PROTECTING YOUR SUPPLY CHAIN, AND YOUR REPUTATION.

The importance of understanding what is — and isn’t — insurance.
(Hint: what you don’t know could hurt you.)

A research study conducted by Harris Poll for UPS Capital
2018
Commerce today involves an increasingly complicated supply chain ecosystem. Companies rely on suppliers and buyers across the globe, most of whom they’ve never met. They use multiple carriers and modes of transportation, across international borders, with different languages, currencies and laws. This ever-changing landscape means that companies of all sizes must be more diligent than ever when it comes to managing their supply chain — and their risk.

In addition, e-commerce has revolutionized purchase behaviors, creating loftier customer expectations, and putting increased pressure on sellers to find new ways to meet those needs. Global networks and tight time constraints can amplify the impact from unpredictable events, like theft, damage, weather and natural disasters. This puts even more pressure on a company’s supply chain, and its bottom line.

To better understand these issues, UPS Capital® commissioned Harris Poll to conduct research into the attitudes and behaviors of U.S. business professionals (referred to as “shippers” throughout) responsible for their company’s shipments. The objectives were to better understand how shippers viewed and managed risk and their comprehension, and usage of, available risk mitigation tools.
In the qualitative phase of this research, many respondents said they had positive relationships with their shipping carriers. While the vast majority of their shipments go through without a hitch, 92% of shippers say they experience some loss, damage or delay each year. In fact, shippers say these incidents affect 10–15% of their annual shipments, depending on mode.

Shipping professionals, from office managers to supply chain logisticians, routinely deal with these events when they happen. But how well do they proactively protect their company from the effects of these incidents? Do they thoroughly understand the options for protecting their shipments and the nuances of each? And, do they really understand the (long-term) impact of a lost, damaged or delayed shipment?

**ONE IN 10 SHIPMENTS HAS A GLITCH.**

<table>
<thead>
<tr>
<th>Mode</th>
<th>Percentage</th>
</tr>
</thead>
<tbody>
<tr>
<td>Small Package</td>
<td>15.2%</td>
</tr>
<tr>
<td>Less-Than-Truckload</td>
<td>10.8%</td>
</tr>
<tr>
<td>Full Truckload</td>
<td>12.8%</td>
</tr>
<tr>
<td>Ocean Freight</td>
<td>9.9%</td>
</tr>
<tr>
<td>Air Freight</td>
<td>9.5%</td>
</tr>
</tbody>
</table>
WHAT’S AT RISK?

When incidents occur, they can have a significant impact on relationships, reputation and revenue. Risk can vary based on the value, uniqueness and urgency for each shipped item. Respondents often had stories of expensive, one-of-a-kind or time-dependent shipments that kept them awake at night.

The nature and degree of the concern varies somewhat by shipping mode. Loss or damage tend to be stronger concerns for small package, less-than-truckload (LTL) and full-truck-load (FTL) shippers. While many of the individual packages in these shipments may be of relatively low value, a large volume of items in a particular shipment can significantly increase the overall risk.

Delay is the prevalent concern for ocean and air freight. Respondents felt that those shipments are large enough and tracked well enough that losing them is an unlikely proposition. But this may represent a false sense of security. In 2017, an average of 27 containers were lost at sea each week.¹ In the U.S., an average of nearly two cargo thefts are reported each day, and the average loss per incident is nearly $146,000.² Many more thefts simply go unreported. And from South America to Russia, road piracy continues to increase. Whether companies ship cargo across the country, across borders or across oceans, they still need to prepare for the unexpected, as unforeseen circumstances can result in substantial financial loss.

¹ World Shipping Council – Containers Lost at Sea – 2017 Update
² Sensitech Supply Chain Visibility, 2017

How many new sales does it take to make up for one loss?

A theft of $146,000 in goods, at a 5% profit margin, would take $2.92 million in new sales to recover the loss.

Here’s the math:

\[
\frac{\text{Value of goods lost (}$)}{\text{Profit margin on goods (%)}} = \text{5\%}$

\[
\frac{$146,000}{5\%} = $2.92 \text{ million in new sales}
\]
While the source of the pain may differ slightly by mode, the top concern revolves around the risk of damaged customer relationships. A majority of shippers feel that lost, damaged or delayed shipments can have a major impact on their relationship with customers.

