo policy so as to cover import and storage after arrival and then subsequent distribution to a domestic or international location all under one policy.

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

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

05 What advice should be given to Importers and Exporters?

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.

- Do not rely on the supplier to insure the goods
- Do not rely on the carrier to "cover" the goods

06 What are the benefits of a Cargo insurance policy?

As well as the direct benefits explained on the following pages, a range of extensions allows Cargo policyholders to tailor their own Cargo policy to also cover:

- domestic sales and purchases
- non-sales movements between their own premises, at home or abroad
- storage after arrival, before final delivery, at home or abroad
- exhibitions or demonstrations, at home or abroad
- engineers' tools and representatives' samples, at home or abroad

07 What is the extent of cover provided?

All risks of physical loss of or damage to goods during transit – imports, exports and domestic carriage – including any incidental storage. Other storage can be added by extension.

Terrorism cover is only given during transit, and war risks are only covered during sea or air carriage.

08 Are all policies on an annual basis?

Annual policies are to be encouraged because it reduces the risk of the Client failing to advise of a consignment and usually work out less expensive than purchasing cover for individual trips.

Single trip covers are available in some circumstances.

09 Does an annual policy cover all contracts the Insured enters into during the period?

Subject to the policy criteria relating to the subject matter insured, destinations and value limits and the start and end date of the voyage.

10 Are there any geographical restrictions?

Cover is generally available to or from ports or places worldwide.

However, terms and conditions may vary for countries where there are higher-than-normal risks of war or terrorism, for example Iraq and Afghanistan.

Cover may not be available where trade is subject to international sanctions, for example Iran, Syria and North Korea.

Cover may not be available for the inland leg to or from the port in countries where the infrastructure is poor or where there is an unacceptable risk of theft, for example to or from certain land-locked African countries.

Some countries require buyers there to insure imports in local insurance markets or with State insurance corporations.

11 What does a Cargo policy not cover?

Consequential losses are not normally covered, but can sometimes be added.

Non-fortuitous losses are not covered.

12 Letters of Credit

Because banks will only release funds to sellers on presentation of documents that match the applicable terms of sales, where sales are made against letters of credit, care should be taken to ensure that the incorporated Incoterms® Rules are appropriate for the method of carriage.

For example, CIF terms are not generally suitable for containerised shipments.

13 International Trade

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 the responsibility for the goods and thus the responsibility to insure the goods passes from the seller to the buyer.

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

14 What are the Incoterms® Rules?

The Incoterms® Rules 2010 were available for use from 1 January 2011.

Published by the International Chamber of Commerce, the Incoterms® Rules allow buyers and sellers to transact business with the certainty that each understands its obligations in relation to:

a. the point at which the risk of loss of or damage to the goods passes from the seller to the buyer, and

b. which party bears various costs associated with the shipment.

The risk transfer point (a), also called the delivery point, is important in relation to Marine Cargo insurance underwriting and claims, because it is a factor in establishing insurable interest. Another factor is title; but the Incoterms® Rules do not deal with payment or the passing of title.

15 To reduce the misuse by sellers of the FOB, CFR and CIF delivery terms, which are generally not appropriate for containerised, multi-modal and non-maritime shipments, the delivery terms are now separated into two distinct groups:

Terms for any method of carriage, including maritime shipments	Terms applicable to port-to-port shipments only
EXW Ex works	FAS Free alongside
FCA Free carrier	FOB Free on board
CPT Carriage paid to	CFR Cost and freight
CIP Carriage and insurance paid	CIF Cost, insurance and freight
DAT Delivered at terminal	
DAP Delivered at place	
DDP Delivered duty paid	

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