



Transport insurance: mere formality or absolute necessity?

Lots of things can go wrong during the transport of goods. Companies who outsource the transportation of their products to a professional carrier or freight forwarder often mistakenly believe that the service provider is fully liable for any damage. In the unfortunate event any problems do occur, they are presented with a battery of terms and conditions that are impossible for non-specialists to understand. In this document, we explain what you need to consider, the most common risks associated with goods transport, and when it makes sense to arrange insurance cover.

1

What do you need to know?

When using a logistics company to transport your goods, it is important to have a clear understanding of the issues you will face in the event of damage, loss or theft. There are standard agreements, and it can be useful to know the meaning of particular technical terms.

Important terms include:

- Incoterms and liability
- Carriers and freight forwarders
- Transport insurance cover

Incoterms and liability

The Incoterms rules describe the rights and duties between the purchaser and vendor of the transportation and delivery services. The Incoterms clarify who pays for what. They also state who is liable in the event of any damage or loss of goods in transit.



Figure 1: [Click here for an overview of all Incoterms](#)

The carrier or freight forwarder is only liable if damage or loss occurs through demonstrable mistakes or negligence during transport. Moreover, there are limits to the extent of carriers' or freight forwarders' liability and the maximum amount of compensation they are required to pay (see Figure 2).

| | Standard conditions | Maximum liability |
|---------------------------------------|-------------------------------|---|
| Freight forwarder | FENEX conditions ¹ | 4 SDR ² per kilo with a maximum of 4,000 SDR |
| Air freight | Montreal Convention | 19 SDR per kilo |
| Sea freight | Hague-Visby Rules | 666.67 SDR per package or 2 SDR per kilo if that is more |
| Road transport (international) | CMR conditions ³ | 8,33 SDR per kilo |
| Road transport (domestic) | AVC consitions ⁴ | Domestic regulation (e.g. in NL this falls under AVC conditions ⁴ € 3.40 per kilo) |

Figure 2: Overview of the conditions and limitations that apply to the freight forwarder's and the carrier's liability during transportation by air, sea or road.

¹ FENEX= Dutch Organisation for Freight Forwarding and Logistics

² SDR = Special Drawing Rights: a virtual unit of currency which is maintained by the International Monetary Fund (IMF) and represents a claim to a number of major currencies (1 SDR is approx. 1.16 EUR).

³ CMR = Convention Relative au Contrat de Transport International de Marchandises par Route (Convention on the Contract for the International Carriage of Goods by Road)

⁴ AVC = Algemene Vervoercondities (General Transport Conditions for The Netherlands)



Carriers and freight forwarders

As you can see above, there is a considerable difference between the liability of a carrier and a freight forwarder. A carrier is a company that takes care of physically transporting goods from A to B. A freight forwarder is an intermediary that arranges transport on behalf of customers. Therefore, a freight forwarder is only partially liable if something goes wrong. If a customer works directly with a carrier, the carrier is liable as shown in Figure 2.

Transport insurance cover

If the value of your consignment is higher than the maximum amount your carrier or freight forwarder is liable for, it is wise to ask about transport insurance. Transport insurance gives you the certainty that, if something should go wrong in transit, you will receive full compensation of the value based on the sales invoice. If there is no invoice, the market value will be used to determine the amount. Naturally, the transport costs will also be reimbursed.

It is the shipper's own responsibility to arrange insurance as necessary. In some cases, the carrier or freight forwarder will highlight to the customer the option of insuring the cargo.

The level of the insurance premium depends on several factors, including:

- The value of the goods
- The destination
- The selected mode of transport

2

What are the risks and which procedures are involved?

Damage

This includes goods which become scratched, dented or wet in transit.

The shipper is responsible for ensuring that the consignment is suitably packed. If a consignment has damaged or inadequate packaging when the carrier receives it, the carrier records this fact on the bill of lading or transport agreement.

If, upon receipt by the consignee, the goods inside are visibly damaged, the carrier must be held directly liable in the case of air or sea freight. In the case of road transport, a note on the bill of lading suffices.

If the damage to the consignment is not immediately visible, the carrier must be held liable within three working days in the case of air or sea freight, or within seven working days for road transport.

The goods are usually delivered to the consignee even if they are damaged, unless continuing to transport them is pointless or impossible.

Lost or stolen goods

This includes the loss or demonstrable theft of part or all of the consignment. In this case, it is important to demonstrate that the loss or theft has occurred during transportation of the goods. In principle, a loss is indicated with a note on the bill of lading or transport agreement, which lists the contents and quantities of the consignment. The carrier signs the bill of lading or transport agreement when they receive the consignment. If, upon receipt, the consignee ascertains a loss and makes a note of it on the bill of lading or transport agreement, this in principle serves as sufficient evidence that the loss occurred in transit.

Theft must be proven, for example with the aid of CCTV footage. Any case of theft must always be reported to the police, and the responsibility for doing so lies with the party that was liable for the consignment at the time of the theft. If there is no actual proof of theft, the incident is treated as a loss.



If just part of the consignment is lost or stolen, the affected party is compensated on a pro rata basis.

