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What 2025 Has in Store for Cargo and Shipper's Interest Insurance

Transportation

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It would be an understatement to say that the global supply chain has faced unprecedented challenges over the last several years. From the COVID-19 pandemic and geopolitical events to natural disasters, cyber attacks and more, the world’s cargo fleets and their customers continue to reshape how businesses approach risk and resilience when transporting their goods from place to place.

These factors directly impact cargo and shipper interest claims by increasing the frequency and complexity of losses, increasing transportation costs and leading to supply shortages. Businesses must adapt to navigate this volatile environment effectively.

Beyond these factors, cargo carriers and shippers face an array of more typical potential risks. Goods can be lost or damaged during transit due to rough handling, environmental conditions such as extreme temperatures and accidents. Then, there is the ongoing threat of cargo theft and piracy en route in certain parts of the world. Shippers can be held liable for the condition and timely delivery of cargo, putting them at risk for any unforeseen delays as well as the shifting sands of global customs and other regulatory requirements.

Navigating a complex and dynamic trade environment

COVID-19 exposed broad vulnerabilities in global trade, creating bottlenecks and delays that rippled across industries, while trade wars, sanctions and other forms of political unrest have disrupted established supply routes and led to greater uncertainty.[1] Supply chains experienced more of these curveballs in 2024, resulting in the loss and damage of cargo.

An October 2024 port workers' strike on the East Coast of the US is estimated to have cost the impacted ports $250 million to $300 million a day. In March 2024, the collapse of a bridge on the coast of Maryland caused 78 days of disruption at one of the busiest ports. Further port congestion in California highlights the fragility of trade and logistics infrastructure from coast to coast.[2]

A major factor in the supply chain cost of port closures is not only the number of days they are inoperative but also the speed at which they can clear the resulting backlog. Analysis of the impact of October's strike on East Coast US ports suggests that even when factoring in excess cargo-handling capacity in port systems, every day the ports are closed equates to five days on average for supply chains to return to normal.

Climate change is another major source of disruption, with extreme weather risks, such as floods, hurricanes and wildfires, threatening infrastructure and delaying shipments. For instance, a drought in 2023/2024 caused record-low water levels in the Panama Canal, causing backups and delays.

Building more resilient trade and logistics supply chains

There is a more positive side to these challenging headwinds. Exposing the supply chain during COVID-19 has made it clear how complex and fragile global trade is. As a result, more cargo owners and carriers have begun taking proactive steps to support greater resilience in their supply chains and mitigate some of the costs faced during the pandemic.

For instance, by diversifying suppliers, businesses reduce their dependence on single suppliers or regions to mitigate their geopolitical and natural disaster risks, effectively spreading out their supply chains to avoid potential bottlenecks. The same can be said about recent "onshoring" efforts, moving production closer to end markets to reduce transportation times and limit potential vulnerabilities.

According to a report from commercial real estate consultancy Newmark, advanced manufacturing investments in the US are expected to create roughly 250 million square feet of new industrial projects by 2030, with as many as 360,000 US jobs related to reshoring created in 2022, according to some estimates.[3] Others are adopting "just-in-case" inventory models, balancing lean operations models with strategic inventory stockpiling to cushion their business against sudden disruptions in the future.

Whatever the case, these measures are intended to enhance flexibility and protect business continuity in a volatile global trade environment.

Transportation and logistics trends

This is happening against a backdrop of ongoing change across the industry. The commercial transportation sector has been going through a dramatic, digital-first evolution over the last several years, highlighted by the growth of logistics and freight forwarding services as well as increasing delivery options from large shippers that previously shied away from such work.

For instance, last-mile delivery, which brings goods directly from a retailer to their end customer's home or place of work, is one of the fastest-growing segments of the shipping and cargo markets as of 2025, focusing on speed, low cost and on-time delivery.[4]

The same holds true for third-party logistics providers, which have been expanding their services in a bid to offer more custom solutions for their customers, as well as direct investments in delivery services from major shippers, reducing their dependency on traditional cargo carriers. Such moves are testing the capabilities of existing infrastructure and introducing opportunities in addition to potential new risks for operators.

