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SURA MARINE

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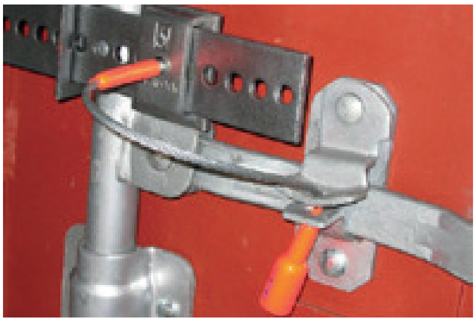

SHIPPING CONTAINERS

The use of shipping containers for the transport of cargo is a relatively recent innovation having only come into widespread use since the 1960s. Prior to this time, each piece of cargo had to be manually handled in being lifted on and off ocean vessels. The birth of modern containerisation owes its creation to a truck driver who, in the late 1930's, observed that it made far more sense to load the entire trailer onto the ship rather than individually loading each of the trailer's contents.

While the move to transporting cargo in these large watertight and airtight steel boxes has undoubtedly reduced the risk of cargo damage and theft there are some important marine insurance considerations that brokers should be aware of.

THEFT FROM SEALED CONTAINERS

For a valid claim to be made against a marine insurance policy there needs to be evidence that an insured risk has occurred during the insured transit. However what happens if cargo is missing from a container when there is no evidence that the container has been opened during the insured transit?

While containers are not intended to be secure vaults, in fact they must be capable of being opened by customs authorities, they are fitted with security seals which must be broken in order to open the container. If, for instance, a customs authority opened a container for inspection they would replace the seal they broke with their own seal and note the shipping documentation accordingly.

There have been occasions where thieves have opened containers and kept the seals intact by gluing them back together, or in extreme cases, avoiding breaking the seals by using a forklift to remove the container doors. At first glance, the container seals are intact and the insurers would reject the claim. To avoid this happening the marine market has developed what is ingeniously known as the "theft from sealed container clause". Quite simply, this clause states that if a claim is lodged for theft from containers the claim will not be prejudiced by the fact that the container seals are intact.

Not all marine insurance policies contain a "theft from sealed containers clause".

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CONTAINERS INSURANCE RISKS

While at first glance containers could present the ultimate in a near invincible asset – after all what could happen to a big steel box – at $20,000 for a standard 'dry' container and more than $100,000 for a refrigerated container there are often significant accumulation risks. Additionally many cargo owners are often unaware of their potential exposure for containers owned by others such as the shipping lines, particularly when it is a transport company that damages the container.

Broadly speaking there are three categories of container risk which an importer or exporter of cargo could be exposed to. In response to these exposures insurance is either arranged as a standalone container insurance or as an extension to a marine cargo policy.

CARRIERS LOAD

While this article is generally related to importers and exporters of cargo, responsibility for shipping containers will also fall upon transport companies such as road hauliers. Brokers should ensure that any carriers load policy they arrange extends to the carrier's responsibility for shipping containers, either by inclusion of a separate clause or by extending the insured goods accordingly.

1. CONTAINERS FOR WHICH AN IMPORTER OR EXPORTER ARE RESPONSIBLE

Cargo importers and exporters may be surprised to learn that they are contractually responsible for the shipping container that is being used to transport their cargo. The container, generally owned by the shipping line, is essentially on loan to the importer or exporter and it is often only when a container is damaged or lost that they are confronted with a bill from the shipping company for not only the container but also for what is known as 'demurrage' – the income lost by the shipping company due to the container no longer being available for hire either through it being damaged or delayed in being returned to the shipping company. Shipping documentation such as the Bill of Lading and Equipment Hand-Over Agreements place responsibility for the containers onto importers and exporters.

A standard marine cargo policy will not necessarily cover containers; after all, the insurer is insuring the cargo and is receiving a premium based on the annual value of the cargo shipped.

Brokers should be aware that not all marine insurance policies have been extended to cover shipping containers and of those that do, demurrage costs may not necessarily be included in the cover.

2. CONTAINERS OWNED BY AN IMPORTER OR EXPORTER

In the same way that cargo is almost universally insured under Institute Cargo Clauses a set of Institute Clauses exist specifically for the insurance of shipping containers. At one end of the spectrum are importers or exporters who own a small stock of containers while at the other end are large freight forwarders and shipping lines who own extremely large container stocks and the insurance of which is a specialist area.

Many underwriters have learnt the hard way of the perils of insuring fleets of containers that change hands regularly and could be in any part of the world at any given time. "Stocktaking" losses are common and premiums don't always take into account the enormous time and expense involved in managing claims and recovering costs from the users of the containers.

3. CONTAINERS LEASED BY AN IMPORTER OR EXPORTER

Some importers and exporters may lease a number of containers under a contract from a shipping line. In many ways the insurance risk is similar to that if the importer or exporter actually owned the container.

Importantly brokers need to be aware that containers leased under a contract will not generally be covered under a cargo policy's container extension as such cover is not intended for long-term hiring of specific containers.

It is recommended that brokers ask their clients whether they lease shipping containers and any accumulation potential that may exist. For instance, an importer or exporter with 10 leased containers on a single ship or container yard could easily have a $200,000 uninsured exposure.