



SCARBROUGH

## QUESTION/ANSWER FORUM: CARGO INSURANCE, RISK & LIABILITY



DECEMBER 14, 2016



# THE SCARBROUGH GROUP



**SCARBROUGH**  
INTERNATIONAL, LTD.

Est. 1984 International Freight / U.S. Customs

Est. 1988 Own Trucking Fleet



**SCARBROUGH**  
LOGISTICS, LTD.



**SCARBROUGH**  
SIX LINES, LTD.

Est. 2003 NVOCC Operations

Est. 2014 NAFTA Truck Brokerage



**SCARBROUGH**  
TRANSPORTATION, LLC



**SCARBROUGH**  
DE MÉXICO S. DE R.L. DE C.V.

Est. 2015 Freight Forwarder / Mexican Customs



## ABOUT THE SPEAKERS



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## CARGO INSURANCE

- What is shipper's interest in cargo insurance?
- Why is cargo insurance important?
- What does cargo insurance cost?
- Where can cargo insurance be purchased?





# RISK MANAGEMENT STRATEGIES

- **Risk Retention**
  - Self Insurance
  - No Insurance
- **Risk Sharing**
  - Pooling Risk among a group who shares in the losses
- **Reduction**
  - Change Terms of Sale
  - Re-Route Cargo
  - Package Engineering
- **Transfer**
  - Risk of loss borne by another party (insurance) in exchange for financial consideration (premium)



# TYPES OF CARGO INSURANCE

- **Free of Particular Average (ICC-C)**

- Named Peril: Won't pay partial damages unless the vessel is stranded, sunk, burned or involved in a collision
- Catastrophic / Total Loss

**Burning  
Sinking  
Stranding  
Overturn  
Explosion  
Collision  
Crash of aircraft**

**Washing overboard  
Jettison  
Collision of truck  
Overturn of truck  
Collapse of pier  
General Average**

- **All Risk (ICC-A)**

- Named Exclusions: All risks of physical loss/damage unless specifically excluded

**Improper packing  
Abandonment of cargo  
Rejection by Customs  
Failure to pay or collect  
Inherent vice  
Employee dishonesty**

**Barge shipments  
Goods subject to an on-deck B/L  
Losses caused by temperature or pressure  
Used goods  
Failure to provide timely notification of loss  
Loss in excess of policy limits**



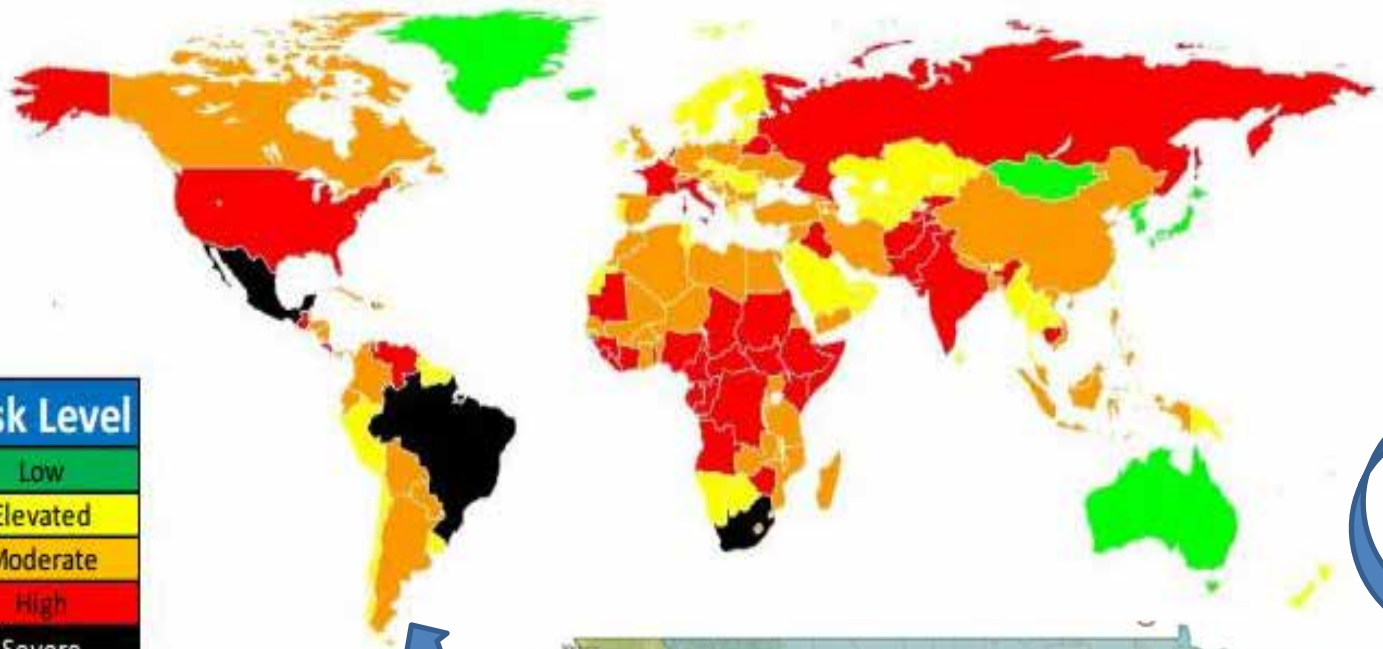
# WHY DO I NEED CARGO INSURANCE?

