The Definitive Guide for

Freight Broker Insurance

LOGISTIQ
Insurance Solutions

Are you a

freight broker or insurance agent

trying to determine what insurance is best for your or your client's business?

This guide provides insights for:

- Understanding the litigation risks for freight brokers
- Understanding each line and what it covers
- Determining the coverages and limits based on broker size
- Positioning the broker to win more loads by carrying the right insurance lines
- Positioning the broker to build loyalty and trust with their Shipper clients
- Avoiding notorious insurance traps
- Shopping for insurance smartly

Table of Contents

01 Why Freight Brokers Need Insurance

02 Industry Statistics & Trends

03 Coverages

04 Limits of Coverage

05 Types of Policies (Forms)

06 How Insurers Determine Your Premium

07 Most Important Lines Based on the Revenue of the Operation

08 Risk Management

09 Insurance Traps to Avoid

10 About LogistIQ Insurance Solutions

Part 1

Why Freight Brokers Need Insurance

While it is not a legal requirement to hold insurance as a freight broker, the risks of not doing so have been heightened as numerous brokers find themselves the target of lawsuits. The cost of those lawsuits is high enough that they have driven plenty of brokers into financial distress or worse. The obvious implication here is that holding freight brokerage insurance is an absolute must in today's world even if it is not required under freight broker authority.

Insurance isn't just for protecting the broker when named in litigation. It's also a valuable tool for securing loads and larger shipper clients. Successful brokers are leveraging their coverages to build value with their clients, who are also targets of litigation.

Freight brokers are inherently well-positioned to protect their shippers in ways that motor carriers can't, and most brokers are not taking advantage of this through their sales, marketing, and branding efforts.

When carrying the right coverages through the right market, a freight broker can effectively grow their top-line revenue while protecting their bottom line.

Protecting Your Operation Against Litigation

As we have already touched on briefly, insurance is a great way to protect against potentially destructive litigation brought against a freight broker. The most frightening thing for a freight broker facing a legal battle is the fact that there is currently no cap on damages that may be awarded to the complainant. This means that in theory there is unlimited potential for damage to the freight broker if they are drawn into litigation when a motor carrier they have engaged to transport goods is involved in an accident.

One sobering reality for all freight brokers is the fact that there is no downside to the plaintiff to name them in a lawsuit even if doing so seems unreasonable. Attorneys are now being trained to go after as much money as they believe they can squeeze out of every freight broker when they take them to court. It is open season on the freight brokers, and the trend shows no signs of ceasing anytime soon.

Protecting Your Customer From Loss And Litigation

Shippers are potentially more vulnerable to litigation than freight brokers since they are not protected under the Freight Broker Authority (limits the liability of a freight broker so long as they are operating within the parameters set by FMCSA). Freight brokers carrying auto liability coverage with additional insured status can extend financial protection for their shippers. 95% of all motor carriers only carry $1M of auto liability coverage limits, which is significantly lower than the average judgment of $2.6M per fatality. This leaves a major gap in actual damages vs. the carrier limits.

Additionally, freight brokers can purchase materially higher limits (up to $30 million in Freight Broker Auto/Third-Party Liability limits) to protect them against Suits, and the Additional Insured Endorsement added to the Freight Broker Auto/Third-Party Liability insurance policy may also provide defense coverage for the shipper when the shipper is sued as a result of an accident arising from their tender of freight to a broker.

