Why Insure?

Shipments in transit are subjected to numerous perils. Goods may be damaged in a storm or fire, stolen, involved in a collision or just mishandled. To protect against financial loss, consider obtaining Shipper's Interest Cargo Insurance.

In addition to covering loss or damage, Cargo Insurance also protects against General Average, pays for the costs to minimize a loss (sue and labor), and pays for damage inspection (survey). Carriers also have limited liability and are provided legal defenses which absolve them of responsibility entirely. Cargo Insurance pays covered claims without the need to prove fault. **Why not insure?**

WHAT IS GENERAL AVERAGE?

General Average is a concept incorporated into most ocean bills of lading. It is used when a voluntary sacrifice is made to save the vessel, cargo or crew from a common peril (e.g., jettison of cargo to extinguish a fire). If the sacrifice is successful, all parties contribute to the loss based on their cargo's value. If the cargo isn't insured, it won't be released until the shipper posts a guarantee (cash, bank guarantee or bond). If the cargo is insured, the insurance company will handle all arrangements on the shipper's behalf.

HOW ARE CARRIERS LIABLE?

Carriers do not pay claims unless they directly cause or contribute to the loss. Even when carriers are legally liable for loss or damage, however, the amount they will pay is limited based on the mode of transport.

Ocean

The Carriage of Goods by Sea Act (COGSA) governs carrier liability for goods shipped via ocean to/from the United States. Recovery is limited to $500 per customary freight unit, and only when the carrier is negligent. A "freight unit" can vary from one container to one pallet.

International Air

For air carriers, two liability conventions exist. The Warsaw Convention limits liability to $9.07 per pound or $20 per kilogram. The Montreal Convention (used in the United States), changed this limitation to 19 Special Drawing Rights (SDRs), or about $30 per kilogram.

Domestic

Many domestic air, intrastate road carriers and warehouse operators limit their liability to $0.50 per pound or $50 per shipment, based on their bill of lading or warehouse receipt. Interstate truckers are governed by the Carmack Amendment, which dictates full value, but allows for limitations of liability in bills of lading, tariffs or contracts. Some carriers will also have inadequate or no liability insurance and may be unable to fund a loss out of pocket.

WHAT ABOUT CARGO THEFT?

Estimates of cargo theft in the United States range from $25-$50 billion annually. Officials estimate that nearly 80% of cargo thefts involve collusion of employees. Drivers are often paid to leave their truck unattended at a specific place and time.

Statistics

- **Within 24 hours of theft:** The goods are already delivered to an alternate location. Thieves are no longer in possession of the merchandise.
- **Within 48 hours of theft:** Cargo is split into about five consignments and distributed.
- **Within 72 hours of theft:** Goods are being marketed and sold.

One Cross Island Plaza | Suite 203E | Rosedale, NY 11422
Phone: 718-656-7818 | Fax: 718-656-8888 | www.jfkilroy.com
Form C214 2011/05/17

General Average
AND THE NEED FOR
Cargo Insurance

General average is an ocean marine loss occurring through the voluntary sacrifice of part of a vessel or cargo to safeguard the vessel or cargo from a common peril. If the sacrifice is successful, all parties contribute to the loss based on their cargo's value.

If cargo is not insured

- Cargo will not be released until a guarantee has been returned and accepted, which must be in the form of a cash deposit, bank guarantee or bond.

If cargo is insured

- The marine cargo insurer should be notified immediately.
- The insurance company will post the General Average Bond and Guarantee to meet the cargo owner's contribution and facilitate release of the cargo.

SAMPLE GENERAL AVERAGE LOSS

General average claims require all cargo owners on a vessel to contribute to the loss. Even if your cargo isn't damaged, a contribution based on the total value of all of the ship's cargo must still be made to get your cargo released. Here's how it works:

Value of vessel	=	$60 million
Value of cargo	=	$140 million
Total value of voyage	=	$200 million

- Assume cargo loss and vessel repairs total $20 million.
- Therefore, $20 million out of $200 million or 10 percent of the voyage suffered a loss.
- Each cargo owner must contribute 10 percent of the value of their cargo before their cargo can be released.

For more information on how Cargo Insurance can protect you from the threat of General Average, contact your local John F. Kilroy representative.

ONE CROSS ISLAND PLAZA | SUITE 203E | ROSEDALE, NY 11422
PHONE: 718-656-7818 | FAX: 718-656-8888 | WWW.JFKILROY.COM

FORM C208 2011/05/17

PROTECT YOUR FINANCIAL INTERESTS FROM THE SURGE IN PIRACY

It's a dangerous time for shipping – especially in pirate-infested waters, as vessel attacks continue and ransoms in the millions of dollars becomes more common.

The world heaved a sigh of relief when Captain Richard Phillips of the U.S. flagged Maersk Alabama was rescued in 2009, but violent attacks are still on the rise. Piracy incidents have doubled in recent years, attributed largely to anarchy and economic deprivation in Somalia.

Each year, about 16,000 ships navigate through the Gulf of Aden, which, as the southern gateway to the Suez Canal, is one of the most important trade routes in the world. Ships mostly transport oil from the Middle East and goods from Asia to Europe and North America. Changing routes would add weeks of travel time and increase fuel consumption, driving up the cost of shipping.

GENERAL AVERAGE

Piracy also brings the threat of General Average, a complex shipping clause incorporated into most ocean bills of lading. General Average is used when a voluntary sacrifice is necessary to save a vessel, its crew and the cargo from a common peril. When a General Average is declared, the value that a shipper's cargo bears to the total value of all cargo onboard, as well as the vessel itself, must be made in order to gain release of said cargo upon arrival.

A vessel was en route to India when it was attacked by pirates in the Gulf of Aden. The pirates demanded $50 million to release the captured crew and allow the ship to continue on its voyage.

In this situation, assume that the value of the vessel was $75 million and the value of the cargo onboard was $135 million, for a total value of $210 million. Should the ship owners pay the $50 million ransom, 23.8 percent of the voyage would suffer a loss ($50 million/$210 million).

Each cargo owner would be forced to contribute 23.8 percent of the value of their cargo before it would be released.

If cargo is insured, the marine cargo insurer will post the General Average bond and guarantee to meet the cargo owner's contribution and facilitate release of the cargo. If the cargo is not insured, a cash deposit, bank guarantee or bond must be posted by the shipper in order to gain release of their cargo.

CARGO INSURANCE

Piracy is one of the many reasons shippers should insure their cargo while in transit. Cargo Insurance is the oldest form of insurance, dating back to the 1600s when piracy was also a common event. Our broad Cargo Insurance program guards your goods from the risks of transit with key coverage clauses to include theft and/or hijacking of an entire shipment.

For more information, contact your local John F. Kilroy representative.

ONE CROSS ISLAND PLAZA | SUITE 203E | ROSEDALE, NY 11422
PHONE: 718-656-7818 | FAX: 718-656-8888 | WWW.JFKILROY.COM

FORM B221 2011/05/17