- Physical Loss / Damage
- Theft / Pilferage
- Piracy
- Terms of sale (Incoterms)
- General Average
- Carriers Limit of Liability



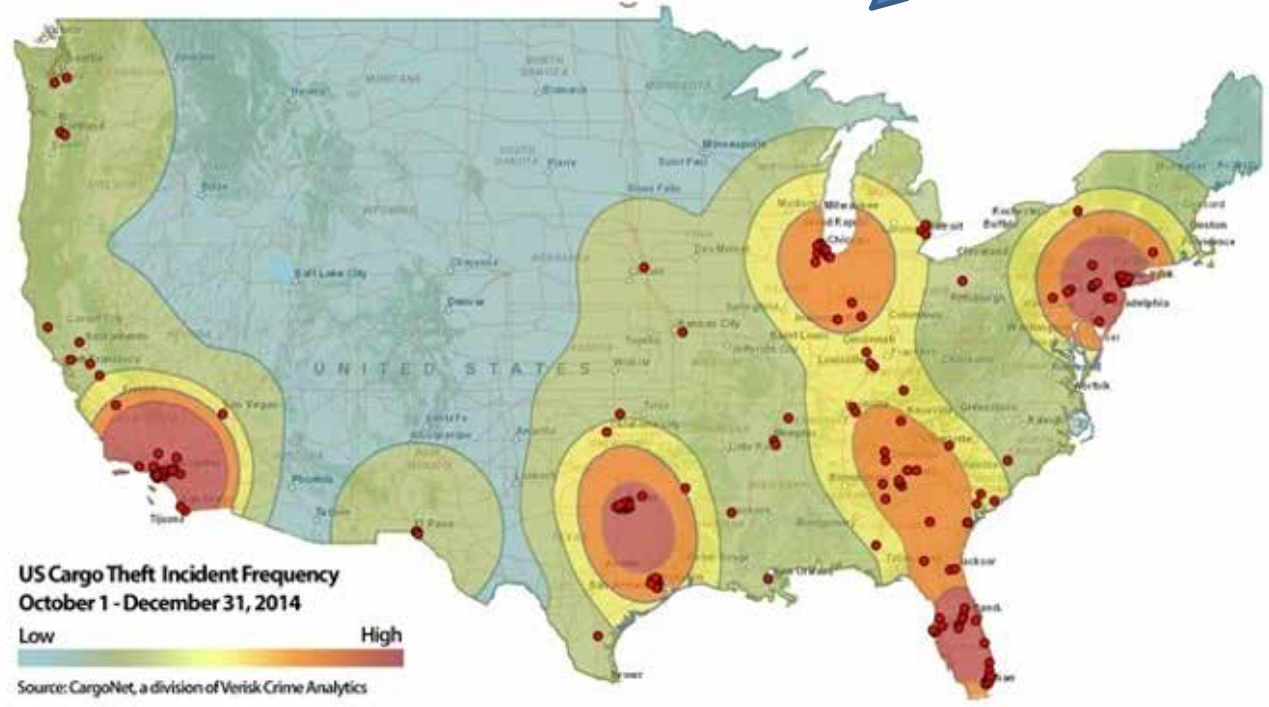


GLOBAL



USA

# THEFT RISK LEVEL



US Cargo Theft Incident Frequency  
October 1 - December 31, 2014

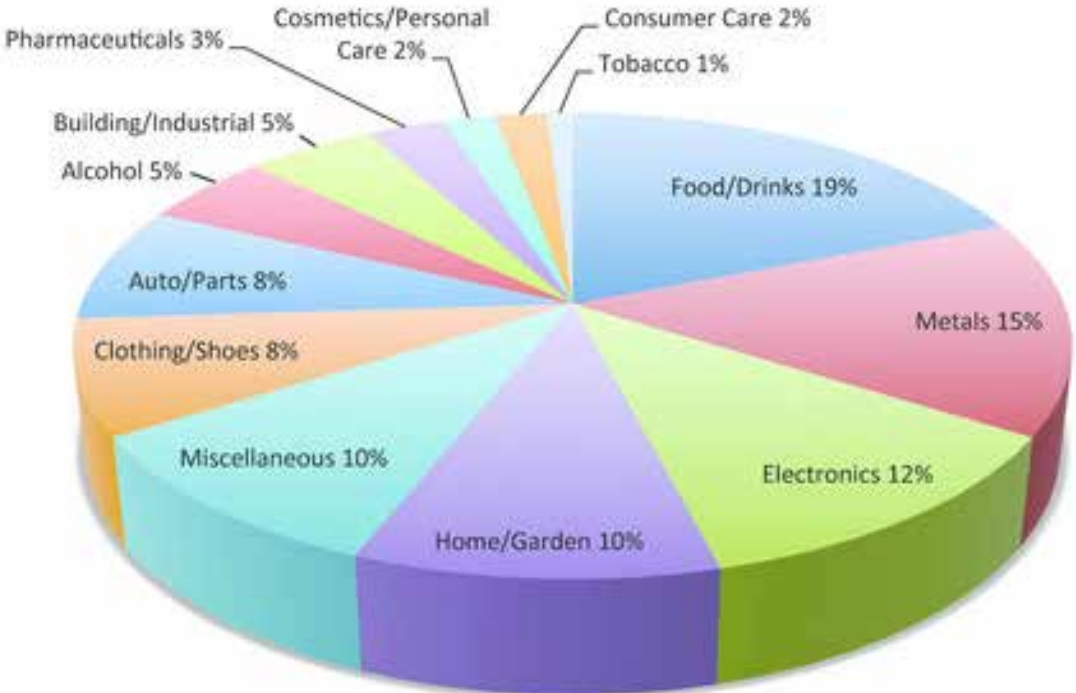


Source: CargoNet, a division of Verisk Crime Analytics





# THEFT BY COMMODITY



\$22,600,000,000



# LIVE PIRACY MAP



- 246 Piracy attacks in 2015
- 203 vessels boarded
- 15 vessels hijacked
- 27 attempted hijacking
- 1 vessels fired upon
- 14 crew injured;
- 271 taken hostage;
- 1 killed
- \$10 billion+ in pirated cargo
- Motivated by terrorism often
- Generally, commercial vessels do not maintain defensive weapons on board.



|                              | Any Transport Mode |              | Sea/Inland Waterway Transport |               |                |                        | Any Transport Mode |                            |                       |                    |                     |
|------------------------------|--------------------|--------------|-------------------------------|---------------|----------------|------------------------|--------------------|----------------------------|-----------------------|--------------------|---------------------|
|                              | EXW                | FCA          | FAS                           | FOB           | CFR            | CIF                    | CPT                | CIP                        | DAP                   | DDP                |                     |
| Charges/Fees                 | Buyer              | Free Carrier | Free Alongside Ship           | Free on Board | Cost & Freight | Cost Insurance Freight | Carriage Paid To   | Carriage Insurance Paid To | Delivered at Terminal | Delivered at Place | Delivered Duty Paid |
| Packaging                    | Seller             | Seller       | Seller                        | Seller        | Seller         | Seller                 | Seller             | Seller                     | Seller                | Seller             | Seller              |
| Loading Charges              | Buyer              | Seller*      | Seller                        | Seller        | Seller         | Seller                 | Seller             | Seller                     | Seller                | Seller             | Seller              |
