



Property Risk Consulting Guidelines

TRANSIT

INTRODUCTION

The risk of physical damage, theft or loss of cargo while being transported can be reasonably well controlled, but the responsibilities of the shipper and carrier are vitally important.

Evaluating a transit risk means determining loss exposure along the entire route during shipment. Know the itinerary and all carriers and understand the bill of lading before attempting an evaluation.

POSITION

Management is the key to a satisfactory transit. The features of an effective transit risk management program include using:

- Quality suppliers;
- Transportation companies with good reputation and experience;
- Specialized carriers and rigging companies for all unusual lifts and transportation.

Ensure government regulations pertaining to packaging, handling and transportation are followed. Select alternate carriers or alternate terminal storage for concentrations of values and provide adequate security if more than one load of cargo must be concentrated in one place. Ensure that the risk of flood or other natural perils is not a threat to the cargoes. Advise carriers about handling limitations, including keeping liquids, powders and crystals contained, ventilating perishables, and protecting them against humidity.

Cargo Perils

Package materials properly. Use a packaging specialist thoroughly familiar with the product to design its packaging and select the type of transport to be used.

Mark outer packaging to correlate with shipping documents.

Avoid unnecessary labeling, advertising, logos or other marking which could flag contents for thieves.

Provide leak proof containment for hazardous products.

Receiving Functions

Separate receiving functions from shipping areas. Use written procedures to account for quality, condition and count. Provide prenumbered and controlled report forms, and complete separate reports for all incoming shipments. Use special procedures for high value and desirable merchandise. Establish procedures for handling damaged merchandise and short counts.

Handling Perils

Provide knowledgeable personnel at all loading, unloading and transfer points to record the condition of objects transported and ensure they are handled correctly.

Avoid rough or careless handling of finished products.

Prevent cross contamination of cargoes.

Avoid damaging containers of hazardous materials.

Stowage Perils

Provide adequate supervision at stowage points.

Pack and stack cargo carefully using dunnage to stabilize and balance the load.

Fill or block the voids so cargo will not shift. Provide inflatable bags to help stabilize cargo.

Theft Protection

Make reasonable effort to prevent theft. Enforce inventory procedures, and record seal numbers on invoices or bills of lading. Where theft is suspected, send vehicles back from the gate for a complete inventory against the shipping documents. In shipping areas where very high value commodities must be stored, establish a security cage or area, keep it locked, and monitor closely. Supervisory employees should log material in and out. Provide overnight security for partly unloaded trucks or rail cars. Train drivers in security procedures for prearranged stops, call-in schedules and vehicle alarm activations. Do not allow drivers in receiving areas.

DISCUSSION

The common perils of the transit risk include improper packaging, mishandling, improper stowage, theft, fire, flood, lack of security controls, and inadequate or missing documentation.

The terms "transit" and "transportation" usually apply to movement of raw materials, cargo, supplies and equipment. Cargo may pass through freight forwarders, truckers, warehouse operators, agents and transportation carriers who are responsible to cargo owners for the safety of their property.

International agreements, laws and regulations that govern the transportation modes delineate the responsibilities of both carriers and shippers. If these agreements are not enforced, cargo accountability is lost. To fulfill their performance obligations for cargo, companies may carry some form of liability insurance and cargo insurance to cover physical damage.

Another form of control is a bill of lading which is a contract between the transportation carrier and the shipper. It documents the agreement if a dispute arises, and is usually issued by the first carrier involved. It shows whether responsibility has been fully accepted for the safety and successful delivery of the cargo, or whether it is accepted only for a certain percentage of the value.

A straight bill of lading is issued to accept full responsibility. A released bill of lading allows responsibility for only a certain percentage of the cargo value. If a cargo owner provides transportation in the company-owned truck, the owner is responsible for the cargo.

Air or water shipment may involve trucking at both ends of the trip. If the shipment goes to a foreign destination, a freight forwarder may also be involved. The number of companies involved in a transit can vary from one to as many as seven or eight.

As the transportation chain becomes more complex, the actual source of loss or damage becomes more difficult to determine. Fortunately, for the cargo owner and its insurance carrier, the existing rules and the bill of lading help determine who is responsible.

Selection Of A Carrier

A shipper may have to engage the services of an outside carrier or transportation company. However, careful handling, security from theft, and careful selection of subcontractors (such as stevedores, warehouse operators and truckers) are equally important.

Where large, bulky or particularly heavy items are being shipped, an experienced carrier is essential. Specialized carriers and rigging companies should be used for all unusual lifts and transportation. Using a reputable shipper should decrease the probability of accidents.

Cargo Perils

Cargo can be flammable or explosive and can have noxious odors and other harmful properties; it can cross contaminate other cargoes. Pure borax or high quality paper pulp can be damaged during transport by minor contamination. Cargoes may corrode or deteriorate because of environmental effects.

Organic materials such as copra and coal or fine metal turnings may spontaneously heat, ignite and damage other cargo. Perishable foods are susceptible to heat, humidity change, extreme cold and vermin. Some chemicals may be inherently unstable unless stabilizing chemicals are added, or unless refrigeration is provided and reliably maintained. Some organic products can be damaged by molds.

Some metals can be easily damaged so they are useless for their intended purpose. For example, rolled steel sheet cannot be used in some metal fabricating machinery if there is any edge damage. Any gouges or scoring on aluminum billets can make them useless for making extrusions. Large fabricated metal objects such as reactors or pressure vessels can be structurally damaged unless they are properly supported at specific points.

