

## 4 risk management tips for freight forwarders when taking on new business

Economic times are tough, and there is no industry where it is more apparent than in the freight forwarding industry. "Freight forwarding is a tough industry where the price is king and forwarders are price takers rather than price setters, forcing many operators to discount heavily in order to close deals. These discounting measures without weighing up the related risks can adversely affect the quality of service delivered and the outcomes for both forwarders and clients," says Kennedy Ntenjwa, marine broking centre manager at Aon South Africa.



Stephen Coburn via [123RF](#)

Profit margins are low and escalating fuel prices, toll fees and crime are further adding to cost pressures faced by the industry.

Seemingly, the biggest threat is the magnitude and complexity of risks that transport companies are willing to take on in order to secure business, without thoroughly interrogating the financial and liability implications if something does go wrong.

"We see forwarders taking the bare minimum of cover on a general commercial policy in order to save on costs, instead of working with a broker to ensure that the cover is purpose-built for the real risks facing the business and industry.

Even more worrying is the growing number of operators who have no insurance cover at all, taking on risks and assuming liabilities that are well beyond their capabilities and that equally leave their clients in a massive predicament if things go awry," says Kennedy.

In an embattled economy, solid risk management strategies need to be front and centre, backed by appropriately scoped insurance covers to protect the bottom line of the business and the client's goods entrusted to it.

Aon offers the following important tips to freight forwarders when taking on new business and ensuring that the appropriate risk management measures are in place:

## **Thoroughly understand what you are taking on with every client**

With a firm focus on securing business, freight forwarders are often rushed into signing contracts with clients without thoroughly interrogating the terms of the agreement or the liabilities they entail.

Do not get pressured into signing rushed agreements without fully understanding the risk that you place your business, your reputation and your people under. For example, a freight forwarder took on a job to bring in specialised equipment for a client, shipped from Durban harbour to Johannesburg. The contract was signed in a rush and on the way, an accident occurred.

The value of the goods being transported came in at R3.5m, while the forwarder only had cover up to R500,000 for damaged goods cover – a loss big enough to put them out of business.

## **Escalating crime**

The level of crime related to the freight forwarding industry is omnipresent.

Sophisticated crime syndicates are targeting anything from tech items, consumables and shoes through to cigarettes and liquor. The modus operandi is to jam radio frequencies around the truck, severing contact with control rooms, leaving the driver and the load at the mercy of these brazen criminals.

These well-connected individuals ensure that the goods disappear rapidly into the illicit market, leaving no trail. In many instances it is attributed to an inside job where an employee supplies the syndicate with information on routes being planned and cargo being hauled, making it crucial for freight forwarders to strictly operate on a 'need to know' basis. It is also advisable not to mark the boxes that are being loaded onto a vehicle, to transport goods in unmarked trucks and to avoid dangerous routes in order to keep would-be criminals at bay.

## **Training and vetting employees properly**

Driver training is crucial, not just from a vehicle handling perspective but also from a cargo loading and handling point of view. Drivers often do not know how to load or label cargo, or to recognise when something is fragile.

Perishables are a major concern with drivers not understanding the correct temperature to set the thermostat at, or simply not setting the temperature at all for cargo that needs a temperature-controlled environment, such as meat or dairy products.

In order to save on salaries, some operators opt to employ foreign nationals, who do not have formal work permits, no

references and often no formal training in the industry. If that individual has been involved in crime, you would simply not know, also providing the perfect opportunity for your truck and its cargo to disappear across a border, undetected.

## Legislation

Freight forwarders are operating in an increasingly litigious environment, where operators need to make sure that the business understands what is being transported, the risks associated with and regulations surrounding items being transported, particularly pertaining to the transport of hazardous chemicals such as pharmaceuticals, combustible substances or dangerous gasses.

As a transport company, you are ultimately liable for any damage to property or loss of life. A relatively new risk that is surfacing in this space is environmental impairment, where the operator can be held liable for the damage and repair of an ecosystem. Cover in this space can vary from R250,000 through to R25m.

It ultimately boils down to having a thorough understanding of what is being transported and the risks associated with the cargo.

**Much more stringent and detailed roadworthiness regulations are also on the horizon.** "Operators will need to familiarise themselves with these new developments, as insurance cover is dependent on the vehicle being roadworthy, ultimately necessitating the implementation of a comprehensive vehicle maintenance programme," says Kennedy.

"This is exactly where the insights and expertise of a professional broker that specialises in maritime insurance can prove to be invaluable. Testing different scenarios and making sure that you have all your bases covered is a task best undertaken with an expert broker in marine insurance by your side," concludes Kennedy.

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