| Delivery to Port/Place       | Buyer              | Seller       | Seller                        | Seller        | Seller         | Seller                 | Seller             | Seller                     | Seller                | Seller             | Seller              |
| Export Duty & Taxes          | Buyer              | Seller       | Seller                        | Seller        | Seller         | Seller                 | Seller             | Seller                     | Seller                | Seller             | Seller              |
| Origin Terminal Charges      | Buyer              | Buyer        | Seller                        | Seller        | Seller         | Seller                 | Seller             | Seller                     | Seller                | Seller             | Seller              |
| Loading on Carriage          | Buyer              | Buyer        | Buyer                         | Seller        | Seller         | Seller                 | Seller             | Seller                     | Seller                | Seller             | Seller              |
| Carriage Charges             | Buyer              | Buyer        | Buyer                         | Buyer         | Seller         | Seller                 | Seller             | Seller                     | Seller                | Seller             | Seller              |
| Insurance                    | **                 | **           | **                            | **            | **             | Seller                 | **                 | Seller                     | **                    | **                 | **                  |
| Destination Terminal Charges | Buyer              | Buyer        | Buyer                         | Buyer         | Buyer          | Buyer                  | Seller             | Seller                     | Seller                | Seller             | Seller              |
| Delivery to Destination      | Buyer              | Buyer        | Buyer                         | Buyer         | Buyer          | Buyer                  | Buyer              | Buyer                      | Buyer                 | Seller             | Seller              |
| Import Duty & Taxes          | Buyer              | Buyer        | Buyer                         | Buyer         | Buyer          | Buyer                  | Buyer              | Buyer                      | Buyer                 | Buyer              | Seller              |

