THE “NOT SO INNOCUOUS” EXPOSURE

By
Brian Kelly, Vice President National Accounts/ Baker International Insurance

Twenty-four years of insuring relocation exposures leading to claims for loss and or damage of household goods convince this writer the most frequently overlooked source of claim problems stem from permanent storage.

1. Storage Types

Storage of household goods normally falls into two classifications: (a) S.I.T. [i.e. - storage-in-transit], or (b) permanent storage.

(a.) S.I.T. (storage-in-transit) is the temporary placement of household goods into a mover’s warehouse, awaiting determination as to the shipment’s final destination. This situation typically arises when the owner of the goods is unable to provide the van line with a permanent destination address for delivery.

In such cases, the van shipment is unloaded, placed into the warehouse, and assigned the designation – storage-in-transit. Generally speaking, this period, more often than not, is less than 30 days, but may extend beyond that timeline. In most cases, when shipments extend beyond the time period allowed by their employer, they are typically “converted” to permanent storage. Corporations vary as to the length of time they will continue to pay for S.I.T. Some provide 30 days, others 60 days, and a few 90 days, and on rare occasions, longer. After this stipulated period, the employee becomes responsible for the payment of storage and insurance charges. It is recommended that the

employee contact his relocation coordinator or Third Party consultant to ascertain if the original valuation or insurance protection provided for in the original contract continues beyond the cessation of the S.I.T. period. In some cases it will, in most it will not. This matter is often overlooked, yet may save the employee hundreds of dollars in unnecessary and duplicate protection charges.

(b.) Permanent Storage is defined as any household goods shipment placed into a warehouse for the purpose of long term storage.
Such is the case when the shipment is placed directly into a warehouse while the owner of the goods has been assigned to a short (one year or less) or long term (one year or more) position, generally as a part of an international assignment. On occasion, a domestic shipment may "convert" to permanent
storage.

2. Areas of Risk: (A) Notification of Conversion; (B) Conversion's Impact on employees; and (C) Cumulative or Excessive Exposure

Three primary problems occur more frequently than with other relocation exposures, when the issue of S.I.T. or permanent storage is involved: (1) failure on the part of the local van line agent to properly monitor storage-in-transit shipments to ensure proper notification when such shipments "convert" to permanent storage, (2) failure to alert and educate the employee or client as to the nature and difference in contractual liabilities when a shipment "converts" to perm storage and the impact such contractual changes create for the employee, and finally (3) failure on the part of the van line

agent, the relocation company, or the employer to monitor accumulating values within one or more warehouse facilities.

(A) Notification of Conversion

The first concern tends to be the least problematic of the three, and generally speaking, the matter is handled well by the local warehouseman. Fortunately, failure to notify the owner their goods have “converted” to permanent storage happens infrequently. When such failure does occur it may cause significant problems. In many cases, insurance underwriters have no desire to “backdate” coverage. Most will require a written statement to the effect that there are no known losses as of the date of the request. If such requests occur too often, the underwriter will simply refuse to insure them, fearing there may be an unknown number of others “out there”. As an employer you want to ensure that your van line agent implements safeguards to prevent an S.I.T. shipment from “slipping through the cracks”, when conversion takes place.

When a shipment “converts” to permanent storage, the warehouseman is obligated to send the owner of the goods a letter, typically by certified mail to the last known address, advising them of the change in the status of their shipment. This letter is usually sent out two to three weeks in advance of the “conversion”. The warehouseman sends the employee a warehouse receipt, storage contract, or both, which replace the original shipping contract (the Bill of Lading). The employee is sent a copy of the original Descriptive Inventory, and asked to sign the warehouse receipt or storage contract, and

acknowledge the origin Descriptive Inventory will now serve as the storage inventory. Once this process is accomplished the shipment is considered permanent storage by the warehouseman. It is at this point that the entire nature of the relationship between the owner of the goods and the warehouseman changes. It is also gives rise to a major concern in regard to storage.

Under the newly signed agreement, the local warehouseman is no longer subject to the rules governing the transportation phase of the shipment. It now becomes a matter of public storage. Virtually all public warehouses are regulated by the Uniform Commercial Code. The Code sets forth the rules and regulations governing the operation of a public warehouse. These rules, as one might suspect, are dramatically different than those regulating the transportation of commodities or household goods.