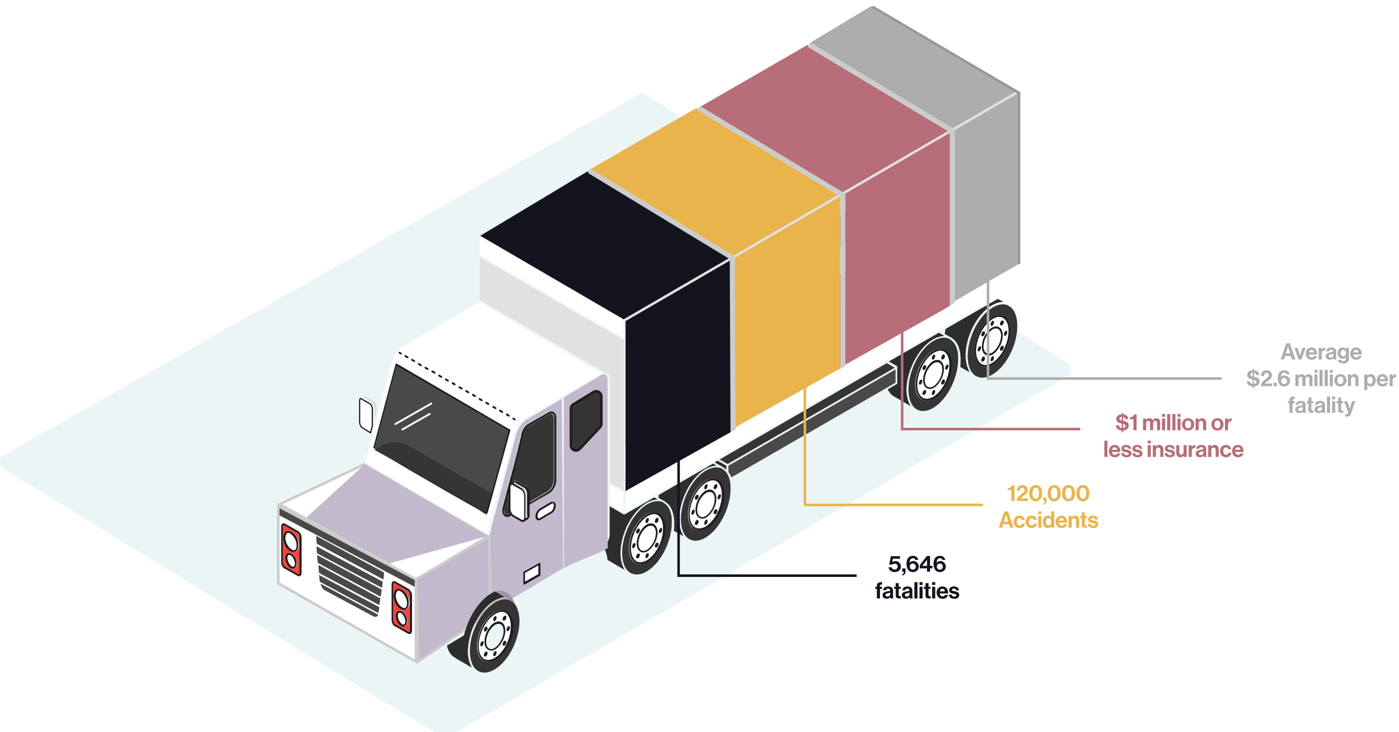
It's a prerequisite to work with many of the larger shippers

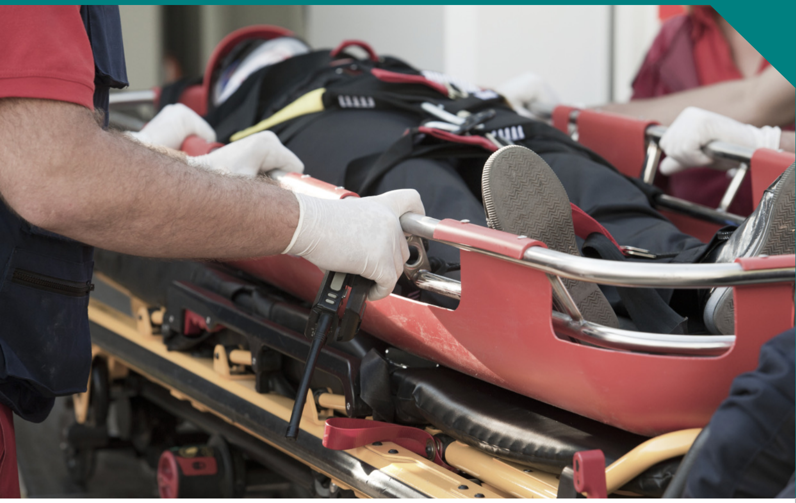
Many of the larger shippers are requiring that their brokers carry higher cargo and Freight Broker Auto/Third-Party Liability insurance to better protect them in the event of cargo loss or damage or litigation, as well as litigation arising from a third-party bodily injury or fatality. Heaps of new brokers entering the market hit "brick walls" when trying to drum up a new business, quickly realizing that they are immediately disqualified for not having the necessary insurance. It's not just the large shippers driving this issue. There are also plenty of brokers who are setting expectations high by offering superior insurance to win the business of shippers. In other words, plenty of brokers are not at all shy about showing off just how much insurance they carry as a way of winning over more business and maximizing their market share. This highly competitive market has made insurance coverage not just something that brokers find themselves deciding to pay for in order to enable business with shippers that require it, but it is something that can make them all the more appealing to their shipper customers.

