Cargo Insurance

Insuring cargo while in transit can be complex for aid agencies, especially when multiple forms of transport are involved across multiple countries, and into areas of heightened risk, such as natural disasters or protracted armed conflicts. For many agencies, the single largest expenditure of their response activities is the pipeline of relief items heading to affected populations, and proper care should be invested into maintaining this pipeline through risk mitigation measures. Generally there are two approaches organisations use for insuring cargo:

- Relying on insurance provided by the third-party transporter
- Developing a self-managed insurance plan

The risk of using a self-managed or third-party transport provider in the required area must be assessed prior to the appropriate insurance being taken out. In moving goods – especially to and within high risk contexts - there will be potential risks of theft or loss of the goods.

Third-Party Transporter Insurance

Transporter provided insurance can be useful in that it provides coverage for short term gaps, for specific activities that self-insurance isn't designed for, or last mile activities that have enhanced risks. Cargo may be covered by the overall shipping terms of a contract with the third-party transporter, but it is strongly advised that all organisations relying on third-party transporter provided insurance to confirm the insurance status and requirements with the sender/owner of the goods to be moved. Shippers should understand the level of insurance that the provider will offer to cover the goods it carries on behalf of its clients; often if any insurance cover is offered, it will be fairly nominal and only cover a portion of the real cost of the items.

To ensure that freight insurance is properly applied, the full real value of the cargo must be declared to the third-party transporter prior to shipping and the costs and inclusion of insurance must be transparent, being included on any invoicing, and partially expressed through the Incoterms when in use. Many shippers also include the value of the transportation itself as part of the "value" of goods, as any loss or damage due to accident or negligence on behalf of the transporter will also result in the lost cost of the transport service itself. If a catastrophic loss should occur, ideally the shipper will be able to recover the full value without external litigation. Shippers should express a desire to insure cargo through the carrier/third-party when soliciting transport from brokers and forwarders to ensure service is available up front, and normally third-party or carrier provided insurance is negotiated through the forwarder.

There may be instances where organisations develop long term transport contracts with third-party providers, through which the shipper may not know the full value of every shipment over the contracted period. Such arrangements might be common in landside trucking contracts, which might go for a year or more over a changing response. If organisations wish to utilize insurance provided through the transporter in this case, they will need to develop a strategy to account for potential values of future cargo. This might include designating a maximum ceiling of coverage for any given movement that is roughly equal to or higher than any possible load, or develop a scheme through which cargo value is declared per movement and the third-party transporter adjusts billing accordingly. organisations should never assume long term contractors will factor different insurance needs into quoting, and should be transparent in the bid process to avoid confusion later on.

Individual cost of third-party provided insurance may be influenced by the reputation of the transporter. In setting up contracts with providers, it is important that the type of insurance be clarified and incorporated in the contract terms. If there is any doubt as to the cover provided, advice from the organisation's office handling insurance should be sought. If insurance costs differ for different transporters, these should be included in the overall cost comparison matrix.

Key elements organisations should consider:

- Type of insurance: What is covered and to what extent, and where do responsibilities start and stop for the transporter?
- Duration of insurance coverage
- The overall process for reimbursement and payment

For long term, open-ended contracts:

- Scope: does the insurance cover all potential contexts of operation? What if a transport requires operating in more than one country?
- Does the insurance accommodate changing risk conditions?

Self-Managed Insurance

Some humanitarian agencies have opted to develop a global self-managed insurance schemes in the form of self-insurance or some form of “blanket insurance.”

A self-insurance scheme for cargo requires a fairly robust accounting system, whereby organisations intentionally add costs to budgets for cargo movement, but simply keep a small portion of that money in a separate, global pot which can be paid out in case of cargo loss. Self-insurance is useful in that it is quick and efficient and doesn’t require dealing with outside brokers, however it requires a great deal of internal control and analysis. Smaller agencies or agencies that have fluctuating size and types of activities may not be able to adequately predict their global self-insurance needs, and may end up facing substantial global losses.

A method of obtaining global blanket cargo insurance might come from soliciting large international insurance brokerages, who may be able to provide a flat or relatively fixed rate for cargo insurance based on their estimation of risk of any individual agencies’ activities. Global cargo insurance might end up being slightly more expensive per kilogram, but saves substantial amount of time identifying insurance solutions for every transport. The specifics of a global insurance plan would be negotiated based on the need of the requester. As an example, if an aid agency maintains a large fleet of self-managed cargo vehicles in many high-risk countries, there may be a need to develop a high annual global premium to cover all risks associated with cargo movement. On the other hand, if an aid agency is largely only doing international transport using regular carriers, then insurance may be issued on a case by case basis.