Azure Risk Ltd.

Understanding Your Insurance

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Cargo Insurance vs Freight Forwarders Liability Insurance

WHAT'S THE DIFFERENCE?

We come across clients who perceive that a Freight Forwarders Liability policy acts the same as a blanket Cargo Insurance policy. However, this is not the case, and this misinterpretation can land the freight forwarder in hot water.

Both insurance policies can cover lost or damaged cargo, but how they respond is significantly different.

The key difference between the two types of insurance relates to who they protect.

Cargo Insurance
Protects the cargo owner – depending on the *Incoterms* – meaning the shipper (seller, manufacturers, wholesalers, sourcing agent) or the consignee (buyer, importer).

Freight Forwarders Liability Insurance
Protects the freight forwarder who has legal liability for the goods they are transporting. This cover combines Legal Liability and Errors & Omissions and serves primarily as a defence policy.

WHAT DO THESE POLICIES COVER?

Cargo Insurance
Cargo Insurance cover compensates the cargo owner for the financial loss up to the value of the affected cargo – related to the specific shipment declared – as long as the nature of the loss is not excluded or otherwise not coverable under the terms of the cargo insurance policy.

A policy is intended to provide an indemnity (reimbursement) based on the value of the lost or damaged cargo. The value is limited to the Sum Insured declared when issuing the cover.

The cargo owner should be aware that a cargo claims event may not be triggered by errors or negligence by the freight forwarder. But, cargo insurance can provide financial protection for damage or loss in various events, including faulty loading/unloading, accidents, bad weather, fire or theft.

Freight Forwarders Liability Insurance (FFL)
The freight forwarder is accountable for the cargo from collection to delivery. It has a liability exposure for any loss or damage to the goods or consignment.

For an FFL cargo liability claim to be payable, the loss or damage of the goods must be proven to be caused by the freight forwarder's negligence or error.

Insurance Broker

Meaning for an FFL claims event, the freight forwarder or carrier's contractual liability has to be established, e.g., if the goods were in the custody of the forwarder at the time of loss and/or if the forwarder issued the Air Waybill or Ocean Bill of Lading and/or FIATA Bill of Lading.

It's not uncommon to see an FFL policy trigger when it's required to provide a defence to a forwarder against subrogation claims from cargo insurers.

WHAT DOES IT ALL MEAN?

Both insurance policies are essential in their own right and should not be considered a replacement for each other.

It's also important to note that cargo insurance is designed to indemnify the cargo owner. As long as the claim incident is not excluded and is within the scope of cover, it should pay out based on the value of the cargo and the Sum Insured.

By contrast, FFL is primarily a defence policy designed to protect the Freight Forwarder by pushing back and limiting liability as much as possible. It also covers cargo liability; the claimant (which could be your client) will need to fight and establish liability before any payout is considered. After which, the settlement would be limited for various reasons, including your Standard Trading Terms and Conditions and International Conventions such as the Hague-Visby Rules (a set of international rules for the international carriage of goods by sea).

From a business perspective, Cargo Insurance protects the cargo owner, keeping them happy. FFL protects the Freight Forwarder against unhappy clients.

Both insurance policies cover goods transported domestically, internationally, and by all transport modes (land, air, ocean, or a combination).

Disclaimer: All claims are subject to the terms, conditions and exclusions of the relevant product disclosure statement and/or policy. Please read this information carefully before making a claim and/or contact us for more information.

HOW THE POLICIES ARE SET UP, AND WHO PAYS FOR THEM

CARGO INSURANCE

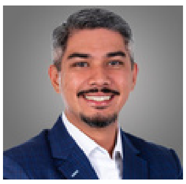
Cargo insurance policies are purchased by the party obligated/interested in arranging the insurance, either the shipper or consignee, as per the Incoterms. This also presents an opportunity for the Freight Forwarder to provide an add-value service in helping to arrange the cargo insurance for their client.

ALL RISK COVER, PLACE TO PLACE BY ANY MODE.

FREIGHT FORWARDERS LIABILITY INSURANCE

FFL is payable by the freight forwarder as an annual cost based on the scope of activities and the Gross Freight Receipts. FFL is a policy that protects a company as the freight forwarder, not the forwarder's client, i.e., the cargo owner.

CUSTOMIZED SOLUTIONS FOR FREIGHT AND LOGISTICS.



CONTACT US

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To secure cargo insurance for your goods or freight forwarders liability insurance for your business, contact us to discuss the options available for tailored and affordable cover.

Scan our QR codes and start chatting with us

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