

# **AMERICAN ASSOCIATION OF INSURANCE SERVICES INLAND MARINE GUIDE MOTOR TRUCK CARGO LIABILITY - UNDERWRITING**

## **COVERED PROPERTY**

Motor truck cargo (MTC) liability insurance is intended to provide legal liability coverage for truckers (common or contract carriers) while they are transporting property of others (cargo). Under this coverage the insured is the trucker and the covered property is the property of others that is being transported by the insured. The trucker is liable for cargo under the terms of a bill of lading (common carrier) or a contract with the shipper (contract carrier).

### **Motor Truck Cargo Liability and Owner's Cargo**

It is important to understand the difference between owner's cargo and motor truck cargo liability coverages because the term MTC can be used to describe either coverage.

MTC liability insurance provides coverage for public truckers who are in the business of hauling property of others on the truckers' vehicles. Covered property (cargo) under a liability form is not owned by the carrier.

Owner's cargo insurance provides coverage for insureds who are shipping their property on their vehicles. Insureds under the owner's form are not in the business of hauling property of others.

## **RISK SELECTION**

To underwrite motor truck cargo liability risks, obtain the following information:

1. Commodities being shipped.
2. Average and maximum values per shipment.
3. Annual gross receipts.
4. Radius of operations.
5. Financial condition of the insured.

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6. Loss experience of the risk.
7. Auto fleet:
  - a. condition and maintenance;
  - b. protective devices.
8. If terminal location coverage is provided, information on the construction, occupancy, protection, and exposure features of the building should be obtained.
9. If owner-operators are used, obtain information on the:
  - a. number of owner-operators;
  - b. standards for selecting owner-operators (e.g. road test, vehicle inspection, MVRs); and
  - c. liability provisions in the carrier and owner-operator agreement that conflict with coverage under the MTC form.

**Contract Carriers**

If a trucker is operating as a contract carrier, the following additional information should be obtained:

1. A list of all shippers the carrier has contracts with.
2. The specific commodity hauled for each shipper that is hauled under contract.
3. The terms of liability under the contract; if liability is not spelled out in the contract, the carrier is only liable for loss due to negligence.
4. The gross receipts generated from each shipper.
5. A breakdown of gross receipts earned as a contract carrier and as a common carrier.

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## **KEY HAZARDS**

### **Bankruptcy**

Because of state or federal cargo filings, bankruptcy can be a major source of catastrophic losses for MTC liability risks (also refer to Cargo Filings in the Information section of this Guide class). If a trucker becomes insolvent, the cargo filing requires the insurer to respond to all unpaid claims that may have been accumulated by the carrier. While the dollar amount of individual claims may be small, the cumulative amount may be very high. It is not uncommon for a large interstate carrier to have \$500,000 to \$1,000,000 in unpaid claims when seeking bankruptcy protection.

The financial condition of every MTC risk should be determined; this includes an analyst of financial statements and a review of an OS&D Report (Overages, Shortages, and Damages). The OS&D Report will indicate the amount of outstanding claims that the trucker is carrying.

Insurers that subscribe to the Central Analysis Bureau (CAB) should obtain a CAB rating and written report for every trucker. CAB will analyze a carrier's financial statements and assign a rating based on their evaluation of the trucker's financial strength (also refer to Central Analysis Bureau in the Information section of this Guide class).

### **Theft**

The following factors should be analyzed to determine any exposure to theft:

1. Commodities listed as a 5 in the Commodity Classification Index can be considered target items for theft. A description of commodities being shipped should be obtained to determine if target items are involved. When "general commodities" is listed as the commodity hauled, the following information should also be determined:

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- a. If the loss experience indicates several small or one large theft loss(es), it is likely that a target commodity was involved. It should be determined if the target commodities are still being hauled.
  - b. High limits of insurance per vehicle (e.g. \$250,000) may be a sign that target commodities are being hauled. If a customer is requiring a high limit, then it should be determined who the shipper is and what commodity is being hauled.
2. The radius of operations and geographic area of operation should be considered when determining any exposure to theft. Shipments going into high crime urban areas or along the East Coast have been hit hard by thefts.
3. The hazard of theft from vehicles can be reduced by the use of alarms (e.g., Babaco Truck Alarm) and/or armed escorts or guards. If the use of alarms, escorts, or guards is a condition for writing a risk, a protective safeguard endorsement should be added to the coverage form. A loss control survey should confirm that all protective devices are operational.

