Choppy waters ahead

Navigating uncertainty when shipping cargo internationally

Marine cargo is moving carefully through ports and across oceans in precarious geopolitical times. Insurers are working closely with shippers to protect their goods and make sure they aren't left empty-handed.

Companies shipping goods internationally are finding the waters choppy after a global pandemic helped spawn supply chain issues and geopolitical instability took hold as civil unrest and military conflicts erupted around the world. Underpinned by inflation that has caused the value of many goods to skyrocket, this global uncertainty is challenging shippers to closely manage their cargo risks and ensure that widening exposures are properly covered.

Wars, conflicts and civil unrest create a host of exposures for companies trading internationally. Most policies provide coverage through clauses that outline the scope of protection for physical loss or damage to goods caused by wars, strikes, riots, civil commotion and other unrest. But such direct perils are not the whole story; there are a number of indirect factors – crime, piracy and cyberattacks among them – that must be considered when putting together coverage to adequately protect cargo companies.

Supply chain issues that arose during the COVID-19 pandemic are persistent and show little sign of disappearing soon. The impact on cargo companies has been significant, presenting risk managers with challenges they hope to see only once in their careers.

Operating in uncertain times calls for close cooperation between insurers and their customers.

"The geopolitical tensions that have caused disruptions in global trade are unlikely to end soon," said Howard Kingston, Global Head Marine, Commercial Insurance, Zurich Insurance Company.

"Insurers need to work closely with customers and their brokers to manage these risks. We can help risk managers, logistics managers and others with companies that ship goods internationally to identify the risks and structure coverage that fits their needs."

Snarled supply lines have created a long list of threats to marine cargo, from additional costs for storage to theft of goods.

The COVID-19 pandemic dealt a hard blow to global supply chains, with restrictions on movement of people and cargo affecting nearly every industry that ships goods. While some improvement has been made as restrictions have eased, bottlenecks remain and shortages of goods are continuing for some manufacturers and retailers.

As Zurich points out in an earlier [Risk Insights report](), lockdowns and other restrictions left ports short-staffed and caused warehouse capacity to tighten as goods were held longer pending transport. Geopolitical instability creates additional concerns, as shipments of fuel, vehicles and high-value consumer goods become tempting targets for activist protesters.

"Even as pandemic restrictions ease, the supply chain issues they created have not all disappeared, and new concerns have cropped up during the downturn of global economies," said Howard Kingston, Global Head Marine, Commercial Insurance, Zurich Insurance Company.

"It is important for companies to remain vigilant in addressing the risks that arise from global instability and supply chain disruptions that could interrupt the movement of their goods or those they need to run their operations."

Geopolitical instability in the form of military conflicts and civil unrest is causing the displacement of populations, which creates its own set of problems for cargo shippers.

Along with those issues, there are a number of less obvious consequences of instability that must be considered.

Wars, conflicts and civil unrest can cause populations to flee for safety. When sizable displacements of populations occur, the effects are widespread and can hamper the shipment of goods. Shortages of manpower to handle cargo and storage can lead to shipment delays and security issues. And, land routes out of affected areas may be clogged with traffic, which could cause problems with inland movement of goods.

Goods can become targets of crime as people resort to desperate measures to feed and clothe themselves and their families. Infrastructure may be degraded if workers who have maintained roads and bridges have fled, slowing or preventing the movement of goods across roads and railways and increasing the chances that cargo could be damaged.

In times of severe unrest, utilities could fail. For perishables, this could lead to significant losses. Electrical failures could extend to cargo handling equipment and interrupt monitoring and security methods. Criminals may find opportunity if alarm systems are not operational.

If civil unrest erupts, thieves may turn to looting warehouses and trucks while law enforcement is busy in other places. In case of wars, there may be no police presence at all. Security guards likely will flee with their families.

Congestion on roads could lead to reduced availability of fuel and access to secure truck stops might be limited. Losses could arise because of the reduced demand for goods after a population has dispersed. Such a situation could cause intense competition for storage space.

When events give rise to losses, claims handlers may not be able to easily reach the area where the loss occurred.

Contractors may face difficulties getting to damaged property to help mitigate losses and conditions could be unsafe for loss adjusters.

Risk managers will need to work with other stakeholders in the effort to keep goods protected and shipments moving.

The challenges are complex and managing them requires a broad scope of action that depends partly on the type of cargo at risk. Some cargo may be temperature sensitive, for example, while other shipments may carry a higher risk of theft.

"Some types of goods could be the target of protesters," said Björn Hartong, Global Head of Marine & Security Risk Engineering, Zurich Resilience Solutions.

"Climate activists could seek out fuel and vehicle shipments, for example, while anti-capitalist demonstrators have been known to target high-value consumer goods."

Zurich recommends a number of actions risk managers can take to ensure that supply chain problems don't leave them short-handed, whether during times of strife or when other factors may cause the movement of goods to stall.

Among them:

Increase security to protect critical goods in storage and in transit to protect from theft.

Do not compromise on the quality of staff during times of labor shortages. Ensure they are properly trained.

Build up stock to keep supplies stable. Strained warehouse capacity means facilities used for the first time have to be thoroughly inspected to make sure storage conditions are adequate. Make sure new locations are listed as insured.

Review business continuity plans to determine whether what's on paper will actually work.

Consider new shipping routes to avoid trouble spots. Work with insurers and other partners to create a risk overview of new routes. Routes that are quickly implemented and previously unknown will present their own risks. Understand custom requirements on new routes.

Have a team of experts in place representing all stakeholders in the supply chain. This should include those responsible for production, sales, procurement, supply chain management, risk management, security, quality control and others.

In conclusion

Risks spawned by geopolitical instability are likely to challenge risk managers for some time. Sour economic conditions in many parts of the world that can lead to unrest don't appear to be in for a quick fix. Risk managers, therefore, have to be prepared for events that could cause goods they need for their operations to be delayed and the products they need to ship to distributors and consumers to sit still for a while.

Managing supply chain risk isn't a one-person job; it takes cooperation among insurers, brokers and risk managers. Companies that depend on the fast and uninterrupted shipment of cargo need a team of experts in place to make sure the business can operate if global slowdowns occur.

There are actions that can be taken to keep cargo safe and viable. Working with an insurer and broker, risk managers are able to put plans in place to help cargo move through smoother waters when unexpected storms arise.

Disclaimer and cautionary statement

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