Even if cargo has been handled with reasonable care, motion and jolting during transport can be damaging.

Handling Perils

Large equipment or machinery can be damaged by dropping or striking objects. Failure of supports may cause damage. Some bulk materials are relatively immune to rough handling, but may suffer shortages through leaks, spills or incomplete transfers by bulk conveyors. Depending on the mode of transportation, cargo handling can be performed by stevedoring companies, and may not be under the direct control of the carrier.

Although quality packaging can minimize handling damage, packaging may not protect against grossly careless handling. The only control the shipper really has is to select reputable and experienced carriers. Many large and unique items require special lifting and securing techniques to be successfully transported.

Stowage Perils

Improper or inadequate stowage of cargo within a vehicle is a common peril. Regardless of how cargo is being transported, it can shift enough to cause damage unless it is completely immobilized within its packaging and within the vehicle used to transport it.

Heavy cargo may be particularly difficult to stow since it is often perceived to be immovable. Actually it may move and can cause extensive damage to itself and other cargo. Use extra care when stowing hazardous products to avoid damaging their containers. Dangerous goods, such as acids and poisons, should they get loose, can endanger other cargo and the transportation vehicle. Where practical, they should be shipped separately. In all cases special handling is required. Large and heavy equipment such as transformers, pre-assembled process equipment, and chemical reactors require specialized conveyances and handling.

Packaging

Normally the shipper is responsible for the packaging. However, the carrier, who is liable for the safety of the cargo, might make recommendations for improved packaging or even decline to accept a substandard shipment until the proper packaging is provided.

Packaging may be KD cartons of various strengths, wooden boxes, crates of various designs (both nailed and wire-bound), metal drums, barrels, carboys, bags, bales and sacks of different fabrication. They are used depending on the individual product, sizes and weights involved. Plastics, papers and fibrous materials are used extensively for wrappings and cushioning material. Some products require inner packaging in which they will be sold, as well as outer protective containers for shipping. Some bulk products are not packaged in the usual way. They are transported in railroad hopper cars, barges, open trucks or other conveyances. Large reusable bags, bladders for liquids, and other packaging equipment can expedite handling and protect the products from contamination.

The level and extent of packaging will vary widely between materials being transported domestically and those being sent to foreign destinations.

Contain liquids, powders and crystals. To successfully transport some perishable materials, control temperature and humidity inside the vehicle. The packaging may have to be properly ventilated. Precooling or freezing the product may be required before loading. If cooling or environmental controls fail, substantial losses can result. Consider backup or emergency cooling provisions.

Concentrations Of Values

Large volume can occur at a carrier's terminal, at the beginning or ending of a trip, or at some intermediate transshipment point. When concentrations occur, the risk of damage may rise dramatically. Avoid such concentrations by selecting multiple carriers or multiple terminals. If more than a few conveyance loads of cargo must be concentrated in one location or in one warehouse, assure that fire protection and security facilities are adequate and that the risk of flood or other natural perils is not a threat.

Theft

Most shipments will originate at the shipper's shipping department and loading dock. Procedures are often not written nor well defined. Employees may move or transfer materials on verbal instructions to simplify their tasks. Formalize inventory, custody and transfer procedures; they should be followed and cross checked.

Use alarm systems and procedures to protect truck cargo from theft enroute. These include vehicle alarms, seal systems, selected parking areas and prearranged routes. A shipper transporting its own high value cargo in its own vehicles should investigate and adopt alarm systems as needed.

Document cargo condition and presence of cargo when cargo insurance claims are made. When shortages occur in containerized and untampered shipments, shipping procedures and documentation can reveal where and why shortages occurred and whether or not all materials were actually shipped.

Aside from theft, the perils of fire, rain, hail, water damage, flood and earthquake all threaten cargo. Fire may occur when cargo is temporarily warehoused. Outside storage leads to increased loss potential from a number of perils. Do not tolerate temporary storage outside. The risk of loss depends on security consciousness and competence of all participants involved.

TRANSIT HAZARD SURVEY GUIDE

This survey is a guide checklist for review of transit hazards. It is not a form to be completed.

1. What is the nature of the material or cargo being transported?
2. Is the cargo being received from or shipped to another company or is it being shipped between plants or locations of the insured company?
3. Does the cargo consist of repetitious shipments of one material or shipments of a variety of or materials?
4. Are shipments made repetitiously to one or several destinations?
5. What are the approximate dollar values exposed to a transit loss in one shipment?
6. Do cargoes present unusual or difficult characteristics regarding perishability, contamination or stability?
7. What modes of transportation are being used for the transportation of materials?
8. Is management aware of and familiar with the transportation of goods and the losses associated with the transit perils?
9. Does the insured have trained and experienced transportation specialists in their shipping/receiving department or do they use clerical level employees to perform the shipping/receiving functions?
10. Are shipments made by recognized and reputable common carrier, by contract carriers, or by owned conveyances?
11. Is the packaging designed and executed by packaging specialists or by random available personnel?
12. Are the shipments routed through ports or terminals with severe or unusual theft problems?
13. Are shipments made in marine or airline containers?
14. What type of bill of lading is in use for most of the shipments?
15. Are there written procedures in use in the shipping and receiving departments and are the two functions separated?
16. Are all shipments properly documented?
17. Is the packaging apparently adequate in strength and design to protect the cargo?
18. Is the packaging free of advertising, logos or other information which would reveal the contents to potential thieves? Is it adequately marked to identify it with the shipping papers and to insure proper handling?