



**CBMU**  
The Canadian Board of Marine Underwriters

# CBMU Cargo 101 Webinar

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Wednesday, June 17<sup>th</sup>, 2020 • 11:00 a.m. – 12:00 p.m.



# CBMU Cargo 101 Webinar

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## Marine Cargo Insurance 101

- What is Cargo Insurance?
- What's covered?
- Common Exclusions
- Where does cover start and stop?
- Common Extensions
- Underwriting considerations
- Questions?





## What is Cargo Insurance?

‘Shipping, the invisible industry that puts clothes on your back, gas in your tank and food on your plate’. 90% of everything – book by Rose George.

Cargo insurance insures 90% of everything!

It facilitates Global Trade by allowing transfer of associated risks.

Put simply, its insurance on property that moves.



# What's Covered?

First party direct damage coverage.

A principle coverage clause, the most common being the Institute Cargo Clauses (A), either the 1982 or the 2009 version.

There are also Institute Clauses for named perils, for air shipments and for specific commodities such as frozen food or meat, coal, bulk oil, and so on.

If you understand the Institute clause, the rest of the policy coverage builds on that.

We will focus on the Institute Cargo Clauses (A), 1.1.09.....





Must be physical loss or damage

Right at the top of the Clause – ‘Risks Covered’

1. ‘all risks of loss or damage to the subject matter insured except as excluded by the provisions of Clauses 4, 5, 6 and 7 below.’

- Fire & Explosion?
- Collision?
- Flood?
- Accidental Damage?
- Loss Overboard?
- Water Damage?
- Loss of Market?

Not covered, this is Trade Credit Ins.





Right at the top of the Clause – ‘Risks Covered’

2. ‘general average and salvage charges, adjusted or determined according to the contract of carriage and/or the governing law and practice, incurred to avoid or in connection with the avoidance of loss from any cause except those excluded in Clauses 4, 5, 6 and 7 below.’

Marine Insurance Act: ‘any **extraordinary sacrifice or expenditure**, known as a general average sacrifice and a general average expenditure, respectively, that is **voluntarily and reasonably incurred in time of peril** for the purpose of **preserving the property from peril in a common adventure**.’







When a vessel declares General Average, it essentially means that each party involved in the marine adventure that survives the casualty contributes to the overall loss and expenses in proportion to what the individual's financial Interest bears to the entire value of all cargo and vessel combined that is saved.

An increasingly important part of cargo insurance – as container ships continue to get bigger, more GAs are occurring and the costs of fire fighting, towing, unloading damaged and sound containers, dealing with waste water, and making repairs gets more and more expensive.

Traditionally a GA might have cost a cargo interest 10% to 20% of cargo value, recent GA's have been much more expensive at around 50%.

Average Adjuster is appointed. They will require an Average Guarantee from Cargo insurers.

If the Cargo owner is uninsured, they must provide a cash / LC deposit. Failure to do so means they can't obtain their cargo even if undamaged. Vessel owner can exercise a lien on the cargo to pay cargo's share. Nasty shock to the uninsured.....



Example 1:

Maersk Honam, 2017 built, 15,262 TEU capacity  
Explosion of mis-declared cargo causing fire



Photo Credit: Indian Coast Guard

Mar 6, 2018

Caught fire enroute to Suez from Singapore, 5 crew members died.

March 9

GA declared.

May 22

Berthed Jebel Ali, UAE. > 2 months to extinguish fire and find a port  
Cargo owners in the dark all that time.

June

GA & Salvage security = 54%! Required from cargo interests  
Unloading of sound cargo. Delivery begins for those that have  
insurance &/or have paid security. Thank goodness for Cargo Ins....



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Example 2: Yantian Express, 2002 built,  
7,510 TEU capacity  
Fire, likely cause was container of  
charcoal



Jan 3, 2019	Caught fire in forward holds enroute to Halifax from Colombo.
Jan 15	fire under control, vessel under tow heading to Halifax
Jan 25	GA Declared.
Jan 30	Change of plan, under tow to Bahamas (much of cargo appears ok)
Feb 5	202 containers TL, 460 require inspection
April 12	Some Cargo unloaded – LCL containers – all guarantees must be in place before release of any LCL cargo – nightmare for cargo owners!
April/May	inspected undamaged cargo re-loaded onto vessel
May/June	Sails to Halifax
	Salvage & GA security approx. 40% Required from cargo interests
June	Unloading of sound cargo. Delivery begins for those that have insurance &/or have paid/guaranteed security.
	> 200 containers no paid/guaranteed security. Thank goodness for Cargo Insurance.....



