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LOGICAL IN LOGISTICS NEWS



NOVEL CORONAVIRUS (COVID-19) & INSURANCE POLICY REVIEWS

Over the past couple of weeks, we have received phone calls & emails from logistics operators who are concerned about their revenues potentially reducing and are seeking guidance regarding how to go about reviewing their general insurance programs to determine what insurance they should let go and what they should retain.

We understand the sentiment, these businesses are looking to trim costs across the board in order to survive the COVID-19 crisis. We predict that this will only get worse as more businesses witness their revenues drop, sometimes at an alarming rate. As insurance renewals fall due each month, an increasing number of business owners/managers are likely to cancel their insurances altogether, or trim coverage they do not consider necessary.

This is a serious issue for individual businesses should they be hit by an insurable event, particularly if they chose not to renew, cancel or reduce levels of cover on the policy(s) which would have provided valuable coverage in their time of need.

So, what do to?

Well, it's our view that insurance coverage is the very last expense any business should stop or reduce, particularly in these uncertain times, because should something go wrong, the business may not survive. Removing valuable protection when the business is in a vulnerable position simply doesn't make sense.

Let's break it down into the two main areas of concern raised by the logistics operators who have contacted us, Property/Business Interruption insurance and Liability insurance.



JAMES COTIS

Principal at Logical Insurance Brokers

Property & Business Interruption Insurance.

Reducing property insurance coverage should be carefully considered. Be aware that incidents such as fire, storm damage or substantial water damage to premises & stock caused by say a burst pipe can still occur.

Unfortunately, times such as these provide an opportunistic advantage for thieves, so the risk of burglary is ever present.

If premises are unoccupied for extended periods of time because staff are working from home, these issues may not be immediately detected & lack of early mitigation may lead to substantial damage/losses before anyone can sound the alarm.

Businesses should also review their contractual obligations. Funding arrangements used to acquire buildings, plant & equipment will usually involve agreements which stipulate the amount of cover required and oblige businesses to note financiers as interested parties on current policies of insurance.

With respect to Business Interruption (BI) insurance, although most policies will not respond to claims regarding the COVID-19 crisis, that does not mean that this cover should be cancelled or reduced. As mentioned above, losses arising from fires and storms can & do happen.

Should a fire occur which causes substantial damage to buildings and contents, consider the time frames required to obtain council & other relevant authorities' permission to rebuild. Delays may be experienced during the tender phase to prepare adequate scope of works & evaluate tenders received. Delays in building repairs may occur due to lack of capacity, social distancing limiting the number of trades on any given worksite, lack of building materials readily available and spates of bad weather. Lead times may be extended for replacing plant, machinery & stock due to lack of availability because of interruption of supply chains.

Then consider the time it may take to win back old customers & attract new ones.

Finally, please bear in mind that [average/co-insurance clauses](#) contained in Property and BI policies are aimed at under-insurance and act to proportionally reduce claims payouts.

Liability Insurance

Reviewing liability insurance should be undertaken with utmost care.

Damage to cargo remains a constant threat. In fact, insurer's historical claims data confirms that significant notifications &/or claims are lodged for cargo damage by logistics operators.

The types of incidents/claims can also include:

- Contractual, such as BoLs, AWBs STCs;
- Statutory, such as Hague Visby Rules (ocean), Warsaw / Montreal Convention (air).

Consideration should also be given to any warehousing arrangements in place with customers. Customer's goods may start to accumulate in warehouses and storage yards if they are unable to take delivery due to forced shut/lock downs. Although we are starting to see innovative solutions such as "pop-up" distribution centres appearing as logistics operators try to deal with the inflow of goods and attempt to keep the supply chain moving, backlogs may take time to deliver.

Therefore, logistics operators should review their customer agreements/Standard Trading Terms & Conditions to clarify responsibilities within these arrangements, particularly if something goes wrong. As part of that review, we believe it would be prudent to undertake a "maximum possible loss analysis" with respect to customers' stock held in warehouses and compare that to the relevant limit(s) of indemnity within the logistics operator's liability policy.

Reportable incidents for Third Party Liability, Errors and Omissions and Fines & Duty issues can arise from work undertaken by staff.

These incidents may have the potential to increase due to staff working under increasing pressure in unfamiliar working environments where it is more challenging to have meaningful & helpful conversations with senior colleagues about unusual circumstances which can arise day to day.

It is undeniable that it is going to be tough to get through this crisis for most businesses.

Attempting to get through it without an adequate insurance program in place could spell financial disaster should a business be hit by an insurable event and not hold sufficient cover. In many cases, it's about the business owner's life's work...why would they risk not being fully insured?

Who we are:

James and the team at Logical Insurance Brokers provide specialist risk management and insurance solutions to the logistics industry. Logical is delighted to be associated with the Freight and Trade Alliance (FTA) and is proud to be their appointed insurance adviser since its inception in 2012. James is also a regular presenter at FTA professional development events.

If you would like more information about how a carefully constructed insurance program and business continuity plans can help protect your business, please feel free to contact James on 02 9328-3322, email jamesc@FTAlliance.com.au or visit the Logical Insurance Brokers website at www.logicalinsurance.com.au/logistics.

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