UNDERWRITING
ROANOKE

Contingency Insurance...

“What is it and Who Should Buy it?”

Contingency insurance, also called “seller’s or buyer’s interest” coverage, protects importers and exporters by allowing them to insure their cargo on a “contingent” basis in situations where the Incoterms dictate the other party must provide cargo insurance. In layman’s terms, it’s like having “back-up” insurance and is available on almost every open cargo policy at a very nominal cost.

The coverage provided under “contingency“ mirrors as the “all risk” coverage provided on an open cargo policy. Contingency Insurance is triggered by (1) a physical loss occurring to the cargo, (2) the other party’s insurance being non-responsive and/or the other party refusing to pay for the goods. In a covered claim situation, the insurance company would advance the loss proceeds to the insured in the form of a zero interest loan. The insured would then work with the insurance company to help collect from the other party or their insurance carrier and any proceeds would be returned to the insurance company who advanced the funds. If the proceeds cannot be collected from the responsible parties, the insured has satisfied their duties under the policy and the loan would become the final payment. Lastly, there is a strict condition stating the insured cannot divulge the existence of the contingency coverage to any party; otherwise, the responsible party may neglect to secure insurance on the cargo if they knew the other party had back-up insurance.

Let’s first analyze an actual contingency loss example from an importer’s perspective where they are the insured and consignee: A US importer bought several shipments of steel pipe from a mill in China on CIF terms. The pipe arrived damaged resulting in a $20,000 loss. The importer was instructed to contact the supplier’s local surveyor to file the claim, but never received a response. The insurance provider in China was also non-responsive. After a few months, the importer contacted the supplier and denied any responsibility as the pipe was shipped as per contractual terms. The importer’s request to replace the pipe without a new order and re-payment was also denied. Unfortunately, the claim is still unresolved after several months. Had the importer purchased “buyer’s interest contingency” coverage, the loss would have been paid in full and any future proceeds from the supplier’s insurance would have been directed to the importer’s insurance company.

Unfortunately, these types of scenarios are happening with more frequency. While we recommend importers buy on FOB or similar terms whereby the importer controls the insurance on their cargo, some importers must buy on CIF terms due to cost factors. Importers should be aware that when purchasing on CIF or similar terms, Incoterms simply dictate who is responsible to insure the cargo, but do not indicate the scope of coverage to be applied…much less the financial strength of the insurance provider on the risk. A simple low cost solution is to purchase contingency coverage through a trusted provider. It should also be noted importers who buy on credit terms may also want to consider contingency coverage.

With regards to US exporters, the need for contingency insurance is even more prevalent as there are many exporters who sell on FOB/FAS terms and provide open account credit terms to their buyers. Here is an example of how seller’s interest contingency would come into play: a US exporter sells a container load of electronics to an importer in Latin America on FOB Ex Works terms and on 60 day open account terms. The container is hijacked in Latin America resulting in a $300,000 loss. The importer was responsible to insure and did; however, the importer did not have an armed escort (as was required by their insurance company) and the loss was denied. The importer then refused to pay the exporter. Luckily, the exporter had placed “contingency/seller’s interest” coverage on the load and was reimbursed by their insurance company. Importers who buy on credit terms may also want to consider contingency coverage.

Who should by contingency coverage? Both importers and exporters who (1) have financial interest in the goods, (2) are uncertain as to the quality of coverage provided by the other party's insurance and (3) want to have the peace of mind of knowing their trusted insurance provider will assist in a serious situation.

About Roanoke Underwriting:

Roanoke Underwriting is the underwriting division of Roanoke Insurance Group Inc., a subsidiary of Münchener Rückversicherungs-Gesellschaft (Munich Re). This division serves the commercial marine insurance and customs bond needs of agents and brokers throughout North America. Underwriting on behalf of Munich Re Syndicate Ltd. (Formerly the Watkins Syndicate) and American Alternative Insurance Corporation, we offer the security of Lloyd's of London and superior rated paper. The operating strength supporting our efforts ensures that you and your clients benefit from one of the most stable offerings in the marketplace.

For more information, please contact us at 1-800-ROANOKE, ext.1066 or underwriting@roanokegroup.com.

This information is provided by Roanoke Underwriting as a public service and for discussion of the subject matter in general and is not to be construed as legal advice.

©2016 Roanoke Underwriting