Right at the top of the Clause – ‘Risks Covered’

3. ‘liability incurred under any Both to Blame Collision Clause in the contract of carriage.’

Under contracts of carriage, Bills of Lading for example, shipping lines can call on cargo owners for a contribution to their liability for the other vessel’s and cargo’s losses following a collision.

I have not seen examples of where this has been applied.





## What's Covered Recap

First party coverage.

1. All risks of (physical) loss or damage.
2. General Average Contributions
3. Both-to-Blame Vessel collision contributions
4. Reasonable expenses incurred to mitigate 1.
5. Various extensions within policy wordings generally build on the coverage provided in the Institute Clauses.



## What's Excluded? – right under 'Risks Covered'

- 4.1 Wilful misconduct
- 4.2 Ordinary leakage, loss in weight, wear & tear
- 4.3 Insufficient packing / preparation by insured / employees / prior to attachment
- 4.4 Inherent vice or nature of subject-matter
- 4.5 Delay, even if caused by risk insured
- 4.6 Insolvency or financial default of vessel owner / manager / charterer / operator if insured should have known. Does not apply to assignee / purchaser of goods
- 4.7 Use of atomic / nuclear weapons / devices
- 5 Unseaworthiness of vessel / unfitness of container or craft – if insured privy – N/A to innocent 3<sup>rd</sup> party consignee
- 6 War / civil strife (Insured under separate Institute Clauses)
- 7 Strikes, riots, & civil commotions (Insured under separate Institute Clauses)



## Where does Cover Start?

Right under Exclusions - Duration

8.1 Starts 'the subject-matter insured is first moved in the warehouse or at the place of storage .... For the purpose of immediate loading into or onto the carrying vehicle or other conveyance for the commencement of transit,



continues during the ordinary course of transit and terminates either



## Cover ceases

- 8.1.1 on completion of unloading ... at the final warehouse or place of storage at the destination named in the contract of insurance
- 8.1.2 on completion of unloading ... at any other warehouse or place of storage whether prior to or at the destination named in the contract of insurance, which the Assured or their employees elect to use either for storage other than in the ordinary course of transit or allocation or distribution, or
- 8.1.3 when the Assured or their employees elect to use any carrying vehicle or conveyance or any container for storage other than in the ordinary course of transit
- 8.1.4 on the expiry of 60 days (30 for Institute Cargo Clauses (Air)) after completion of discharge overseas of the subject-matter insured from the overseas vessel at the final port of discharge,

Whichever shall first occur

8.2 and 8.3 allows for cover to remain in force for change of destination or other unusual circumstances beyond the Assured's control – deviation / forced discharge for example.





## Common Extensions

- Stock
- Exhibitions
- Forwarding Charges
- Salespersons samples
- Concealed damage
- Contingent cover for buyer's / seller's interest
- Debris removal expense
- Replacement by Air





## Underwriting Considerations – per risk

Who? Know your insured, their financial standing, their address, not a Sanctions risk, their loss record. Know terms of sale / when your insured is responsible

What? Every cargo type has different risk characteristics that influence the cargo's susceptibility to loss or damage including accidental damage, deterioration, theft, and whether there are special coverage needs associated with the cargo – for example mortality on livestock or rejection on food. [www.cargohandbook.com](http://www.cargohandbook.com)

Where? From A to D via B & C? Including stock locations?

- Transportation infrastructure (especially for non-containerized cargo)
- Physical Geography / Geopolitical Risks [www.bbc.com/news/world](http://www.bbc.com/news/world)
- Weather patterns enroute
- Crime hot spots
- Piracy risks and War risks – JCC watchlist  
[http://watch.exan.info/services/watchlistinspector.aspx?watchlist\\_id=a661e336-c342-4965-b1e7-70980edf8cc2](http://watch.exan.info/services/watchlistinspector.aspx?watchlist_id=a661e336-c342-4965-b1e7-70980edf8cc2)
- COPE on warehouse locations
- CAT exposure – both in transit and for stock



## Underwriting Considerations – per risk

How? The method of shipment including:

- Packing methods
- Conveyances used
- Barges?
- If bulk commodity, the age, class & condition of vessel?
- If heavy or oversize, how lifted, secured, transported
- Do I need a load & stow survey?

How Much?

- Insured values and Limits
- Valuation on the Policy
- Recovery prospects
- Accumulation Exposures – the what if question....



HAVE A SAFE DAY!!!

