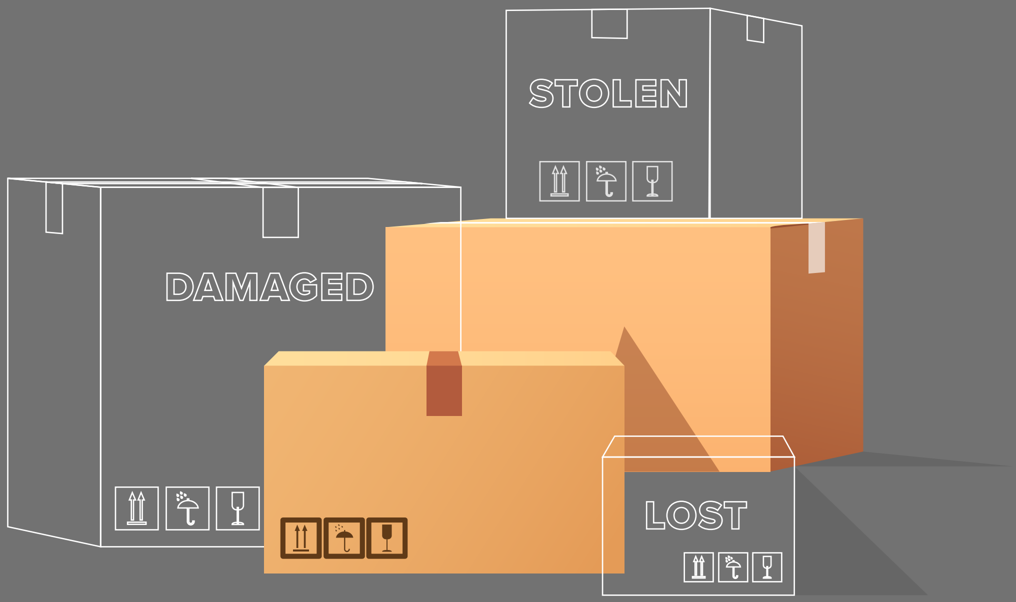
The eCommerce Seller's Guide to

SHIPPING INSURANCE

How to evaluate risk, determine value and consider coverage

CONTENTS



WHY SHOULD I CARE ABOUT INSURANCE?

If you shop online, chances are good that you've experienced some kind of "last mile" shipping issue - a damaged, lost or stolen package—with an order; according to a StellaService study, up to 11% of major carrier packages are damaged in transit, and most online sellers see a damaged package rate of more than 5% on the orders they ship. Another study [1] by the Interactive Media and Retail Group found that the cost of failed deliveries accounted for over 1% of the total value of online orders in the UK.

If you sell online, you certainly care about the experience your customers have interacting with your brand—and how it manifests itself in your reputation, ratings and reviews, and repeat order metrics—which means you care a lot about ensuring your products make it into the hands of your customers. And that means you care about the cost of paying to replace lost, stolen or damaged items—whether out of your own pocket or through an insurance claim.

What we will refer to as "shipping insurance" (also called "Declared Value for Carriage" by some carriers) can offer both peace of mind and protection for you and your customers. **We've organized this paper according to a simple framework for determining your insurance needs and the best way to fulfill them:**

[1] *http://skuvault.com/blog/package-insurance-and-ways-to-avoid-theft/*

CAN I INSURE IT?

While the vast majority of eCommerce items are insurable, there are exceptions that can vary from carrier to carrier and insurer to insurer. Some commonly uninsurable items include:

- Currency and other financial instruments
- Hazardous materials
- Gemstones
- High-value items, which may have a lower coverage limit than other items; for example, FedEx® limits the value of artwork, antiques, and flat screen TVs to $1,000

> "you may not be able to insure shipments to certain destinations, such as North Korea and Iran"

Other items may have special limits on value or liability; for example, some providers require signature confirmation to insure certain high-value items. For more information on excluded items, visit *http://bit.ly/InsuranceRestrictions*

Finally, you may not be able to insure shipments to certain destinations, such as North Korea and Iran. For more information on this, see *http://bit.ly/ExcludedCountries http://bit.ly/InternationalShipments.*

SHOULD I INSURE IT?

For items that are insurable, the decision to insure is based on two basic attributes: each item's value and the risk of it being lost, damaged or stolen during shipping. While these attributes seem simple, they contain a number of criteria you should analyze to get the most value out of shipping insurance for both your company and your customers.

SHIPMENT VALUE

Obviously, the higher the value of an item, the higher the incentive to insure it. However, there are still a number of value-related criteria to consider:

- **Declared value:** Most carriers and insurers focus on an eCommerce shipper's declared value—what you say it's worth. If something goes wrong with the shipment and you have to file a claim, you will need to prove the item's value, and the insurer will pay you that value or the declared amount, whichever is smaller. This means if you sell high-value, high-margin items, you can provide some level of protection by declaring the item's replacement cost to you, the seller, rather than the marked-up retail replacement cost. In the event of loss or damage, you will need to process the claim for your customer and ship them a replacement item. We recommend this only when you are willing to process the claim yourself and when you are including insurance in the price of the item or in a lump sum shipping and handling fee, but in these cases it can reduce your insurance costs significantly over fully covering the retail value. For more information on how FedEx defines declared value, refer to http://bit.ly/FedExValue for more information on the UPS definition, refer to http://bit.ly/UPSValue.

