

# **AMERICAN ASSOCIATION OF INSURANCE SERVICES INLAND MARINE GUIDE TRANSIT - UNDERWRITING**

## **COVERED PROPERTY**

Transit insurance is intended to cover the insured's freight (cargo) during the course of transportation. The information in this class only deals with domestic land or air shipments.

In the context of transit coverage and this text:

1. Shippers refer to insureds who are shipping or receiving their property.
2. Carriers refer to public truckers who are in the business of hauling property of others.

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

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

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.

MTC liability insurance provides coverage for public truckers (carriers) 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.

## **RISK SELECTION**

To underwrite transit risks, obtain the following information:

### **Transportation**

1. Commodities being shipped.
2. Average and maximum values per shipment.

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3. Annual values shipped, if this cannot be obtained then the annual sales.
4. Percentages or values of shipments made via each mode of transportation. For example, motor carrier 70%; rail 10%; air 5%; and owned vehicles 15%.
5. Bill of lading being used, if carriers for hire are used.
6. Loss experience of the risk.
7. Radius of shipments.
8. Auto fleet (owned vehicles):
  - a. condition and maintenance;
  - b. protective devices.

**Owner's Cargo**

1. Commodities being shipped.
2. Average and maximum values per shipment.
3. Annual values shipped, if this cannot be obtained then the annual sales.
4. Auto fleet:
  - a. condition and maintenance of vehicles;
  - b. protective devices on vehicles.
5. Radius of operations

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## **Trip Transit**

1. Commodities being shipped.
2. Values:
  - a. values per vehicle/conveyance
  - b. total values being shipped.
3. Distance and duration of shipment.
4. Mode(s) of transportation.
5. Bill of lading being used, if carriers for hire are used.

## **Bill of Lading**

Whenever cargo is being shipped by a motor carrier, a description or copy of the bill of lading should be obtained. In the event of a covered loss, an insurer will pay the insured (the shipper) and then seek to recover the amount of the loss from the carrier (the trucker). The type of bill of lading being used will affect the insurer's ability to subrogate a claim against a motor carrier.

### **Carrier's Liability**

A standard Uniform Bill of Lading states that a carrier is liable for any loss to cargo unless the loss is caused by one of the following:

1. Acts of God,
2. Authority of Law,
3. Default of Shipper, or
4. Natural Shrinkage.

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#### **Straight or Full Bill of Lading**

The intent of this type of bill is to make the carrier liable for the full value of the cargo that they are being paid to haul. From the point of view of the insurance company that is writing a transit policy this is the most favorable bill of lading. In most instances the insurer will be able to fully recover a loss from the carrier.

#### **Released Bill of Lading**

This type of bill allows carriers to limit their liability to a certain stated amount. One method of limitation is based on an amount per pound of the cargo, a common release is \$.60 per pound. With a released bill of lading, the potential recovery will depend on the commodity being hauled. For example, if a loss involves bulk grain, a \$.60 per pound release will allow the insurer to recover most of a loss from the carrier. If the cargo is a mainframe computer, the potential for recovery would be small because the value of a mainframe would be several hundred dollars per pound.

From the point of view of the shipper, a released bill is desirable because motor carriers offer discounts on their shipping rates when a released bill is used.

#### **Contract Carriers**

Under certain circumstances, a carrier and shipper can enter into a specific shipping contract. In the contract, the carrier and shipper agree on the amount that the carrier can be held liable for in the event of a loss to a shipment. A copy of the contract should be obtained to determine the carrier's liability.

#### **Assumption**

If details on the bill of lading cannot be determined, it should be assumed that a released bill is being used and that recovery would be limited to \$.60 per pound. If a contract carrier is being used and a copy of the contract cannot be used, then it should be assumed that the carrier's liability is negligible.

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## **KEY HAZARDS**

### **Mode of Transportation**

The ability of the insured to address hazards will depend on the mode of transportation being used. This means that if coverage is for owned vehicles, the insured will have direct control over the types of protective devices being used. On the other hand, if a motor carrier is being used the insured would have little or no knowledge of vehicle maintenance. This point should be kept in mind when analyzing any transit risk.

### **Fire**

#### **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.

#### **Vehicles**

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

### **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.
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.

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3. The hazard of theft from the insured's vehicle 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 any protective devices are operational.

#### **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 owned 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.

#### **ENDORSEMENTS**

The following is a list of endorsements that modify the transit 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.

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#### **Loading and Unloading**

Coverage for the loading and unloading of cargo can be added to the transportation and owner's cargo 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.

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 transit 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, the loading and unloading endorsement would still have to be added to provide coverage at 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 transit 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 be 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 of liability should be written; a limit equal to 50% of the per vehicle limit is often acceptable.

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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.

**Backhauling**

Shippers that haul their goods on owned vehicles are sometimes referred to as private carriers. After delivering their property, private carriers may not want to return with an empty trailer/truck. They can avoid an empty load by contracting or hiring themselves out to carry property of others on their return trip. Shippers that earn income by hauling property of others are engaged in backhauling. They, in effect, become public truckers and are responsible for loss or damage to the cargo they are hauling for others.

Backhauling can have a drastic effect on the evaluation of a transit risk. For example, a risk may ship owned property consisting of typing paper but may backhaul a target commodity such as compact discs. For this reason the shipment of owned property should be evaluated according to the underwriting guidelines in this section of the Guide. Backhauling operations should be evaluated in accordance with the Motor Truck Cargo Legal Liability section of the Guide.

Backhauling exposures should be written on a separate motor truck cargo legal liability coverage form.

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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 transit risks. UNDERWRITERS SHOULD CONSIDER additional questions that address concerns about specific types of shipments and/or individual risks.

### **Ordering A Survey**

Because of the low limits and small premium amounts associated with transit risks, a transit loss control survey is usually ordered in conjunction with a survey for property, casualty, or auto lines.

It is important to understand that many underwriting considerations are beyond the insured's control, and therefore they cannot be reviewed during a loss control survey. For example, a loss control representative could not inspect a rail shipment while away from the insured's premises. However, a loss control representative would be able to inspect the insured's vehicles because they would be under the insured's control.

For the average transit risk relevant underwriting information for the evaluation of exposures can normally be obtained from the insured/agent. For example, a copy of the bill of lading can be requested from insured/agent and would not require separate loss control inspection or confirmation.

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## **Loss Control Survey**

The following are loss control issues that should be described and addressed when a survey is requested for a transit 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 cargo that is being moved in and out of the terminal.

### **Vehicles**

When coverage is written for shipments on owned vehicles, a fleet survey should be requested or reviewed if, a survey has already been ordered for commercial auto coverage. As regards transit coverage, the areas of concern on a fleet survey would be:

1. drivers:
  - a. selection (e.g., ordering MVRs),
  - b. training;
2. condition of vehicles;
3. maintenance:
  - a. periodic inspection,
  - b. preventive maintenance,
  - c. records;
4. accidents:
  - a. records,
  - b. review,
  - c. inspection.

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## **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.