**Fire**

**Vehicles**

Poor maintenance is the primary cause of vehicle fires. A formal maintenance program should be in effect for vehicles.

**Terminals**

The hazard of fire is often the predominate concern for property being stored at a terminal location. Therefore, construction, occupancy, protection, and exposure features should be considered when terminal locations are written.

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## **Collision and Overturn**

### **Over the Road**

The greater the distance traveled the more exposure there is to poor roads and adverse weather which can result in collisions and overturns. For this reason it is important to obtain the radius of operations.

### **Maintenance**

Poor maintenance of vehicles contributes to many over the road accidents, such as blown tires and ineffective brakes. A formal maintenance program should be in effect for vehicles.

### **Drivers**

The use of inadequately trained drivers or drivers with poor driving records can result in collision and overturn losses. A formal hiring and training program should be in place; this should include checking driver Motor Vehicle Records (MVRs), requiring a road test, and verifying employment history.

## **ENDORSEMENTS**

The following is a list of endorsements that modify the motor truck cargo liability coverage forms.

### **Terminal Coverage**

Coverage can be extended for property at a terminal location, including property in or on trucks and trailers, in buildings, on docks, in the open, or within 100 feet of the terminal.

### **Loading and Unloading**

Coverage for the loading and unloading of cargo can be added to the MTC forms by endorsement. When providing loading and unloading coverage, it is important to determine whether the addition of this coverage adds a hazardous or catastrophic exposure to the hazards (dropping, collision) associated with the lifting of cargo.

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Providing loading and unloading coverage for small, light packages of non-fragile items (e.g., photocopy paper) would not add a significant exposure to a MTC risk. On the other hand, coverage for a large, fragile, and heavy item (e.g., mainframe computer) would greatly increase the exposure to a large loss.

Loading and unloading is automatically provided at scheduled locations when terminal coverage is provided. However, loading and unloading coverage would still have to be added to cover locations that are not scheduled as terminals.

#### **Refrigeration Coverage**

When perishable commodities are being shipped and they are preserved by refrigeration or heating equipment, a MTC form can be extended to cover spoilage or contamination which result from the sudden or accidental mechanical breakdown of a vehicle's refrigeration or heating equipment while the cargo is in transit. When adding this coverage, the following should be considered:

1. A warranty should be included that states that the refrigeration and heating equipment are inspected at least once each month by either the insured's mechanics or by an independent contractor. There should be a record to document when maintenance had been performed.
2. A separate refrigeration sublimit should be written; a limit equal to 50% of the per vehicle limit is often acceptable.
3. A separate higher deductible should be written; consideration should be given to a \$1,000 minimum deductible.
4. It should be determined if the insured has emergency procedures for the replacement of disabled vehicles and the cold storage of commodities.
5. Consideration should be given to the installation of temperature alarms for long haul shipments.

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## **LOSS CONTROL**

The following is a list of possible questions that can be addressed during a loss control survey.

This list is NOT intended to represent a comprehensive and exhaustive treatment of loss control issues that relate to motor truck cargo liability risks. UNDERWRITERS SHOULD CONSIDER additional questions that address concerns about specific individual risks.

### **Loss Control Survey**

The following are loss control issues that should be described and addressed when a survey is requested for a MTC risk:

#### **Terminals**

Terminal locations should be evaluated on the same basis as a property risk. This would include a review of the construction, occupancy, protection, and exposure characteristics for the terminal building and contents. In addition, a survey should evaluate the effectiveness of inventory controls for the movement of cargo in and out of the terminal.

#### **Vehicles**

A fleet/vehicle survey should be requested or reviewed, areas of concern on a survey would be:

1. drivers:
  - a. selection (e.g., ordering MVRs),
  - b. testing; and
  - c. training;
2. condition of vehicles;

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3. maintenance:
  - a. periodic inspection,
  - b. preventive maintenance,
  - c. records;
4. accidents:
  - a. records,
  - b. review,
  - c. inspection.

**Commodities**

If cargo involves target, fragile, or hazardous cargo and losses indicate possible problems then, the following loss control issues may need to be addressed:

1. packing, is packing adequate to prevent damage in case of a minor collision;
2. labeling, is labeling discreet or does it make it obvious that the cargo is a target item;
3. handling of hazardous materials, is the shipper in compliance with applicable laws regarding the handling of hazardous waste.