Cargo Insurance & Carrier Liability.

Explained.

FREIGHTCENTER

Shipping Handled.

If you are a small business owner, you are probably wearing multiple hats and have a lot on your plate. Shipping should be a no brain-er and an easy process even when it comes to cargo insurance. But the process of covering your cargo in case it is damaged or lost can be confusing. Different types of coverage exist, and the terms used to describe coverage can imply coverage that doesn't exist, and the same term is used to mean different things – whew! To confuse matters even more, one type of coverage can be described by a lot of different terms.

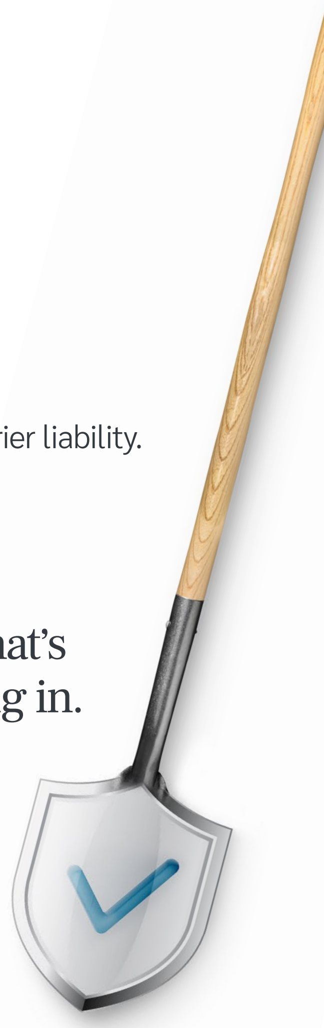
This eBook was created to:

- Give you an overview of the most common insurance options.
- Provide clarity to help you make informed decisions about the kind of coverage you need.

We've broken down the content into four parts:

1. Common types of protection.
2. Two coverage options for small-medium businesses.
3. Side-by-side comparison of "All Risk" freight insurance & carrier liability.
4. What do you do?

Our goal is to help you choose the option that's right for each of your shipments. So, let's dig in.



Common Types of Protection.

As we mentioned earlier, different types of cargo coverage exist.

Carrier Liability Coverage.

Motor freight carriers are required by law to have liability coverage that offers shippers a limited amount of protection. Each carrier has its own coverage, so liability limits differ for each carrier.

Here's how it typically breaks down:

- For Truckload (TL) carriers, that limit is typically the value of the cargo up to $100,000.
- For Less-than-Truckload (LTL) carriers, liability is limited to a certain number of cents per pound of the shipment. For example, a shipment of $10,000 worth of computer chips that weighs only 20 pounds might provide $10 or less of coverage while a 3,000-pound shipment of bowling balls with a wholesale value of $500 might be covered for the full value.

IMPORTANT:

CARRIER LIABILITY COVERAGE ONLY COVERS DAMAGE OR LOSS CAUSED BY THE CARRIER. THE BURDEN OF PROOF IS ON THE SHIPPER TO PROVE THAT THE CARRIER WAS TO BLAME FOR AN INCIDENT.

It's important to remember that carrier liability does not cover a lot of things that can happen to a shipment, including:

- Damage caused by an accident.
- Damage caused by weather conditions or natural disasters (flooding, tornadoes, hurricanes, etc.).
- Damage that occurs while the shipment is temporarily warehoused en route to its destination.
- Loss of the shipment through no fault of the carrier (stolen truck, bridge collapse, etc.).

Cargo Insurance (aka Freight Insurance).

The limits of carrier liability coverage and the difficulty in recovering the full cost of a damaged or lost shipment necessitated the creation of cargo insurance. Cargo insurance provides additional coverage above and beyond the carriers' default protection policy. Historically, two types of cargo insurance coverage have been available.

Open Perils (aka All Risk) Coverage.

Open perils coverage is the broadest and most complete type of cargo insurance available. For that reason, and its low price, it is among the most preferred forms of insurance purchased by small-to-medium-sized businesses (SMBs) or an individual.

Named Perils Coverage.

Named perils coverage is customized to protect the shipper in the event that losses occur due to specific conditions. You could cover a shipment only in case of a natural disaster, accident or any other kind of specific circumstance. Shippers choose named perils coverage depending on the type and value of the cargo. Keep in mind that your shipment may not be covered for any damage or loss that occurs due to perils not named in your coverage.

IMPORTANT:

CARGO INSURANCE REMOVES THE SHIPPER'S BURDEN TO PROVE THE CARRIER WAS AT BLAME. THE SHIPPER ONLY NEEDS TO PROVE PROPER PACKAGING, INVOICE VALUE AND REASON FOR THE CLAIM (DAMAGE, SHORTAGE OR LOSS).

No insurance policy covers every possible risk. That's why, when purchasing an open perils policy, you need to find out what risks are not covered by the policy you are considering. Keep in mind that different insurance companies have different exemptions. One company might exempt certain types of cargo that another insurer will cover. The rule of thumb is to first make sure a policy has all the coverage you will need. If it doesn't, check out policies from other insurers to find the best coverage option for your shipment.