Whatever agreement existed between the van line and the employer, is now subject to a completely new agreement. One of the most important facts to remember is this - the liabilities assumed under contract between the van line and the client, no longer pertain to the shipment once the shipment is designated as permanent storage. To repeat, most employers will pay for the S.I.T. period in timeframes of 30, 60, or 90 days, and in a very few instances 365 days. Once the employer's coverage period ceases, the storage and insuring of the shipment becomes the exclusive responsibility of the employee.

(B) Conversion's Impact on employees

It is imperative employer and employee be educated as to the effect this

transfer of responsibility has on the shipment. The employee should be made aware they are fully responsible for the payment of storage charges and any valuation or insurance they wish to place on the shipment. All too often, the employee understands they must pay the storage charge, but many times fail to understand the significance of continuing valuation or buying commercial insurance protection. Many times if they do purchase valuation or insurance, they fail to understand the differences in coverage and exclusions between the transit portion of the protection provided to them by their employer, and the new warehouse protection they may be afforded. In most cases, there are significant differences, and failure to explain or understand these differences may result in very negative consequences.

Most employees are unaware of the contractual changes that transpire when a shipment, moved under an employer negotiated contract, “converts” from S.I.T. to Permanent storage. It is important to bear in mind at the time the transit segment of your shipment was received at the destination warehouse, a “ryder” to the Descriptive inventory was created by the local agent. This “exceptions document” specifies the condition of the shipment upon arrival at the warehouse to protect the local warehouseman from liability for loss or damage which may have been caused during the hauling segment. The warehouseman sees this action as a protection for themselves and a service to the van line, since the shipment is still technically considered “storage-in-transit”. Seldom, if ever, will the local warehouseman make them available to the transferee, as they are considered internal documents and thus not privy to the shipper. This is particularly important if the employer’s contract is based on “carrier valuation

protection". Why? On the day the shipment changes its designation from S.I.T. and converts to permanent storage, the timeline for filing a claim against the van line officially begins. Depending on whether the shipment was intra-State or inter-State, you either have 90 days in which to file your claim or 9 months with the transporting company. This creates a very difficult situation because in most cases your goods have been placed into storage containers within the warehouse and in order to assess any loss or damage caused by the hauling agent, you would have to have your storage containers reopened at great expense. Should you fail to file a claim within the 90 day or 9 month timeline, you lose your right to file a claim with your intra or interstate van line, and when your goods are finally removed from storage the local warehouseman will deny liability for loss or damage noted on the "ryder" when they received your goods at the warehouse dock from the hauling agent, leaving your employee to fight it out with the van line. You might be able to recover for some loss or damage identified as concealed damage, but that is an "iffy" proposition. This leaves one with the impression failing to educate the employee to this contractual change is extremely unfair. If, on the other hand, the shipment had been protected by commercially available insurance, rather than carrier valuation, this scenario would never occur. Why? Because insurance contracts historically stipulate a claim must be filed at the earliest practicable time, once loss or damage is discovered. In the scenario referenced above, the "carrier" would have no liability once the shipment converted to permanent storage and the 90 day or 9 month claim filing timeline had lapsed, unless the shipment was "insured" as opposed to being protected by "carrier valuation". This is a primary

reason for consideration of an insurance protection program which would eliminate the problems stemming from such scenarios.

(C) Cumulative or Excessive Exposure

The third, and potentially the most devastating of concerns regarding permanent Storage, is the failure by the warehouseman or the employer to maintain a running total of all S.I.T. and permanent storage shipments contained in any one warehouse location. It is imperative every employer know the combined value of their employees' household goods in each and every storage facility. These figures may only be ascertained by adding the value of those permanent storage shipments for which the employees' company is liable (those shipments whose storage and insurance is being paid for by the employer). It is not necessary to be concerned about the S.I.T. in storage, unless your company "self-insures", in which case it is vital to know how many shipments may be in any one warehouse at any given time. If the shipment is S.I.T. and covered under an agreement with the van line, those shipments would be entitled to the same protection as if they were still in transit, including Acts of God. All S.I.T. and permanent storage shipments become critically important to companies who are truly "self-insured" (a company which pays each and every claim out of its own corporate funds). It is inconceivable they would not be constantly apprised as to the accumulation of values in any one or more storage facilities.

