

Cargo insurance: risk protection for goods flows in industrial procurement

Cargo insurance is a type of insurance that protects goods during carriage by road, rail, water or air against loss, damage and partial risks. For industrial buyers it is a central element of the supply chain, as transport routes are increasingly global and susceptible to disruption. This article explains the structure, terms and evaluation criteria of cargo insurance and places it in the context of procurement and delivery processes.

Key facts

- Cargo insurance typically covers loss of, damage to and destruction of goods during carriage as well as during interim storage.
- The basis of cover is frequently the globally established standards of the Institute Cargo Clauses in the levels A, B and C.
- The insured party may be the owner of the goods or, by contractual arrangement, the buyer or seller in accordance with the delivery term (e.g. Incoterms).
- In practice the premium is often in the low per-mille range of the goods value, depending on route, goods and scope of cover.
- Business interruptions caused by delayed or damaged goods receipts can also be partly covered by additional modules.
- The level and evidence of insurance cover should be documented as an integral part of delivery terms and procurement policy.

Definition: cargo insurance

Cargo insurance is a property insurance that protects goods in transit against defined perils. It applies from the moment the goods leave the warehouse until arrival at the destination and can include interim storage.

Scope and cover concepts

The subject matter of the insurance is the goods value, in practice usually the invoice value plus freight and technically recognised loadings. Cover concepts range from individual covers for a single consignment to open contractual arrangements that automatically cover all of a company's shipments. The latter form, often referred to as a floating or framework policy, significantly reduces administrative effort and avoids cover gaps where shipment volumes are high.

- Individual policy: suited to rare or exceptionally valuable consignments
- Open policy: covers all shipments within agreed limits
- Additional covers: e.g. storage costs, loss of value, necessary event costs for trade fair goods

Distinction from carrier liability

Cargo insurance is not identical to carrier liability insurance. Carriers are only liable to a limited extent by

law or contract, frequently with amounts per kilogram or per consignment, and only in the event of their own fault. Anyone who wants the full value of their goods covered usually cannot avoid taking out their own cargo insurance. For buyers this means: liability limitations in the freight contract and the Incoterm chosen determine to what extent an own policy is even required.

Methods and approach for insuring transports

Insurance cover follows a structured process: identify risks, select the cover concept, design contracts and monitor continuously. Coordination with the delivery terms of purchase orders is essential.

Step 1: Risk analysis of goods flows

First, routes, modes of transport, goods values and sensitivities are recorded. Electronics, precision parts and hazardous goods require different covers from bulk commodities. An analysis of supplier location risks and critical routes shows which shipments should be insured on a priority basis. Carrier performance data also indicate which lanes and service providers are above-average loss-prone.

Step 2: Cover concept and contract design

Based on the analysis, a choice is made between individual and open cover. Elements such as excess, definition of the insured value, territorial validity and exclusions (e.g. delay, war events, proper packaging as a duty of the insured) are negotiated. With a view to automatic contract renewal, notice periods and adjustment clauses should be reviewed so that terms do not tacitly continue for years. The decision record belongs in the procurement policy.

- Agree the insured value (CIF value plus agreed loading)
- Choose the excess so that minor claims do not drive up the premium
- Clearly define the shipment reporting data (data volume)

Step 3: Embedding in purchase orders and supplier contracts

The agreed responsibility for insurance is established via the delivery clause (Incoterms): under the delivery terms EXW, FCA or CPT the buyer bears the transport risk and should insure itself; under DDP the seller is responsible. This linkage belongs in supplier contracts and master data. In digital order processing, a well-maintained data model supports procurement in the consistent assignment of delivery terms and insurance arrangements.

Key KPIs and evaluation factors of cargo insurance

Premiums and claims experience can be measured and integrated into procurement controlling. Key reference figures are premium rate, loss ratio and the degree of cover of transported values.

Key figures

The premium rate is typically stated as a per-mille rate of the insured goods value; usual values lie roughly between 0.05 and 1 per mille depending on goods and route. The loss ratio (claims to premium income) shows whether the cover concept is economically viable. In addition, the proportion of uninsured shipments and the average cover duration until goods receipt are relevant.

- Premium rate in per mille of the goods value
- Loss ratio (claims costs / premium income)
- Proportion of insured shipments out of all deliveries

Insured value and settlement

In practice, the insured value has established itself as the goods value plus freight and an insurance loading (frequently 10 per cent). For underinsured items, the underinsurance clause applies, reducing the payout proportionally. Buyers should therefore check whether product price fluctuations and currency effects shift the insured value – here currency hedging (FX) sensibly complements risk management.

Risks and controls relating to cargo insurance

The most common errors are cover gaps caused by incorrect Incoterm assignment, failure to report claims and unclear documentation. Controls and clear processes prevent claim rejections.