In the event of loss or theft of air or sea freight, the carrier must be directly held liable. For road transport, a note on the bill of lading suffices.

Delays

Late delivery of goods can sometimes cause the consignor to suffer financial losses, known as 'consequential damages' or 'special damages'. Carriers and freight forwarders almost never accept liability for damages of this kind. At the most, they are required to reimburse the freight costs incurred if mistakes or negligence can be demonstrated. It is usually not possible to insure against consequential damages. This is because it is difficult to quantify the exact extent of such losses and to estimate the associated level of risk.

General Average (sea freight only)

Although it does not happen often, it is important to bear 'General Average' in mind. This is collective damage to both a ship and its cargo. If a ship is in danger, it may be necessary to make sacrifices to safeguard the ship itself, its crew and its cargo. All the costs associated with the salvage operation including the value of any goods sacrificed are shared proportionally between the owners of the ship and the owners of the cargo. In practice, this means that the consignor of the sea freight bears part of the costs. However, it is possible to insure against such risks.

How great is the risk of damage or loss?

In reality, the risk of damage is fairly small. In 2012, the chance that damage would occur during road transport was 0.1%, and the chance for sea freight was similarly small. For air freight, the risk was even lower, namely 0.04%. However, to put these seemingly low figures into perspective: the chance of a house fire is only 0.001% and yet most people have fire insurance.

In 2012, the risk of your consignment being lost or stolen in transit was approximately 0.04% for road transport. Air freight was slightly less susceptible to theft or loss at 0.03%, and you ran the lowest risk of your goods going missing as sea freight at just 0.01%. In comparison, the chance of your car being stolen was around ten times higher, at 0.2%.

Filing a claim for damage, loss or theft?

To hold the carrier liable, it is necessary to file a claim for the damage, loss or theft within a certain period of time. For uninsured consignments transported as sea or air freight, the consignor must claim for damages within two years. For road transport, the relevant timeframe is shorter at just one year.

If the consignment was insured, the consignor must first hold the carrier liable and then contact the insurance company in order to file a claim. The timeframe for filing a claim varies from one insurance policy to another. If the claim is approved, the insurance company will reimburse the full value based on the sales invoice. If there is no invoice, the market value will be used to determine the amount.

The insurance company in turn holds the carrier liable for reimbursement of the relevant costs.

2.7 When opinions differ

Generally speaking, most carriers and consignors manage to sort out transportation incidents without too many problems. However, there can sometimes be conflicting opinions about an incident. In that case, it is important to collate all the relevant documentation such as bills of lading and transport agreements. These documents indicate the condition and the contents of the consignment at the moment that the carrier received it. If the difference of opinion persists, help should be enlisted from an expert on damage or packaging. It is generally the carrier's responsibility to take this step.



3

Further considerations

Costs and benefits

If the value of your consignment is lower than the amount the carrier or freight forwarder is liable for, it is not necessary to insure it. Remember, however, that if you do have a high-value shipment at any point and something should go wrong, the balance can change dramatically.

Your relationship with the carrier or freight forwarder

Perhaps you have a good relationship with your carrier or freight forwarder, and you are convinced that, in the event of loss or damage, they will go beyond their legal obligations and reimburse you in the interest of retaining your business. If the damage is small, a carrier or freight forwarder may indeed make a gesture of goodwill. However, don't expect a huge payout. The carrier or freight forwarder will make the decision based on the amount of time needed to recoup the extra costs. If that will take too long, they will only pay you the legally required minimum.

A carrier with insurance

Your carrier might also have insurance of their own. However, this is of no relevance to you as a customer. Carriers can only arrange insurance to cover their own liability. In some cases (e.g. force majeure) they will not be liable at all and you, the customer, will bear the full cost of the damage.

4

Conclusion

When deciding whether or not transport insurance is necessary for your shipment, it is important to bear in mind the principle behind insurance. Insurance offers cover against relatively extensive damage that occurs relatively rarely.

If the value of your consignment exceeds the amount that the carrier or freight forwarder is liable for, or if you are shipping to unfamiliar or less well-organised destinations, the relatively low extra costs of transport insurance are perhaps worth considering.

*Disclaimer: This document is a summary of the situation surrounding transport insurance.
No rights can be derived from this document.*

Image: NZ Defence Force



About the authors



Ruud Scheidel has almost 50 years of experience in the world of logistics, in which time he has fulfilled various management roles including as Freight Director at Furness Logistics. Among other things, Ruud is currently a member of the FENEX Legal Committee where he is involved in drawing up terms and conditions for logistics and freight forwarding. He also acts as an arbitrator in legal differences arising from the terms and conditions.



Tom Schütt has a financial and fiscal background and has over 15 years of experience working both at major accounting firms and as an independent financial consultant. He holds a postgraduate degree in finance & controlling. Since 2007 he has been working as Finance Manager within the DSV Shared Service Center, and in 2009 he was also appointed as National Insurance Coordinator for DSV Nederland. In this role, he is responsible for DSV Nederland's insurance portfolio and is also the main point of contact and coordinator for DSV Cargo Insurance.