Worries about financial repercussions, like lost margin, lost revenue and service level agreement (SLA) or contractual penalties are almost as important. Employee time/cost and distraction to reship and/or file claims, along with concerns about a damaged corporate reputation, round out the list.

Shippers are also clear about what they expect (compensation) if a shipment is lost or damaged. But many emphasized that while they expect to get their costs recouped as quickly as possible — and that process can be a distracting hassle — their universal priority is keeping their customers happy.

“If there’s value on our end, whether it affects our client or not, we still would like to recoup that value. Now, if it diminishes our relationship with our client, that’s our job to fix that and make that better.”

- Logistics Executive
large automotive parts manufacturer
DO SHIPPERS REALLY UNDERSTAND THEIR RISK MITIGATION OPTIONS?

Overwhelmingly, 90% of shippers rely on carrier liability and excess liability (declared value) declarations to mitigate supply chain risk and protect their shipments.

Importantly, nearly 40% believe that carrier liability is the same as cargo insurance, primarily because they think both will reimburse them for lost or damaged goods. While both may actually pay, the two are far from the same.

But, here’s where it gets even more interesting. And more concerning. Of the 61% who said they believed carrier/excess liability and cargo insurance were different, few of them could accurately identify what is specifically covered by each. It would be unreasonable to expect all shippers to have a perfect understanding of the coverage differences, but it is surprising that 25–50% of shippers thought their coverage applied to types of protection it did not.

“"Yes, it’s declared value but it’s part of the process. It’s a known fact that (carriers) are responsible and that they’ll cover that item.”

- CEO, small retailing company

80% of shippers who use excess liability coverage could be basing their decision on false assumptions of how it actually works.

The weakest understanding was of excess liability/declared value, where more than half the shippers could not correctly identify any of the coverage elements. So, while a majority of shippers know there is a difference, the 80% who select excess liability to cover their shipments may be basing that decision on false assumptions about how the coverage works.
WHAT IS THE CARRIER’S LIABILITY, REALLY?

Carrier liability is the standard liability offered by the carrier for a shipment, in the event of loss or damage (e.g. up to $100 for small package, or $25/lb. for LTL).

Excess liability refers to the shipper’s purchase of excess-value coverage (e.g. more than the carrier’s standard liability coverage), up to the cost of the shipment, offered by the carrier in the event of loss or damage.
Seems simple enough. But it’s actually much more complicated. Carrier liability is based on small-print terms and a web of governing statutes, some of which date to the 1930s. Different statutes cover different modes, as well as international vs. domestic shipping. But at their core, all the statutes allow carriers to limit their exposure and exempt a variety of situations from their liability. These may include, but are not limited to:

1. Act of God (Force majeure, including earthquakes, floods, hurricanes, tornadoes, fire, wars, riots, etc.)
2. Act of war
3. Fault of shipper, (e.g. inadequate packaging)
4. Defect in goods
5. Government actions

Some, like fault of shipper and defect in goods, are subject to a wide range of interpretation.

Under these governing statutes, the burden is typically on the shipper to prove that the loss or damage occurred while the goods were in the physical control of the carrier. In some cases, such as the Montreal Convention, which governs international air cargo, the shipper may be subject to additional limitations (e.g. having only 14 days to report damage after delivery). If your customer is slow to open, you could be left on the hook.

In short, what may be routinely perceived as simple and intuitive by shippers is actually much more complex.

Here are the key points of differentiation between carrier liability, excess liability and typical all-risk cargo insurance products (either annual policies or transactional insurance for a single shipment).

