The freight forwarder's liability insurance should provide cover for cargo losses, right?

So why should Importers or Exporters take out cargo insurance?

Glad you asked (or let's pretend you did)

Here are some crucial reasons why Importers and Exporters should arrange cargo insurance on their goods.

- As an Importer/Exporter you may be responsible for all loss and damage during the entire voyage, even before delivery, e.g. under FOB Incoterms an importer is responsible from the time the goods are loaded aboard the vessel.

- Where there is a cargo loss, the Importer/Exporter may not always have a right to claim against the Freight Forwarder. The claim may be directly against the carrier, which can be very time consuming, and…

- Air and Sea Carriers can limit their liability under international conventions, i.e. the Montreal Convention and Hague Visby Rules respectively.

  With respect to sea freight, the Hague Visby Rules provide a limit of the greater between:
  - 2 Special Drawing Rights (SDRs) per kilo of the cargo; or
  - 666.67 SDRs per package.
  As of May 2022, 1 SDR=AUD 2 (approx.).

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For example, say an importer arranged a consignment of 8 pallets of machinery components valued at AUD100,000, with a total weight of 6,000kg to Australia. Upon arriving in Australia, all the components were found to be damaged beyond repair. After weeks of correspondence, it was found that the carrier was liable.
Therefore calculation would be:

- Package: 8 (pallets) x SDR 666.67 =	AUD10,666.72
- Weight: 6,000kg x SDR 2 =	AUD24,000.00

Therefore, the carrier is entitled to limit liability to AUD24,000 (the higher amount). This leaves an outstanding balance of $76,000 to be absorbed by the importer, if they do not carry marine cargo insurance.

- Freight forwarders also trade on their own standard terms which usually limits their liability. Any compensation from the Freight Forwarder's liability insurer would be subject to the same quantum restrictions as shown above.

- Exporters or Importers will need to put up Bond/Guarantee for their cargo in the event of a General Average event. Where cargo insurance is in place Cargo insurers will arrange this, which means no cash flow restrictions on the importers/exporters.

- Salvage Charges. These are awarded in accordance with the skill level required to carry out the salvage. These costs are borne by cargo owners and must be paid before release of the cargo. Salvage awards can reach 80% of the value of the cargo and will generally be paid by cargo insurers if cargo insurance has been arranged.

Finally, cargo insurers will generally provide prompt and full payment for damaged/lost goods where an insured event has occurred and are not concerned with liability issues in relation to other parties.

Disclaimer: This article is general in nature and is designed to provide helpful general guidance on some key issues relevant to this topic. It should not be relied on as legal advice. It does not cover everything that may be relevant to you and does not take into account your particular circumstances and you use it at your own risk. Logical Insurance Brokers specifically disclaims any liability, whether based in contract, tort, negligence or otherwise, for any direct, indirect, incidental, punitive, consequential or other damage arising out of or in any way connected with the use of or reliance on the content of this article. It is only current as at the date of release. You must ensure that you seek appropriate professional advice in relation to this topic as well as to the currency, accuracy and relevance of this material for you.