

Warehousing Insurance Coverage

The insurance coverages carried by a warehouse operator is one of the most commonly misunderstood elements of the relationship between the warehouse operator and the customer.

In addition to the normal business liability insurance coverages that most companies carry (e.g., commercial general liability (CGL), workers compensation, and motor vehicle), reputable warehouse operators also carry warehouse legal liability coverage. Warehouse legal liability coverage is a unique type of liability insurance policy that responds when a warehouse operator's failure to exercise reasonable care in the handling and storage of a customer's goods results in loss of, or damage to, those goods.

Warehouse legal liability insurance is third-party coverage

That means that if the warehouse operator is negligent in the care of the customer's goods, the insurance carrier directly pays the customer for the loss incurred. For that reason, a customer cannot be, and does not want to be, named as an additional insured under the warehouse operator's warehouse legal liability policy.

As a warehouse operator's warehouse legal liability policy only pays a customer if the warehouse operator has been negligent in caring for a customer's goods, the customer is still responsible for insuring its goods against other types of losses (e.g., fire, windstorm, etc.).

It is also important to note that virtually every warehouse legal liability policy excludes liability for loss or damage in instances where the warehouse operator has agreed to take on a higher degree of responsibility for the customer's goods beyond what is legally required (i.e., "reasonable care"). This exclusion is necessary because warehouse legal liability policies are underwritten by insurance carriers on the basis of insuring the risks associated with the warehouse operator's negligence. If a warehouse operator has agreed to assume greater liability for a customer's goods, then the risks are obviously much more extensive than what the insurance carrier took into account when setting its premium.

In the event of significant loss or damage to the customer's goods attributable to the warehouse operator's failure to take reasonable care of the customer's goods, both the warehouse operator and the customer depend on the warehouse operator's warehouse legal liability policy to respond to the claim. As such, if a warehousing services agreement contains any provision that requires the warehouse operator to assume liability for a customer's goods beyond the standard of "reasonable care", then such a provision may void the warehouse operator's warehouse legal liability coverage thereby putting both parties in an unfavorable position.

We hope that this has helped to answer any questions that you had regarding Warehouse Legal Liability Insurance and the relationship it plays between you and your third party logistics provider.