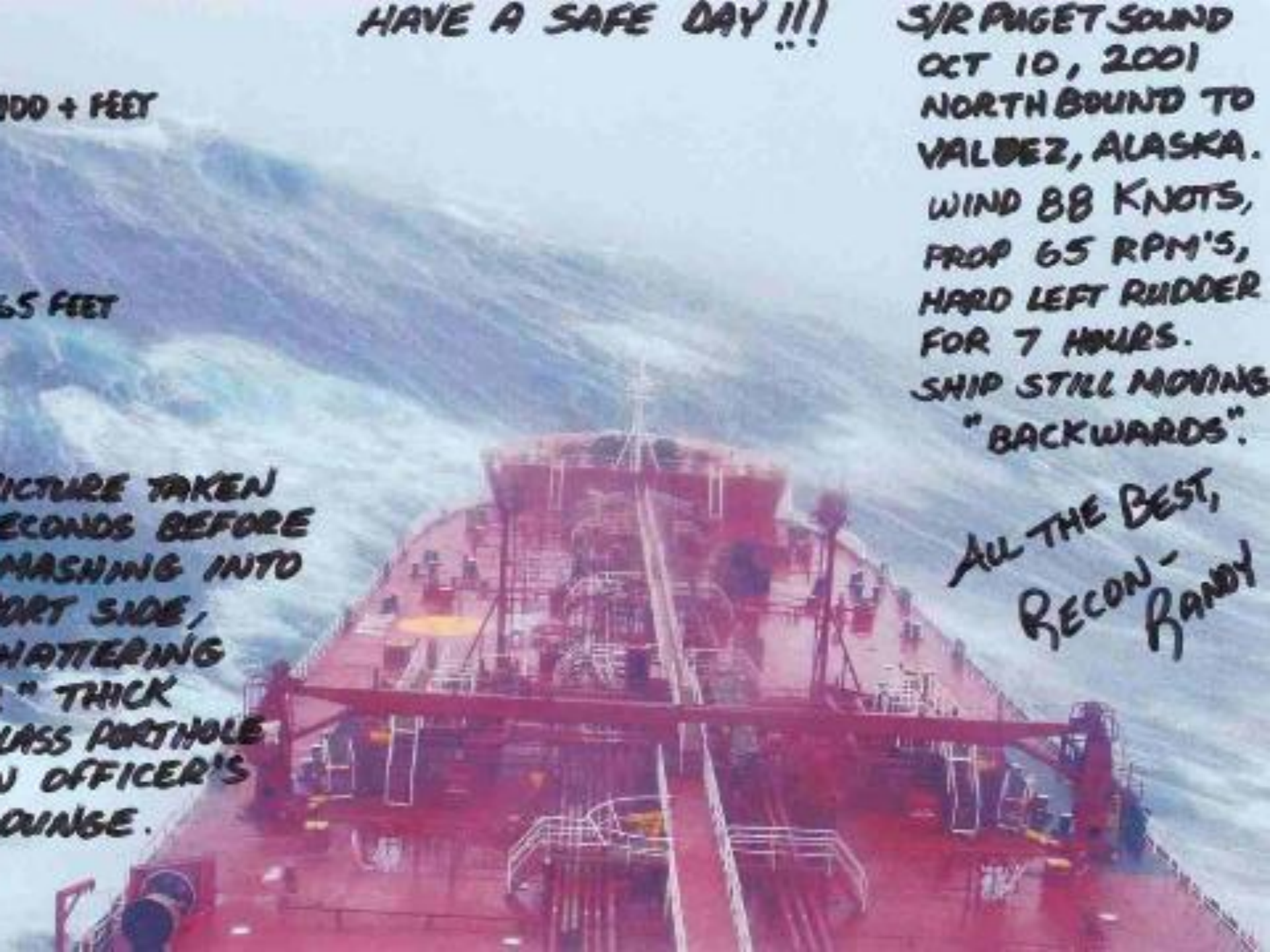
S/R PUGET SOUND  
OCT 10, 2001  
NORTH BOUND TO  
VALDEZ, ALASKA.  
WIND 88 KNOTS,  
PROP 65 RPM'S,  
HARD LEFT RUDDER  
FOR 7 HOURS.  
SHIP STILL MOVING  
"BACKWARDS".

ALL THE BEST,  
RECON-  
RANDY

100 + FEET

65 FEET

PICTURE TAKEN  
SECONDS BEFORE  
CRASHING INTO  
PORT SIDE,  
CRACKING  
" THICK  
GLASS PORTHOLE  
IN OFFICER'S  
DUNGE.







WARNING  
HOLD OFF  
100 FT DIA

SENATOR

Sea Land

DO NOT WALK







TOYOTA

NISSAN









## In Conclusion

Cargo Insurance is first party insurance on property that moves.

- All risks of 'physical' loss or damage
- Includes GA contribution – increasingly important coverage
- Covers 90% of everything
- Underwriters need a global view

## Questions ???