Typical pitfalls

A classic mistake: the buyer relies on the note 'insured by seller' without evidence. A supplier certificate or a copy of the insurance confirmation per consignment, or an agreed certificate of cover, creates clarity. Further risks: outdated shipment value thresholds in the open policy, exclusions for improper packaging and late notifications that reduce the payout.

- Demand and document proof of cover from suppliers
- Align packaging specifications in packaging management with insurance requirements
- Anchor the claims notification route, including deadlines, in the procurement process

Controls and governance

As part of master data governance, delivery terms, Incoterms and insurance arrangements are maintained as master data and reviewed regularly. Routine substantive invoice verification should also examine freight and insurance cost items for plausibility. In the event of disruptions in the delivery process – for instance delayed shipments followed by dunning processes – the claims owner role documents clearly who communicates with the forwarder and the insurer. This belongs in an overarching supplier risk management framework.

Current developments in cargo insurance

Digitalisation, fluctuating trade routes and rising demands for verifiability are changing the segment. Buyers are gaining new tools and new obligations.

Digitalisation and transparent shipment data

Insurers and logistics providers increasingly offer interfaces through which shipment data, telemetry and location logs flow automatically into the policy. This reduces manual notification and increases data control over one's own supply chain. The prerequisite is consistent master data maintenance in the procurement system – a topic area closely interlinked with master data governance.

Risk landscape, regulation and sustainability

Geopolitical disruptions, port congestion and climate-related extreme weather raise risk awareness for individual routes and drive differentiated cover concepts. For packaging materials and recyclable solutions, the PPWR declaration of conformity is also coming into focus for suppliers, which also touches on insurance questions relating to packaging quality. Finally, viewing transport risks as part of supply chain transparency is gaining in importance.

Typical metrics

Premium rate: 0.05–1

Usual guideline range of the goods value, depending on route, goods and scope of cover.

Proportion of insured shipments: > 98 %

Target figure under an open policy; gaps indicate process errors in order processing.

Loss ratio: < 30 %

Claims costs relative to premium income; persistently higher values lead to premium increases.

Insured value loading: + 10 %

Commonly applied loading on goods value plus freight as a buffer for ancillary costs.

Practical example

A medium-sized machinery manufacturer imported precision components from Asia. After a marine claim without valid proof of cover, liability was disputed for years. The company subsequently introduced a structured insurance regime and integrated it into its ordering processes.

- Took out an open cargo policy with a premium rate of 0.5 per mille and a €500 excess
- Proof of cover defined as a mandatory entry in the supplier contract and supplier master data
- Incoterm-independent verification routine established in the substantive invoice verification of freight costs
- Claims notification process with a 24-hour notification deadline and document template implemented

Conclusion

In industrial procurement, cargo insurance is not a marginal topic but a component of a resilient supply chain. It protects goods values on a leg of the journey over which many influences lie outside the company's direct control. What matters are the appropriate form of cover, correct delivery clauses and seamless evidence and notification processes. Anyone who consistently integrates insurance topics into procurement policy, supplier contracts and data maintenance significantly reduces risk and potential for disputes. A regular review of cover, premium rate and claims experience belongs in every professional procurement controlling function.

Frequently asked questions

What does marine cargo insurance cover?

It typically covers loss of, damage to and destruction of goods during carriage by road, rail, water or air, often including interim storage. The scope depends on the clauses selected (e.g. Institute Cargo Clauses A, B or C). Typical exclusions are ordinary wear and tear, delays or war events – details are set out in the policy wording.

Who is responsible for cargo insurance under the Incoterms DDP or EXW?

With the Incoterm, the transport risk passes with ownership of title. Under EXW, FCA or FOB the buyer bears the risk from the point of collection and should arrange insurance itself. Under DDP, CIF or CIP the seller or consignor is obliged to insure or bears the risk to the destination. The allocation should be clearly fixed contractually.

What does cargo insurance cost?

In practice the premium is typically in the low per-mille range of the goods value, roughly between 0.05 and 1 per mille. The determining factors are the type of goods, route, mode of transport, excess and scope of cover. For recurring shipments, an open policy is usually more cost-effective than individual covers.

Is cargo insurance mandatory?

Legally, there is generally no general obligation to insure. However, there may be contractual obligations, for example if the Incoterm CIP or CIF has been chosen or a supplier contract requires proof of insurance. For certain product groups or financing arrangements, banks or clients may additionally require cover. A professional review should be carried out on a case-by-case basis.

What is the difference between cargo insurance and forwarder's liability?

The forwarder's or carrier's liability only arises in the event of fault and is typically limited to amounts per kilogram or per consignment. Cargo insurance, by contrast, pays out irrespective of fault within the agreed cover. Anyone who wants to protect the full value of their goods in practice needs both – exhausting liability against the carrier and taking out their own policy.