Best to Buy on

Best to Sell on

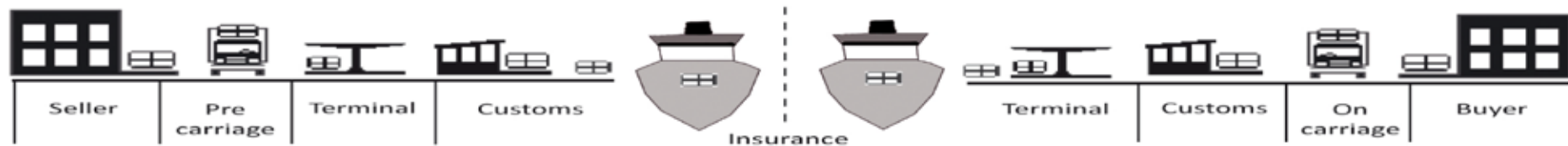
\*Seller is responsible for loading charges, if the terms state FCA at seller's facility. \*\*Negotiable between buyer and seller



# CIF: COST, INSURANCE & FREIGHT

(NAMED PLACE OF DESTINATION)

- Seller delivers when the goods pass the ships rail at the port of shipment
- Seller pays the costs and freight necessary to bring the goods to the named port
- The **risk of loss or damage is transferred from the seller to the buyer when the goods pass the ships rail at the port of loading**
- Seller procures insurance against the **buyers risk** of loss of or damage
- The seller is required to obtain insurance only on **MINIMUM COVER**.



Costs

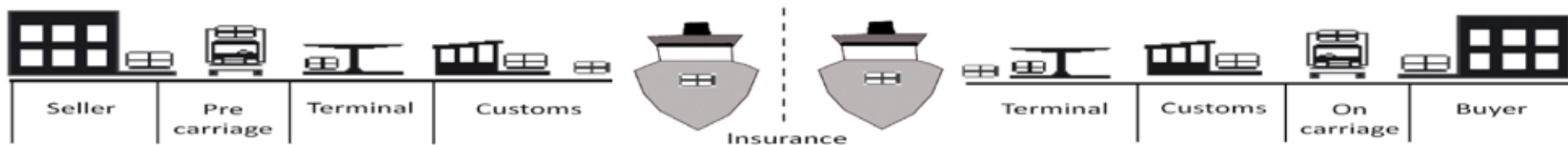
Risks

Documents



## FOB AND FAS

- FAS Free Alongside Ship:** Seller delivers when the goods are placed alongside the vessel nominated by the buyer at the named port of shipment. **The risk of loss of or damage passes when the goods are alongside the ship**, and the buyer bears all costs from that moment onwards.
- FOB Free On Board:** Seller delivers the goods on board the vessel nominated by the buyer at the named port of shipment. **Risk of loss of or damage passes when the goods are on board the vessel**, and the buyer bears all costs from that moment onwards.



Costs

Risks

Documents



## GENERAL AVERAGE

- Pre-dates cargo insurance
- Shared risk concept
  - Ancient principal of equity; widely unknown by shippers

### **“Save the Voyage”**

- When GA is declared, all freight is seized
- Shipper must post General Average Guarantee (Bond)
  - 8 - 12% of cargo value
  - **Without cargo insurance, CASH must be posted by cargo owner**
  - **Deposit is subject to change and can increase until final settlement which could take years!**



## CARRIER'S LIMITS OF LIABILITY

|                    |                   |
|--------------------|-------------------|
| Ocean Carriers     | \$500/CSU*        |
| Int'l Air Carriers | \$9.07/lb         |
| Domestic Air       | \$.50/lb          |
| Truckers           | \$.50/lb          |
| Rail Carriers      | Per Tariff        |
| Couriers           | \$100usd/shipment |
| Warehousemen       | Per T&C           |

The Carriage of Goods by Sea Act (COGSA) limits recovery to the lesser of the value of the cargo damaged or lost or \$500 per "customary shipping unit." Enacted in 1936 before the advent of containerization.

### Exclusions

- Acts of God (heavy weather, earthquake, lightning, etc.)
- Fire
- Theft
- Acts of War, Strikes, Riots & Civil Commotions
- Criminal acts or negligence by captain or crew
- Latent defect in hull or machinery
- Un-seaworthiness of vessel
- General Average



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