

AFRICA / SEA FREIGHT



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Shipping industry disruption trends and the impact on insurance

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There is a perfect storm brewing in the shipping industry.

Brought on by an extraordinary set of global and local circumstances, it is having the domino effect of driving global and local inflation to levels not seen for decades, with significant cost implications on the transportation of goods, as well as the goods themselves.

In the last 18 months alone the rate for a single shipping container has increased dramatically since the Covid-19 pandemic disrupted supply chains and trade channels.

The impact of this situation on South Africa could undermine post-pandemic economic recovery.

Consumers and businesses may have to make difficult trade-offs when it comes to the transportation of goods, paying an inflated price for these items, and coping with shortages.

According to a report from the United Nations Conference on Trade and Development (Unctad), the global surge in container shipping rates could send consumer prices 1.5%

higher in 2022 and increase global import price levels by 11%.

Smaller, emerging market economies that are dependent on imports are likely to be affected far worse.

But it is not only the cost of goods and the rising impact of inflation that South Africans have to be concerned about.

The Durban harbour is a major economic hub and strategic location for the shipping and transportation industry, accounting for 60% of South Africa's citrus exports.

However, the heavy rains and recent devastating floods in KwaZulu-Natal caused extensive damage to both the roads leading to the port, as well as to the harbour itself.

This has had massive implications for agricultural products stuck in storage.

The recent floods highlight the need for thorough risk management of storage exposures that fall into the marine insurance space and underwriting of marine storage risks, in collaboration with experienced static risk underwriters.

The Bureau for Food and Agricultural Policy (BFAP) recently said that South Africa's agricultural sector was being hit by bottlenecks at South African ports, adding that there was a struggle to get table grapes out into international markets within 21 days – currently it takes 50 days.

According to Marine Insurance Forum, this is taking its toll on insurers, as delay losses have increased five-fold.

Perishable cargo like fruit is only covered by specific extensions to cover delay, and this is provided by a limited number of insurers.

A number of insurers who offered the extended cover are now declining it due to the increased delays in worldwide shipping since 2020 that are ongoing.

The infrastructure troubles we are having, as well as the result of the KZN floods, is likely to add further delays, which may result in insurers no longer offering delay cover at all.

The logistics of moving cargo between Gauteng and Durban has been delayed and backlogged due to infrastructure damage between these two areas as well as around the Durban port precinct.

Cargo risks are widely spread between these two areas and country-wide at any given time.

In addition to the backlog caused by infrastructure damage, the corridor between JHB, DBN and Richards Bay will see a significant increase in trucking volumes as mined cargoes will be conveyed by road due to rail line infrastructure damage.

The additional traffic volumes increase the risks of losses from various perils of road freight cargo on this route.

Policyholders who purchase imports with the insurance being placed by the seller may be exposed to losses if cover has not been taken up for the tail-end risk of these imports, which is the land leg of the cargo from the port of discharge in South Africa to a final destination in the country.

They may buy on a Cost, Insurance and Freight (CIF) basis, which is a method of importing goods where the seller pays expenses until the product is completely discharged from a ship at the destination port in SA.

The supplier's insurance may cease once the cargo is placed on the quay in SA, which will leave the importer exposed to flood and other perils until the cargo is delivered to them. Even if cover is taken up for the tail-end import risks, a flood/water damage loss may or may not be covered.

It is recommended that importers in South Africa purchase goods on the basis that the supplier's insurance policy covers the cargo comprehensively until the final delivery, or to change the terms of sale in order for them to negotiate the insurance locally and have control over the cover they obtain.

Review your policy to ensure that extensions like the seller's interest clause can be accommodated, which will provide additional cover to exporters in the event that they have to suspend the sale contract while the goods are in transit, when this is reasonable to safeguard their interests, and this extension as well as other conditions can be negotiated locally.

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