Part 2

Industry Statistics And Trends

Motor carriers are involved in accidents, even fatal ones, more often than many of us think. It is important to understand some of the statistics behind this as well as the vital insurance data that help the parties with adequate insurance continue to operate and avoid setbacks.





Motor carriers report a total of approximately **4,000 fatalities** in the accidents that they are involved in every year. That boils down to approximately 11 fatalities in which a motor carrier is involved every single day of the year.

There are **120,000 accidents** involving motor carriers reported per year. This is 329 accidents on average per day.

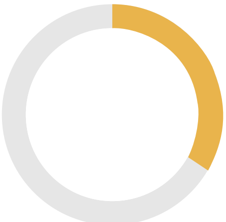
Nine in ten motor carriers report that they carry **$1 million** in liability insurance or less.

Litigation is extremely costly, particularly when a fatality is involved. In those cases, the average judgment against the motor carrier is **$2.6 million** per fatality.

These are horrific statistics that show just how woefully unprepared and underinsured most carriers and brokers are. Almost everyone thinks it won't happen to them, but the statistics do not lie, and the reality can be extremely damaging when it comes knocking on your door. However, it is not just accidents that carriers and brokers have to worry about. There are also significant losses that occur due to theft. Let us take a look at some of those numbers:

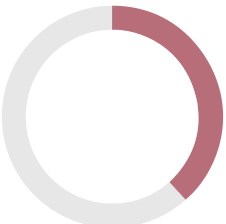
Cargo theft worth $223 million

2022 saw a total of $223 million worth of cargo theft



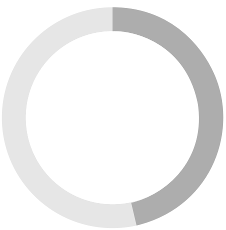
Theft increased by 20%

The total number of occurrences was up 20% compared to the 2021. Keith Lewis, VP of Operations at CargoNet calls it a “generational change”



38% Increase in Reported Theft Incidents

1778 theft incidents were reported in 2022, a uptrend from the 1285 reported in 2021.



46% thefts in three states

Nearly half (46%) of the thefts reported occurred in just three states: CA, FL, and TX

Low premiums

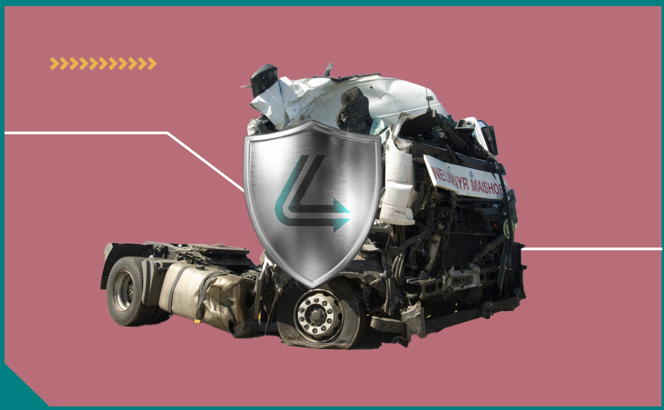
The average insurance carried on an FTL shipment was just $100,000 and on an LTL shipment just $0.50 per lb

Part 3

Coverages

The overall business model of any given freight brokerage operation can be dramatically different based on the nature of the shipper base and related cargo being transported, the number of routes throughout the U.S. being serviced, the obligations freight brokerage operation may have assumed contractually, etc. That said, determining the correct lines and limits a freight broker needs to be adequately covered should be handled by a retail insurance agent that fully understands the freight broker business model.

The two major categories of insurance for freight brokers:



Cargo insurance

Cargo insurance(Also known as shipper's interest insurance in some cases) is what companies purchase to protect the goods being delivered as they are transported. It protects against both damage and theft of those goods, and it is a good type of insurance to carry for those situations when cargo is damaged or lost in transit.