<table>
<thead>
<tr>
<th>Elements of coverage</th>
<th>Standard Carrier Liability</th>
<th>Excess Liability/Declared Value</th>
<th>Cargo Insurance</th>
</tr>
</thead>
<tbody>
<tr>
<td>Claims limited to a certain dollar amount per pound/kilogram or package</td>
<td></td>
<td></td>
<td></td>
</tr>
<tr>
<td>Claims limited to the small package carrier’s maximum liability, typically $100</td>
<td></td>
<td></td>
<td></td>
</tr>
<tr>
<td>Applies to all modes of transportation</td>
<td></td>
<td></td>
<td></td>
</tr>
<tr>
<td>Applies to all shipping carriers</td>
<td></td>
<td></td>
<td></td>
</tr>
<tr>
<td>Claims paid up to the stated invoice value of the goods</td>
<td></td>
<td></td>
<td></td>
</tr>
<tr>
<td>Claims paid regardless of carrier liability</td>
<td></td>
<td></td>
<td></td>
</tr>
<tr>
<td>Claims paid for events outside of carrier’s control (e.g. Acts of God)</td>
<td></td>
<td></td>
<td></td>
</tr>
</tbody>
</table>

While shippers were most confused about the elements related to excess liability, there is plenty of confusion about cargo insurance as well.
WHAT ABOUT THE CLAIMS EXPERIENCE?

Shippers who submitted a loss or damage claim were asked if they’d ever had a claim denied, and, if so, why it had been denied. Perceptions of why a claim had been denied were similar for both carrier liability and cargo insurance.

**PERCEIVED REASONS CLAIMS ARE DENIED**

<table>
<thead>
<tr>
<th>Carrier/Ecccess Liability Insurance</th>
<th>Carrier denies fault</th>
<th>Damage not noted on delivery</th>
<th>Improper packaging</th>
<th>Factors outside the carrier’s control</th>
<th>Incomplete documentation</th>
<th>No signed Proof of Delivery (POD)</th>
<th>Freight charges not paid</th>
</tr>
</thead>
<tbody>
<tr>
<td>Carrier/Liability</td>
<td>50%</td>
<td>44%</td>
<td>35%</td>
<td>34%</td>
<td>33%</td>
<td>26%</td>
<td>20%</td>
</tr>
<tr>
<td>Insurance</td>
<td>47%</td>
<td>48%</td>
<td>33%</td>
<td>34%</td>
<td>38%</td>
<td>32%</td>
<td>23%</td>
</tr>
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**THIS IS WHERE IT GETS INTRIGUING AGAIN.**

A true all-risk cargo insurance policy would pay regardless of fault, even if the damage was noted after delivery (up to the date specified in the policy), or was caused by factors outside the carrier’s control, etc.

This suggests one of two things:

1. Respondents were further confused about the nuances of insurance and carrier liability. Or...
2. They were using very poor insurance products.

This confusion may stem from the fact that the choice of risk-mitigation tools for shippers appears to be a do-it-yourself activity. More than 40% of shippers don’t rely on their insurance broker/agent to help them select the best coverage for their situation.

There are also differences in the perceived customer experience with both carrier liability and cargo insurance claims. While the rate of businesses who filed claims under each are similar (53% for carrier liability, 54% for insurance), the claims satisfaction rate is slightly higher for those using an insurance product.

This may further indicate the lack of understanding of the two risk-mitigation options, because a well-configured all-risk cargo insurance policy should result in far fewer claims being denied. This suggests that even those who say they are using insurance may not be getting the optimal plan and experience.
CLAIMS REIMBURSEMENT: HOW FAST IS FAST ENOUGH?

Even when a claim is approved, shippers feel that the timeliness of reimbursement can be an issue. For both insurance and carrier liability, shippers generally feel that payment takes longer than it should. The majority feel it should happen in less than two weeks.

And, for those who were less than “very satisfied” with the claims process, the percentage that received payment in less than two weeks was lower — 1-in-4 for carrier liability and 1-in-3 for insurance. So, while cargo insurance does pay somewhat faster, speed of payment is still a key criterion in customer satisfaction — 52% say it is extremely important, the highest-rated attribute for claims processes.
IS CARGO INSURANCE ANY BETTER THAN CARRIER LIABILITY?

Quite simply, yes. Cargo insurance offers customizable coverage for multi-modal, multi-carrier shipments with reimbursement up to the full invoice value of the goods.

Many, if not most, cargo insurance products eliminate some of the limitations imposed by the small-print carriage terms and statutes governing carrier liability.

