

## Taking a Holistic Approach to Navigate Common Cargo Risks

TOUCHING THE ADVENTURES AND PERILS WHICH WE, THE SAID UNDERWRITERS, ARE CONTENTED TO BEAR AND TAKE UPON US, THEY ARE OF THE SEAS...

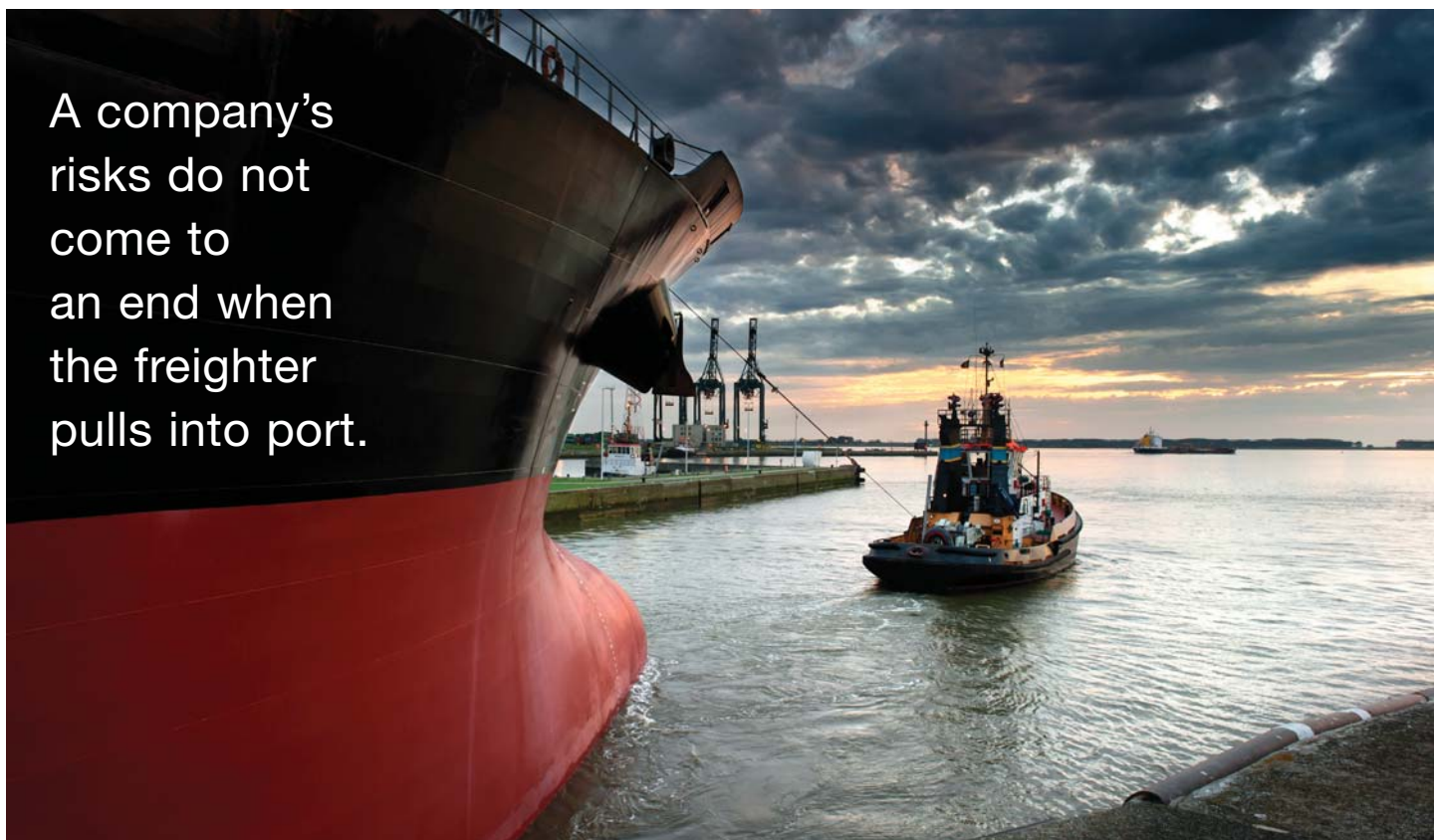
THIS SOMEWHAT ROMANTIC LANGUAGE — AN INTRODUCTION to the perils clause of a standard Marine Cargo policy — is all too familiar to every transportation specialist, underwriter, broker, or lawyer that has attended a course on marine insurance. But the question is: is it relevant in today's global marketplace? The answer is a resounding yes. It is easy to fall into the trap of adopting present day terms when describing the risks companies face today as though they are somehow new, more challenging and unique.