Auto liability insurance

Auto liability insurance protects the freight brokerage operation against the potential for lawsuits resulting from individuals being injured or killed as a result of an auto accident in which the carrier is involved. As we described before, these incidents are sadly more common than many of us might have imagined, but there are good insurance products available to help shield companies from the worst of court judgments that might otherwise cripple the freight broker operation.

Freight Broker Auto/Third-Party Liability Coverage

This specific type of coverage protects the policyholder against the cost of defense and the potential cost of a legal judgment against them if they are brought into court regarding an auto accident in which a third party was injured or killed. It takes care of everything from the cost of a professional legal defense team to the settlement or potentially, the actual judgment that a court hands down. It is important because it can protect against a company becoming insolvent and/or the business model destroyed from one simple auto accident. With the concerning trend where increasingly freight brokerage operations are being drawn into litigation, this is one of the most important coverages to have in place. As mentioned earlier, more and more shippers are also requiring it from freight brokerage operations.

Freight Broker Cargo Legal Liability

Under the federal definition of freight brokerage authority, cargo damage caused by third-party motor carriers should not be their responsibility to address the owner of the cargo. This rests solely with the motor carrier. However, freight brokerage operations are often named in litigation when a motor carrier transporting the cargo fails to respond to a cargo claim. Freight Broker Cargo Legal Liability coverage is designed to respond to the costs associated with litigation of this nature including the cost of legal defense as well as judgments or agreed settlement sums. The nature of this coverage is not intended to roll over and pay a cargo claim when the motor carrier fails to respond. It is a defense policy for the freight brokerage operation. If freight brokerage operations have clients who they have either contractually obligated themselves to pay cargo claims for, or simply because they are viewed as major clients, then a broader form of cargo coverage described herein should be considered.

If you are transporting high-value cargo, it is highly recommended this coverage be in place.

Broad Form Contingent Cargo Insurance

This coverage is indeed broader in form as the name suggests. Unlike the Cargo Legal Liability policy, it does not require that anyone is liable, but instead, the coverage is triggered by the loss or damage to cargo. It is a critically important and more customer service-friendly form of cargo coverage for customers that may demand reimbursement for any cargo loss or damage irrespective of who is liable.

Freight Broker Excess Liability Insurance

This insurance can be thought of as adding supplemental additional limits to the Freight Broker Auto/Third-Party Liability and Commercial General Liability insurance policies. Excess liability adds an extra layer of protection on top. Limits purchased should be driven by the financial size of your operation or formal agreements with shippers, and it is well worth paying for given the fact that lawsuits are becoming more common and more expensive. Higher limits should also be considered by the number of shippers you have agreed to provide additional insured status to under your freight

brokerage auto liability and general liability coverages. Higher limits are increasingly becoming an attractive value-added service freight brokerage operations provide because of the relatively low limits of only $1,000,000 most motor carriers have in place.

Professional Liability Insurance (Errors and Omissions)

This is also known as errors and omissions insurance, and it protects against exactly that. This is to say that it covers simple errors and mistakes that occur in the normal course of tendering the transport of freight. We are all human and errors can occur daily. It is a good idea to protect against them eating up valuable budget dollars by purchasing insurance that protects against this.

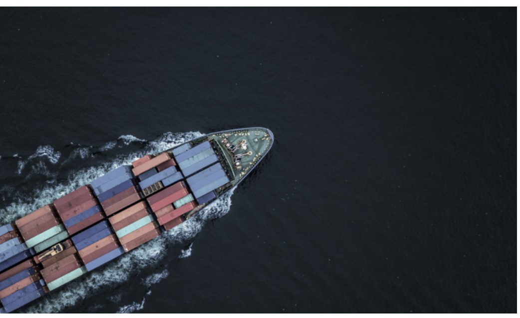
General Liability Insurance

Third parties sometimes enter the premises of the broker. This is routine and part of the business, but they may still become injured when they do so. Lawsuits can arise from someone simply stepping onto your property and getting hurt. General liability insurance covers this.