- **Items covered by included insurance:** All major carriers provide free coverage up to a certain amount, as outlined in the following table. Keep in mind that these limits apply to the entire package, so if you are shipping multiple items in one package that add up to a higher value than the stated limit, you'll need to purchase supplemental insurance if you want them to be fully covered.

Carrier	Service	Insurance included for package value:
ups	All	Up to $100
FedEx	All	Up to $100
UNITED STATES POSTAL SERVICE	Priority Mail (domestic)	Up to $100 (CPP) - Up to $50 (CBP)[2]
	Priority Mail (international)	Up to $200
	Priority Mail Express (domestic)	Up to $200
	Priority Mail Express (international)	Up to $200
	First Class Mail (domestic and international)	Not included
	Media Mail	Not included
	Parcel Select	Not included

[2] Commercial Base Pricing is the default if you do not have a relationship with the post office or its partners. ShippingEasy is a USPS partner and provides Commercial Plus Pricing for all paying subscribers, meaning you save on both shipping and insurance rates.

• **High-value items:** All carriers (and third-party insurers) have limits on declared value, both absolute and by item type.

For some current examples see the following table, but before making any concrete decisions, be sure to check with your carrier on the details. Carrier/Insurer Service Coverage Limit

Carrier/Insurer	Service	Coverage Limit
UPS	Most services, when UPS Account Number used	$50,000
	Returns service	$1,000
	Non-signature required	$999
FedEx	Most services	$50,000
	Most returns services	$1,000
United States Postal Service	Most services	$5,000
Shipsurance[3]	FedEx—most services	$10,000
	UPS—most services	$10,000
	USPS Domestic Express, Priority, Media, and Parcel Select	$10,000
	USPS Domestic and International First Class Mail	$999.99
	USPS International Express Mail	$10,000
	USPS International Priority Mail	$5,000

It's important to note here that for many carriers, the declared value amount can apply to the value of the package contents only—in the event of a claim, the costs of packaging and shipping will not be covered. Some third-party providers (like Shipsurance[4], ShippingEasy's insurance partner) will cover packaging and shipping if these costs are included in the declared value and invoiced to the customer.

For more information on coverage limits, refer to http://bit.ly/InsuranceLimits.

[3] *Shipsurance (www.shipsurance.com) is a leading provider of eCommerce shipping insurance services, and ShippingEasy's insurance partner. Coverage limits are for the ShippingEasy program.*

[4] *http://bit.ly/Shipsurance*

RISK

Assuming the value of your item is in a range where adding supplemental insurance makes sense, the following criteria can help you determine the risk associated with shipping the item—and potentially help you lower that risk:

- **Item type:** Thieves look for high-value, compact, easy-to-resell or -pawn items; laptops, personal electronics, and jewelry are favorites. And, unsurprisingly, they look for brand names—so be sure you don't ship items in their branded boxes. Some sellers actually pack small, high-value items like jewelry in oversize boxes to obfuscate the contents. However, adding supplemental insurance is the safest bet for items like these.

Source: http://bit.ly/MailThefts

- **Packaging:** Packaging can influence both damage and theft rates. In addition to considering package size in your risk calculus, consider package markings: Do they provide clues to the contents? And of course appropriate internal packing material can all but eliminate the risk of item damage.