### Not Old News, but New Circumstances

Ironically, today's news headlines are surprisingly similar to what enterprising businesses and their underwriters have faced since the development of the modern insurance industry. *Super typhoon in Australia. Devastating Earthquake in Chile. Major Snowstorms affecting the Mid-West. Flooding takes its toll in Turkey. Carriers Diverting from Egypt. European Nations debate the Threat of Piracy.* The most notable difference between these recent headlines and news that would make its way around the world 100 years ago is that these stories likely arrived instantly via an e-mail alert on a PDA. Now and then, many of the 'adventures and perils' are the same. The enterprises dealing with them, however, are different.

The relevance though is not merely that an organization may face a financial loss from these perils. Instead, as multi-national organizations have discovered, their networks expose them to losses from all of these perils simultaneously. That's why the evolution of the multi-national enterprise demands that the risk manager take a holistic approach to their global transportation exposures.

Buyers must beware to assure their coverage is keeping up with the times. Although a vast majority of cargo policies issued today are



A company's risks do not come to an end when the freighter pulls into port.

World to World and provide All Risks coverage, there are striking differences between the many contracts that are available. Equally important are the solvency standards for the country where the insurance carrier is domiciled as well as the local insurance and taxation requirements where the risks originate and terminate. Local compliance is rarely optional and today's risk managers and corporate counsels devote a great deal of energy into addressing those issues.

In addition to the obvious concerns with the enforceability of a contract, there are the very real exposures to additional tax, fines, sanctions and penalties that local jurisdictions could impose, potentially impacting the regional strategy as well as competitiveness and profitability of the organization. One final consideration are the national and international trade laws, agreements, rulings, sanctions and restrictive measures that may apply to your organization, your client, your insurance carrier or any other parties to the transaction. Again, these laws may carry civil penalties or they could void the transaction and in some cases impose criminal penalties at both the corporate and individual level. Until recently enforcement was more random. Today, advances in information technology gives regulators and tax

authorities an unprecedented ability to track international trading activity and zero in on companies failing to comply with local rules and regulations.

### A Holistic Approach

For the Multi-National organization, a robust risk management strategy that takes a holistic approach addresses three key stages in the global equation:

- Manage the risks with a balance between retention, loss control, loss prevention and Insurance.
- Provide a compliant solution that protects the organizations assets, maintains strong customer relationships and safeguards personnel.
- Protects the image of the organization.

It should come as no surprise that the organizations that are embracing this approach are often looking to multi-national insurers for the insurance solution to their strategy. The most common approach is a balance between a master program and local policies. The local policies are issued to a "good local standard" with limits terms and conditions adequate for the expected exposures in the local jurisdiction. These policies are often issued in the name of the local entity with

due consideration given by corporate risk management for local retentions and risk appetite. At the same time, a Master Program is issued to cover global exposures, often with manuscript terms, reflecting global risk appetite, the global experience of the organization as well providing DIC and DIL coverage for the local policies.

As is often the case, the master policy will include a level of risk engineering service to help identify and make improvement to potential exposures. Experienced transportation engineering capabilities, for instance, can support companies by analyzing their supply chains, establishing best practices and helping pinpoint and eliminate the weakest links. Whether it's benchmarking transport quality, advising on theft protection or addressing claims frequency to get at the root of a problem, the process demands experience and creativity. Taking effective, practical actions to address specific risk issues will help mitigate the risk of financial losses not only to cargo, but also further down an organization's value chain.

Additionally, these global programs often feature recurring and detailed risk management analysis across the program, by policy and region and are frequently tailored to the risk manager's specific needs, allowing them to identify areas of success as well as concern. Often these policies have a premium tax allocation feature to ensure compliance. For example, in the European Union (EU), a policy can be issued in one EU country but it allocates the premium tax to the exposures of each member country thus providing a simplified yet compliant solution for the global risk manager.

**Risk managers in multinational firms, working closely with their brokers, are seeking global solutions that integrate corporate governance with local compliance in a seamless product.**

In today's global economy, risk managers in multinational firms are increasingly concerned with their roles as corporate stewards, not just insurance buyers. Working closely with their brokers, they are seeking global solutions that integrate corporate governance with local compliance in a seamless product. Fortunately, global cargo insurers are thinking along the same lines and enhancing their capabilities and policies to address their clients' cargo risk concerns, no matter where they do business. As a result, using one of the oldest forms of insurance, risk managers, brokers and their insurers are working through 'adventures and perils' to adopt a more modern holistic risk management strategy for protecting cargo worldwide.

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