All Risk Domestic Shipper's Interest Cargo Coverage

This coverage is designed to provide direct coverage of the shipper and their freight, providing an even broader scope of coverage than the Broad Form Cargo insurance. It is considered “primary cargo coverage” and doesn’t contain “contingent’ requirements where a cargo claim must first attempt to be collected from a motor carrier. The principal issue you have to demonstrate in a shipper’s interest cargo claim is the cargo was lost or damaged during the due course of transit, not who was responsible for the damage or loss of the cargo. This form of cargo coverage has many applications for LTL shipments where motor carriers can limit their liability under filed tariffs to as little as 50 cents a LB a freight broker on behalf of their owner of the cargo can “arrange” for primary cargo coverage to be in place. The costs for the coverage which benefits the shipper/owner of the cargo can then be passed along with freight charges.

For FTL shipments where a motor carrier only has $100,000 of cargo insurance limits in place, it can be used to provide “instant excess” cargo coverage sitting on top of the motor carrier’s primary cargo coverage should the value of the cargo exceed the limit of $100,000. Freight brokerage operations use this coverage to “broaden the number of motor carriers available to move a shipment” since coverage required up to the actual value of the shipment can instantly be put in place online (see Freight Insurance Fast - Win More Loads - LogistIQ Insurance). Here, too, freight brokerage operations can pass the cost for this excess cargo coverage to the party that will be paid - namely the shipper/owner of the cargo in transit.



Part 4

Limits of Coverage

Insurance premiums for liability coverage, in general, have been on the rise, and there is no end in sight to this trend. As an example, Fleetowner.com reported on it and stated that in the last decade insurance premiums for carriers have gone through the roof. A likely culprit for the increased cost of litigation is the fact that no “tort reform” legislation is being passed limiting the number of judgments against motor carriers.

In one scenario, a single accident garnered a judgment above $150,000,000 against a motor carrier. Juries see deep pockets and are allowed to make unreasonable, emotionally based awards. The ramifications of these judgments affect the public as well, increasing freight costs across the board. As lawsuits continue to rise, so do insurance rates. And in response to the rising rates, many carriers lower their limits or forego certain types of insurance that they used to carry. These reductions create exposure for all parties involved: carrier, broker, shipper, and consignee.

Since the most significant hikes in insurance rates fall on the motor carriers (since they are on the front lines when it comes to litigation), freight brokers can buffer the carrier’s coverage with their own.

Freight brokers can secure much higher limits than carriers in coverage for less cost, creating a unique value proposition for freight brokers in general.

Insurance policy coverage limit recommendations by company size

Coverage Component	Recommended Limit of Coverage By Broker Size			
	$0-5M Revenue	**$5-20M Revenue**	**$20-50M Revenue**	**$50M+ Revenue**
Freight Broker Auto / Third-Party Legal Liability	$1M	$1M	$1M	$1M/ occurrence
Freight Broker Cargo Legal Liability (Defense Coverage) *	$100-250K	$100-250K	$100-250K	$100-250K
Broad Form Contingent Cargo Insurance	$100-250K	$100-250K	$100-250K	$1M/ occurrence
Freight Broker Excess Auto Liability	$1-5M	$5M	$10-20M	$20-50M
Professional Liability (Errors & Omissions)	$500K	$1M	$1M	$1M
General Liability	$1M	$1M	$1M	$1M/ occurrence
All Risk Domestic Shipper's Interest Cargo Coverage*	$100-250K	$100-250K	$100-250K	$100-250K

Part 5

Types of Policies (Forms)

It is evident that insurance policies are designed to cover certain risks associated with the business operations of the policyholder but are not intended to cover every type of incident or loss event imaginable. This is true regardless of if we are talking about cargo insurance, life insurance, health insurance, or any other types of insurance policies that people purchase to keep themselves protected. It is important to understand the variety of insurance coverage available to purchase the type that makes the most sense in your particular business scenario.

Specialty forms of insurance are relatively new (last 15 years) and have been developed to respond to litigation against freight brokers. Many coverages in the market for freight brokers are with non-admitted insurance markets and have a pretty wide range of coverages and contingencies. This wide range makes it especially important to work with an experienced retail insurance agent that can assess your business and recommend the lines and limits that are most suitable for the freight broker.

Regardless, the insured freight broker needs to read their insurance policy to understand the extent of coverage and be aware of the limitations in coverage formats. Be vocal with your agent about questions and concerns if you're unsure about something.