Why use cargo insurance?
It’s no surprise that the more valuable or unique the shipment is, the more likely businesses will elect to insure it. Cost also correlates with mode. Those shipping FTL and ocean freight are most likely to use insurance. But, what’s interesting is that ocean (and air freight), are the modes where shippers report the lowest rates of loss and damage. Delays are the more prevalent issue with these modes. It is the higher value of FTL and ocean shipments that increases the risk: while the individual items may not be expensive, a full container is. Still, only about one third of shippers use cargo insurance most often for risk mitigation on FTL, ocean freight and air freight shipments.

The reasons shippers use cargo insurance are largely the same regardless of mode. There are three key advantages:

- Insurance allows shippers to recover the value of the shipment up to the stated invoice value
- Insurance offers a sense of security and peace-of-mind for the shipper
- Insurance is considered the most effective option

“In some cases, we’re talking about very expensive equipment. This isn’t a $50 package. So, we have very broad insurance, both domestically and internationally, to cover anything that might go wrong, whether it’s a delay in the shipping or something else.”

-CFO of a middle-market industrial distribution company

INSURANCE USED MOST OFTEN TO MITIGATE FINANCIAL IMPACT

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The reasons shippers use cargo insurance are largely the same regardless of mode. There are three key advantages:
SOMETIMES, BAD THINGS JUST HAPPEN TO GOOD CARGO. Supply chain risks aren't going away. In fact, they are becoming increasingly difficult to manage. But there are effective ways to minimize your financial losses. This research clearly shows there is a lack of understanding between what carriers must offer by law, and the all-risk cargo insurance policies shippers can purchase to more effectively and fully protect their reputation and business from damage and financial loss.

ABOUT THIS RESEARCH
The first phase of 12 in-depth, qualitative interviews was conducted in the U.S. across a variety of industries. Results helped inform the design of the quantitative survey.

The quantitative survey was conducted online, using a sample of 605 business shippers in the U.S. (i.e., business professionals responsible for their company's shipments). The total sample was comprised of these quota groups:

<table>
<thead>
<tr>
<th>COMPANY REVENUE</th>
<th>TOTAL</th>
</tr>
</thead>
<tbody>
<tr>
<td>1M-$9.9M</td>
<td>169</td>
</tr>
<tr>
<td>$10M-$99.9M</td>
<td>136</td>
</tr>
<tr>
<td>$100M-$249.9M</td>
<td>88</td>
</tr>
<tr>
<td>$250M-$999.9M</td>
<td>101</td>
</tr>
<tr>
<td>$1B OR MORE</td>
<td>111</td>
</tr>
<tr>
<td><strong>TOTAL PARTICIPANTS</strong></td>
<td><strong>605</strong></td>
</tr>
</tbody>
</table>

All sample surveys and polls, whether or not they use probability sampling, are subject to multiple sources of error which are most often not possible to quantify or estimate, including sampling error, coverage error, error associated with nonresponse, error associated with question wording and response options and post-survey weighting and adjustments. Therefore, Harris Poll avoids the words “margin of error” as they are misleading. All that can be calculated are different possible sampling errors with different probabilities for pure, unweighted, random samples with 100% response rates. These are only theoretical because no published polls come close to this ideal.

Respondents for this survey were selected from among those who have agreed to participate in online surveys. Because the sample is based on those who agreed to participate in the Harris Poll panel and other opt-in online panels, no estimates of theoretical sampling error can be calculated.
IF YOU'RE WORRIED ABOUT PROTECTING YOUR SHIPMENTS, WE CAN HELP.

Our licensed insurance specialists can help you anticipate the unanticipated by taking the time to analyze your supply chain, fully understand your unique level of risk and customize a policy exclusively for the way you do business. Sure, you can roll the dice with standard carrier liability, self-insurance or your existing business-owner policy. Just know what’s covered and what’s at risk.

About UPS Capital®

You’ve probably never thought of a UPS® company for insurance services. But today, UPS operates the world’s largest transportation and logistics network, one of the world’s largest airlines and one of the world’s largest customs brokerage networks, with offices in more than 60 countries. Coupled with more than 100 years of global supply chain experience, we’re uniquely positioned to help protect companies from risk in their supply chains. General insurance companies can’t say that.

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