Beyond cargo: The role of insurance

Insurance coverage for risks relating to the loss, damage or theft of goods in the supply chain includes cargo liability, which protects cargo while in transit from loss or damage via land, air or sea and shipper's interest insurance, which also protects against cargo risk in transit but with a focus on the cargo owner themselves. The differences are subtle but important for shippers to understand.

Cargo liability covers carriers from loss in the event of negligence on their part. However, the protection for the shipper is often limited since this coverage is held by and focused on the cargo carrier. These policies may not cover the total value of any freight lost, only paying out when liability can be directly proven. Moreover, the process is slow and can take months to process and settle a claim, delaying resolution for shippers.

Shipper's interest insurance picks up where cargo liability leaves off, directly covering the shipper no matter what coverage their carrier already has in place. These "all-risk" policies cover any loss or damage caused to a shipper's assets while in transit from any external cause, up to and including the full value of any freight, and protect shippers from loss even when the carrier is not at fault.

Also, since the shipper holds the policy themselves, the claims process for the shipper's interest policies is typically much faster than for cargo liability claims, as loss triggers do not need to go through any sort of intermediary.

The state of the cargo and shipper's interest market: Known unknowns

It is far easier to plan for a risk you know is coming than unknown risks, such as new tariffs and sudden geopolitical concerns. Those risks tend to introduce volatility into global supply chains and the insurance market. As a result, some of the insurance carriers that have historically been active in the cargo space are either limiting capacity and exposure or completely exiting the market.

The days when a single insurance company would offer high limits to cargo carriers and their customers are long gone, as more and more insurers look to limit their liability and deploy capacity in ways that allow them to remain active across the entire marketplace. Where it might have been possible to find an insurance company willing to offer a $50 million cargo or shipper's interest limit a few years ago, now customers are fortunate if they can find a carrier willing to put up a $5 million limit, and even that has become more challenging to place.

At least in the short term, the market for these types of insurance coverages is moving toward more of a consortium — or coinsurance — model, under which a lead carrier steps up to write the terms and conditions of a policy, put up the limit and then a group of other "following" insurance companies sign on to offer the capacity to cover that limit. The customer gets the coverage they need, structured on a quota-shared basis to spread out the risk in direct response to the trend toward severe losses in recent years.

The result of these market dynamics and more restricted capacity is higher premiums due to the combination of more complex risks and higher claims payouts, which drive up costs for insurers. Moreover, as the types of risks facing shippers become more diverse, insurers offer increasingly tailored products. Coverage options are becoming more flexible, with shippers opting for specific coverage for supply chain disruptions, cargo damage or pandemics.

Navigating the market in 2025

For cargo carriers and their customers, securing appropriate coverage in 2025 requires an understanding of the challenges facing the insurance market and the evolving risks that all shippers face in the modern supply chain.

Shippers should be mindful of everything they can do to minimize risk through every step of the process, including reducing the risk of damage by working with reliable carriers that can ensure safe handling and timely delivery.

For their part, cargo carriers are incorporating digital tools — such as modern tracking technologies — to better monitor the condition, security and location of goods in transit. There is also an ongoing need to diversify trade routes to avoid the potential impact of regional transportation disruptions and shipping chokepoints.

As evidenced during the past few years, supply chains are highly complex and interconnected, subject to shifting forces that can create challenges for cargo carriers, shippers and their customers. Addressing these risks with the help of the right insurance partners can help insulate businesses from the loss, damage or theft of cargo as the industry comes together to build more resilient, reliable supply chains for the years ahead.

Source:

[1]Harapko, Sean. "How COVID-19 Impacted Supply Chains and What Comes Next," *EY,* 06 Jan 2023.

[2]Menon, Hari. "6 Reasons that Lead to Port Congestion," *Marine Insight,* 01 May 2023.

[3]McCrea, Bridget. "Managing the Risks and Rewards of Onshoring & Reshoring," *Supply Chain Management Review,* 01 Mar 2024.

[4]"The Year of Change: Eye on the Last-Mile 2.0," *FarEye,* accessed 15 Jan 2024. PDF file.

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