Two Coverage Options for Small Business Shippers.

Small business (SMB) shippers can choose whether they want one policy that covers all of their shipments or a separate policy for each shipment. Here's how it breaks down:

All-Shipment Coverage.

As the name implies, all-shipment policies cover all shipments, regardless of modes (truck - rail - air - sea) or lanes (territories and routes). All-shipment coverage is customized for your business and is in effect for a specific length of time. All-shipment coverage is usually not an affordable option for most small businesses, but if you consistently ship in high numbers using multiple modes, it's worth a look.

Single-Shipment Coverage.

The most popular choice for SMBs is single-shipment coverage. Unlike all-shipment coverage, single-shipment coverage requires that you purchase a policy for each individual shipment. That can seem like a nuisance, but the cost savings are worth it for most SMBs. Single-shipment coverage is available in two kinds of insurance: spot cargo insurance and excess cargo insurance.

- **Spot Cargo Insurance** — Spot cargo insurance is open perils coverage for a single shipment. This type of insurance also goes by the names per load cargo insurance, shipping insurance, trip transit insurance, spike cargo insurance, single trip cargo insurance, moving insurance and cargo rider insurance. Spot cargo insurance is one of the most commonly purchased types of cargo insurance. When you shop for cargo insurance, start by asking about spot cargo insurance.

- **Excess Cargo Insurance** — Excess cargo insurance is also known as gap cargo insurance. Excess cargo insurance only comes into play when you are relying on the carrier's liability coverage, but the limit of that coverage is lower than the value of your cargo. So, if the value of your cargo is greater than the carrier's liability limit and you only want to cover the amount over the limit, excess cargo (gap) insurance is what you need.

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Side-by-Side Comparison.

"All Risk" Insurance & Carrier Liability Coverage.

Few SMBs and individuals who ship sporadically have an all-shipment policy. For each shipment, they choose between going with the default carrier liability coverage or purchasing a spot insurance "all-risk" policy. This side-by-side comparison makes it easy to see the differences between the two primary types of coverage for SMBs and individuals.

Shipper's Need.	Open Perils (All-Risk) Cargo Insurance.	Carrier Liability Coverage.
Protection.	Cargo Insurance is designed to protect the shipper.	While carrier liability specifies how much an at-fault carrier must pay for lost or damaged freight, its intent is to protect the carrier, not the shipper.
End-to-End Coverage.	Your coverage begins from pickup and continues through delivery.	Only covers the time the cargo is in the possession of the carrier. If the shipment is damaged in a warehouse or depot not owned by the carrier, it's not covered.
Burden of Proof.	You do not have to prove that the damage or loss was the carrier's fault.	The burden of proof is on the shipper. Only covers losses caused by the carrier.
Covers All Risks.	You're covered, no matter why your shipment was damaged, lost or disappeared as long as the goods were properly or professionally packaged.	Bad weather, vehicle accidents and "Acts of God" are just some of the exemptions that limit carrier liability coverage.
Full Recovery.	Many policies pay for the full financial value, which includes: - Invoice cost of the cargo - Insurance premium - Shipping cost - 10 percent markup	Carriers are limited in what they must pay. - Typical Full Truckload carrier policies have a limit of $100,000 - For LTL shipments, carriers are limited to paying pennies on the pound
Reporting a Claim.	There is no legal requirement that a claim must be made to an insurance company within a given period of time. Shippers should check their policy to see if a claim must be made within a certain number of days and file within that limit.	Damage should be reported/noted on the BOL when shipment is received. Once delivery receipt has been signed, it's difficult to file a successful claim. All subsequent claims, including concealed damage, must be reported within 90 days.
Fast Payment Process.	Faster more efficient claims process. Claims are typically resolved within 30 days, much quicker than carrier liability claims.	Carriers have 30 days to acknowledge a claim and must respond within 120 days. It could take more time if additional documentation is needed.

So, What Do You Do?

Most freight shipments never have a reported claim. That's why cargo insurance is so affordable. As a shipper, as with any insurance, you have to balance that fact against the potential risk or hit your business could take if something happened and your cargo was lost or damaged beyond repair. Also, remember that carrier liability coverage is mandated by law; you don't have to buy it. But it's also harder to collect on than cargo insurance.

Here's What To Do.

1. Determine your risk. Can the cargo you're shipping be replaced easily and affordably, and can your company afford to shrug it off if you had to accept less than the full value of the freight? And do you have the ability to accept nothing at all— from the carrier after the incident?
2. If you're willing to risk it, then you might want to forego cargo insurance. If you prefer peace of mind and can't risk potentially getting less than full value of your freight you should buy cargo insurance.

Where Cargo Insurance is Available.

Like other types of insurance, cargo insurance is sold directly by insurers as well as through cargo insurance brokers. If you use a third-party logistics provider (3PL) or freight broker, your account representative should be able to help you find the insurance coverage you need.

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Choose the right insurance coverage for your shipments. Give us a call at 844-212-7447 or get an instant quote today to see how FreightCenter can help you start shipping more efficiently. We'll take care of you every step of the way.