

Relying on Insurance of Others



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Electronics resellers are often asked to accept others' insurance on both incoming and outgoing shipments. For outgoing credit or COD shipments, the use of other's insurance can be very dangerous to the shipper, or seller. When a seller (shipper) accepts the use of the buyer's insurance for these types of shipments, the seller enters into a situation where he has no real leverage. Instead, he must rely on the good will of the buyer and the buyer's interest in preserving their commercial relationship for the future.

Why is this so? If a buyer who is insuring an incoming shipment does not receive the shipment or receives only part of a shipment, the buyer can simply refuse to pay for all or part of the shipment. In addition, the buyer can refuse to file a claim with his insurance company.

It is important to note that the buyer's cargo policy is a contract between the buyer and his cargo insurance company, not between the shipper of the goods and the buyer's insurance company. If the buyer refuses to file a claim, the shipper is left out in the cold.

The shipper is then in a lose-lose situation. He loses money by not collecting from the buyer or by replacing the product lost and shipped to the buyer anticipating a claim payment from the buyer. If the buyer is an important client for the seller, he may consider it necessary to continue to do business with the buyer, thus exposing himself to another loss. Alternatively, the seller can refuse to do further business with the buyer and therefore loses the future benefits of orders from that buyer.

Certainly, the seller can hire an attorney to try to pursue the claim, but the likelihood of recovery depends on the exact circumstances of the loss and the location of the buyer, who can be anywhere in the world. In the same way, members should consult their own attorneys, but it would seem to be very difficult if not impossible to draft an enforceable worldwide advance agreement requiring that an insurance claim be filed. And certainly, attempts to enforce it could prove very expensive. The seller therefore can lose money in the form of legal and court fees even if he is successful in getting any recovery at all.

Although most resellers honor their insurance obligations, some do not. A seller who accepts the insurance of others on outbound packages--in reality--takes on a self-insured deductible equal to the value of the whole package or the legal costs to recover the loss (if successful) when dealing with some resellers.

In addition, there can be serious misunderstandings about what "insured" means. While many resellers are careful to get insurance certificates, the certificates do little to describe the quality

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of the insurance provided. There is no standard agreed form of cargo insurance. First, deductibles can vary considerably in size, easily reaching up to \$5,000 per claim for medium-sized resellers. Second, cargo policies can exclude many common causes of loss. At High Tech Cargo Insurance, our most common source of insured loss is simple disappearance in transit or non-delivery. (Fire, flood and other physical damage are relatively rare). Although many policies provide coverage for this sort of disappearance, many exclude coverage. Thus, a buyer could truthfully tell a shipper (seller) that although he did have insurance, it did not cover the particular circumstances of a loss.

For incoming shipments, the use of other's insurance does not present as much of a risk to the buyer--if the buyer does not pay for the shipment before its arrival. If the package does not arrive, the shipper (seller) will simply have to file the claim on his insurance and pay his deductible. The shipper will not be in a position to seek payment from the buyer because he has stated that he is providing insurance.

Things become more difficult if the shipment was paid for and does not arrive after being shipped. In the course of trade, this often happens, even when the business owner does not intend it or realize it. The buyer then has a commercial dispute with the seller that can require costly legal intervention anywhere in the world. The buyer is again in a lose-lose situation and would be far better off if he had his own insurance rather than relying on the seller's insurance.

Cargo losses can severely affect the profitability of electronics resellers.

What can an electronic reseller do to protect himself about non-payment for lost outgoing packages sold in a credit transaction?

(1) He can accept the risk of non-payment, although an individual loss can be too large for small and medium sized firms to absorb.

(2) He can avoid the risk by refusing to do business with people providing their own insurance, but this would severely limit his growth.

(3) He can attempt to segregate the risk into smaller amounts by sending out smaller separate shipments on separate days, but this can defeat the whole purpose of his business--rapid customer service.

(4) He can also decide to transfer most of the risk to an insurance carrier, i.e. get his own cargo insurance policy to cover his own goods.

If an insurance policy is used, it is usually most cost-efficient to insure both inbound and outbound shipments. It is important to look at the breadth of coverage and to ask for additional coverage features such as Contingent Insurance and Difference in Conditions (DIC) insurance. Contingent Insurance and Difference in Conditions coverage would provide coverage for most of the situations addressed in this article.

In summary: "INSURED BY OTHERS" really means INSURED FOR OTHERS and NOT FOR YOU! It is best to have control of the insurance.