If your warehouseman is responsible for seeing to it each shipment is properly

protected by either valuation or insurance, regardless of the method used to establish the value, it is incumbent upon the employer to request a Certificate of Insurance from each warehouseman to ensure the Per Occurrence and Aggregate Limits of Liability are adequate to insure the warehouse and your company's exposure.

It would be advisable to have the warehouseman provide you with a copy of their current warehouse receipt and storage contract. Such contracts should be reviewed to ascertain the contract exclusions, especially as to whether or not Acts of God are covered. To reiterate, if your company negotiated a transit contract with the van line, in most cases your S.I.T. will be covered for Acts of God, but when the shipment converts to permanent storage this is seldom the case. You want this information in order to protect those shipments in permanent storage for which you are responsible, and to advise those employees who are responsible for their own storage and insurance charges as to any such exclusions they may have overlooked.

Additionally, most van line agency warehouses are multi-functional in scope. That is to say, they typically handle more than one type of commodity. The modern warehouseman will store household goods, S.I.T. and Permanent Storage, as well as commercial products for any number of types of businesses. They may also store military household goods, such as Non-temp (permanent) storage, and hold baggage (smaller sized shipments, duffle bags or other materials). The reason an employer or Third Party should be cognizant of a warehouseman's scope of business because total loss events will be pro-rated against the policy limits as stated in the warehouseman's property policy. This could leave your employees' household goods in a precarious situation in the event of a

catastrophic loss, and at the same time place your company at risk of paying for any claim settlement deficiencies.

Potential Catastrophic Consequences

Nothing will bring these issues to your attention faster than a warehouse catastrophe. In Texas alone, over a number of years, six major warehouse catastrophes have occurred of which we are aware: (1) the Elmore & Son warehouse, containing significant military S.I.T. and non-temp military storage, located in San Antonio, was completely destroyed by a fire caused by children playing with matches in a nearby field; (2) the Burr-Day warehouse fire in Austin, Texas – completely destroyed due to arson; (3) the Global Moving & Storage warehouse in Dallas, suffered significant smoke and water damage after a "freak" accident during a severe thunderstorm; (4) partial roof damage to the storage facility of a relocation company in Dallas after a severe thunderstorm; and (5 & 6) two household goods storage facilities incurring significant flood damage during Tropical storm Alison in Houston.

These events reminded many of us in the relocation industry of the incredible loss resulting from each and every catastrophe and how to adequately protect our clients and their employees to the greatest extent possible.

Imagine if you will, flood losses, those losses arising from household goods remaining under water for a week or longer. Imagine the losses stemming from mold and mildew, "Acts of Nature (God)", such as, hurricanes, tornadoes, earthquakes, or severe storms and rising water, most of which are not covered under a warehouseman's typical property policy. Remember the Mississippi floods? Several warehouses in the St. Louis area experienced the ravaging effects.

Shipments stored in these facilities at a "released liability" ($0.30/lb., $0.60/lb. – or shipments in S.I.T. which were transported on a "released liability" basis, discovered they would not be compensated, since Acts of Nature (God) are not covered by released liability contracts. Those who had "carrier valuation" were protected to a point, however, most were underinsured, while those who had obtained full value commercial insurance protection were compensated to the full extent of the coverage purchased, including Acts of Nature (God).

Managing your Risk

If the three concerns – Notification of Conversion, Conversion's Impact on employees, and Cumulative or Excess Exposure, mentioned above are properly and routinely monitored, the risk of serious financial loss in excess of available coverage associated with S.I.T. and permanent storage will be greatly mitigated, if not completely

eliminated. The worst thing you could do is simply ignore the possibility, or assume someone else has addressed the concern, and thus there is no need for you to be monitor. Having viewed the results of such disasters it is imperative to warn anyone who has a “head in the sand” mentality about such matters. Do not delay, take definitive action now concerning this “not so innocuous” matter. Your employees will thank you and your company will be properly protected.