Part 6

How Insurers Determine Your Premium

In this section, we will discuss the variables an insurer considers when determining premiums.

Main Insurance Products Premium Criteria Considerations

The factors that insurance companies may look at when pricing their insurance products for a given policyholder may include:

- Annual gross freight revenue
- Annual number of shipments arranged for the carriage
- Types of commodities shipped
- Average value of a load by type of commodity
- The experience of the industry policyholder in general and with the specific types of commodities under carriage
- Claim/loss experience by type of coverage to be provided by the Insurer

The interest of the insurance companies in considering past claim/loss experience is to evaluate how likely a particular customer is to file additional claims going forward. The risk here for the insurance company is that they could take on a customer that costs them significantly more money than what they collect in premiums. If they feel that a particular account is high-risk, then they will charge higher premiums to that customer, or even decline to provide coverage in certain instances. As is true with every business an insurance company must maintain profitable and solvent operations to continue its business model and offer a valued product to its customers.

Shipper's Interest Cargo Coverage

Shipper's Interest Cargo Coverage is handled differently. This product more specifically covers the value of the cargo itself, and thus the considerations are different. An insurance company working on the pricing of this product will want to look at the value of the specific cargo being shipped. High-value and higher-risk cargo will necessitate a higher premium. The insurance company will also want to look at the history of claims from their potential customer to evaluate future outcomes, to determine that the claims are manageable and fit the insurance policy design offered to the policyholder.

Part 7

Most Important Lines Based On the Size of the Operation

The most essential types of insurance coverage to carry will vary greatly based on the size of the operation. The needs of a large operator are not likely to correspond perfectly with those of a small operation. Mainly, this is because of the amount and nature of risks that a company has evolved as it grows larger. It will have to consider things that it might not ever have had to worry about when it was a much more contained operation. Let us look at the challenges that each sized operation faces as well as the types of insurance that are sure to be most important to them.

Startup (Small Operation)

A startup needs to be agile. They will want to be scrappy to gain new business and prove themselves. A lot of long hours and hustle goes into the business in those early days to help get it off the ground. This is why insurance is a great product for startups as they attempt to focus on the day-to-day of growing the business and can't get themselves too swamped in something like litigation brought against them following an accident. Remember, just one serious accident could take out an entire startup operation.

The most important types of insurance for a company at this stage:

- Freight Broker Auto/Third-Party Liability

Mid-Sized Operations

Many of the operators that make it through that difficult startup stage will then find themselves at a new phase in their business life. On one hand, a mid-sized operation becomes a much more appealing target for litigation. Additionally, the company needs to focus on growing business with larger clients and making some blockbuster deals to continue its growth trajectory. This is the time to expand the insurance protection to keep the ship stable as it continues to scale.

The most important insurance types at this stage are:

- Freight Broker Auto/Third-Party Liability
- Freight Broker Cargo Legal Liability
- General Liability
- Excess Liability limits for Freight Broker Auto/Third Party Liability
- General Liability
- Broad Form Contingent Cargo Liability.

Large Operations

The largest operations are most exposed when it comes to litigation, so they need to further increase their limits to protect the business. Maintaining their market share is equally important, as the industry is highly competitive.

The important insurance types at this stage are:

- Freight Broker Auto/Third-Party Liability
- Freight Broker Cargo Legal Liability, General Liability
- Excess Liability limits for Freight Broker Auto/Third Party Liability
- General Liability
- Freight Broker Errors & Omissions
- Broad Form Contingent Cargo Liability

Part 8

Risk Management

Freight brokers who lose in court are almost always found guilty of negligence. The plaintiff's attorneys can successfully connect the dots between the broker's negligence and the ill result the plaintiff suffered. Most of these traps can be avoided if the freight broker is proactive in reducing their exposure.

Brokers can engage an expert team of risk management professionals and other individuals who can effectively manage and control their level of risk and exposure to lawsuits. Risk Management professionals help identify operational issues, including procedures and processes, needed or unneeded, to prevent the company from being vulnerable to the risk that is unnecessary or catastrophic. When these things are corrected before there is ever a major issue, the company is spared the time and cost of litigation, including the worst-case scenario that they might otherwise have faced. The Risk Management professionals also prove valuable in looking over your contracts to make sure there aren't major mistakes that could result in litigation as well.

Risks associated with shipper/ broker contracts

Shippers may impose on the freight broker unnecessary and unreasonable responsibilities and carrier oversight/ supervision obligations in shipper broker contracts that are not commercially feasible for the freight broker to perform or to insure. For example, it's impossible for any freight brokerage operation who is dealing with hundreds if not thousands of motor carriers that they can or will ensure all the motor carrier equipment is "properly maintained," or they can exercise control of the hiring or firing practices of a motor carrier. Nevertheless, we often see these obligations present in shipper broker contracts we are asked to review.

This leaves the shipper with an unenforceable agreement with a freight broker and expands their liability in litigation. When a shipper contractually requires that a freight broker take certain actions that are frankly impossible to comply with they have established a "standard of care" which when not implemented (which they won't be because they can't be) creates an exposure the plaintiff legal council will exploit in litigation.

"You established a "standard of care" for a freight brokerage operation to follow yet you then failed to ensure it was followed."

Risks associated with sales and marketing misrepresenting your services

Too often we see freight brokers misrepresenting themselves by claiming to handle more of the transportation activities than they do. Claiming that they store/warehouse and ship the equipment themselves (when it's handled by a partner) can be leveraged against them in court.

While undoubtedly these claims are being made to increase their perceived value with customers, it's harming them in the long run.

Freight brokers have other qualities that truly increase their value proposition that should be marketed:

- Freight brokers reduce the shipper's chance of being sued due to negligence from hiring a third-party carrier;
- Freight brokers can carry significantly higher auto and cargo policy limits, providing an umbrella of protection for the shipper;
- Freight brokers work with a wide range of carriers, providing shippers with more options.

Part 9

Insurance Traps to Avoid

Purchasing insurance might seem easy. Just sign up for a policy that covers what you need it to, and you are all set -- right? Well, it is not quite that simple. There are pitfalls that plenty of companies have fallen into in the past. Companies can open themselves up to extreme danger by simply not taking a little time to review their options and make sure the insurance specialists they are working with understand their needs.

Contingencies

Contingencies are clauses in the insurance policy that require certain parameters to be met for the coverage to be in effect. Generally speaking, the more contingencies that are on a policy, the higher the chance that coverage will be denied. Some contingencies are more limiting than others, so it’s crucial to understand what contingencies are on the policy being recommended to you. Contingencies can also affect premium amounts. If two policies are providing the same coverage and limits, but one is significantly less expensive, it might have more contingencies. And if those contingencies are extremely restrictive, the less expensive policy might not be the best one.

Not working with a retail insurance agent that is an expert on freight brokers

A common error is working with an insurance agent that does not fully understand the nature of your business. The insurance agent might be relatively new to the business, or they might simply assume that all freight transportation companies are the same and therefore they provide blanket insurance that does not meet your needs. Either way, this can be devastating to you as it might cause you to completely miss out on the protection and service that you require.

Misunderstanding what a policy actually covers

Also, make sure you read your insurance policies very carefully. Simply skimming through them will not do in this case. Plenty of people have made this mistake before, and it always comes back to bite them. The problem with skimming is that you are making a lot of assumptions about the policy that may not be true in the slightest. You might then assume you have coverage that you don't have, and you might even make business deals with other companies on the assumption that you have the coverage you don't really have. That would be a terrible way to start a new business venture with a new potential partner.

Part 10

About LogistIQ Insurance Solutions

47 years of industry experience

Serving the freight broker industry

LogistIQ Insurance Solutions brings best-in-class insurance markets, risk management consulting, transportation monitoring, and a network of highly qualified retail insurance agents that understand the freight broker business.

Our insurance product and risk management service delivery is specifically designed to protect brokers and their clients, and create opportunities for brokers to gain market share through a unique differentiation that most brokers do not have.

If you are interested in an insurance solution for your business, don't hesitate to contact us. We will get you connected with a qualified retail insurance agent that suits your needs.

LOGISTIQ
Insurance Solutions

info@logistiq.com

310-634-1368

LOGISTIQ Insurance Solutions
2609 Manhattan Beach Blvd., Suite 220
Redondo Beach, CA 90278

License: 0I01602

WWW.LOGISTIQ.COM