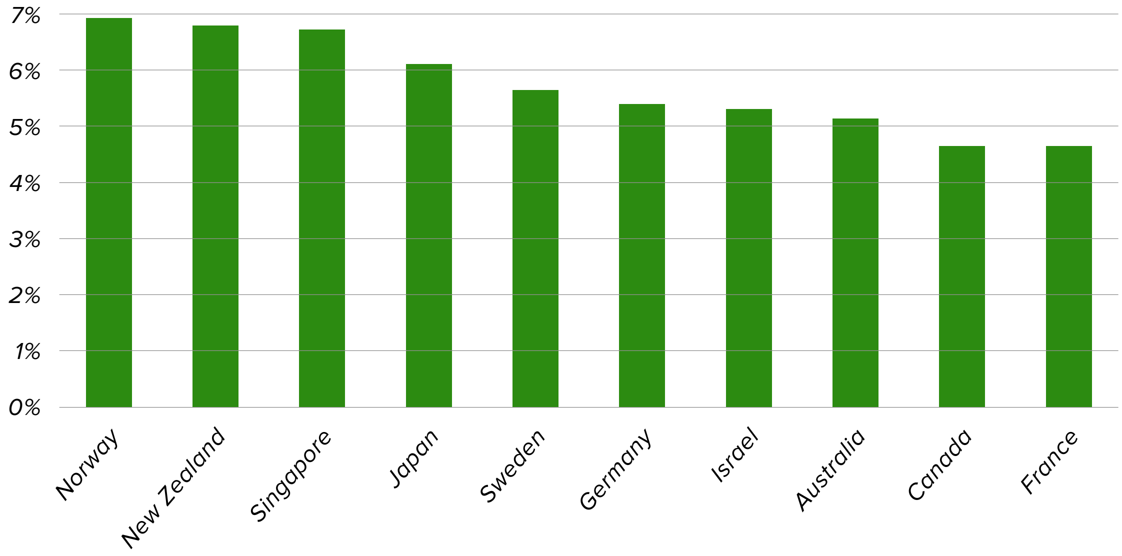
- **Destination:** Theft rates can vary significantly by destination in the United States, and both theft and damage rates are generally higher outside of the States, making insurance even more important for international shipments. Looking at ShippingEasy data on international shipping, we find that shippers insure about 5% of international shipments across the board, regardless of destination or volume—versus insuring about 1% of domestic shipments[5]. Fortunately, all major carriers and insurance providers offer international shipping insurance, and in some cases the rates are no higher than for domestic shipments. Unfortunately, they also all have restrictions on covered countries; some countries (e.g., North Korea) are not covered at all, and some have certain conditions placed upon their coverage. In some cases, replacement value is capped by the weight of the package. When shipping internationally, insurance is generally a good bet—but be sure to check with your insurer to make sure you fully understand how the insurance works based on the destination country and package value.

- **Shipping method:** Trackable orders are lower-risk than non-trackable orders, and deliveries requiring signatures are the lowest risk of all. However, even under these scenarios, every carrier will impose limits on liability, and often supplemental insurance still makes sense. In fact, many third-party insurers will require some basic level of trackability to insure your package.

- **Your data:** Assuming you track loss (or claims) data, your own shipping history data is the best place to look to determine the level of loss/damage/theft risk associated with the various items you sell. Monitoring this data can help you with the cost-benefit analysis of adding insurance, and possibly help you identify other trends—like packaging and destination—that you can address to lower loss rates. We'll talk more about this in the next section.

[5] *Source: Analysis of ShippingEasy proprietary data*

PERCENTAGE OF PACKAGES INSURED



Source: ShippingEasy Proprietary Data

THE BUSINESS CASE

Based on your analysis of your items' value and risk factors—and assuming you have historical data on lost/damaged/stolen orders—it's straightforward to develop a business case for adding supplemental insurance. You can perform this analysis for all of your shipments, for certain categories, or on item-by-item basis (assuming, of course, that any items you're looking at are insurable and above the included insurance threshold of the carrier(s) you use).

The equation your business case needs to solve for is fairly simple; if:

$$\frac{\text{NUMBER OF SHIPMENTS LOST/DAMAGED/STOLEN}}{\text{TOTAL NUMBER OF SHIPMENTS}} \times \text{AVERAGE ORDER VALUE} > \text{AVERAGE INSURANCE COST PER ITEM}$$

Translation: If the average cost to insure an item is less than what you spend replacing lost, stolen or damaged items ... then you should include insurance to mitigate the risk.

For example, let's say you sell high-end headphones with an average order value of $200, and ship 100 pair per month, of which one (1) pair never makes it to the customer's door. 1/100 X 200 = 2, so if it costs less than $2 on average to insure an order, it makes business sense for you to buy the insurance. And, in fact, looking at ShippingEasy's Shipsurance rates for this declared value, the cost of supplemental coverage is less than $2 for all domestic shipping scenarios.

This is the most basic way to do the business case for shipping insurance.

If you want to be more rigorous in your analysis, you can:

- **Look at potential packaging improvements** (as mentioned in the previous Risk section) to reduce the incidence of theft or damage. Factor in the cost of putting branded boxes inside another box (or reboxing), and/or putting small expensive items like jewelry in bigger outer boxes to obfuscate the precious contents.

- If you have data on destination as well as number of lost/damaged/stolen shipments, **determine if there are lower-risk destinations where insurance is not cost-justified;** be sure to factor any additional operational costs necessary to support conditional inclusion of insurance based on address—and the cost of monitoring and maintaining this process.

- As discussed in the previous Value section, **you might be able to get by with a lower declared value**, assuming you are willing to directly replace the product; in this case, don't forget to include in your terms and conditions that in the case of loss there will be no refund, only replacement.

- **Determine whether some of the costs of supplemental insurance can be passed on** to the customer by increasing either item prices or—if you charge for them—shipping and handling charges.

- **Consider letting the customer decide to add—and pay for—supplemental insurance;** however, this brings with it the risk that customers who opt out will still hold you accountable, with all the negative implications that has on repeat purchasing and ratings/reviews.

WHAT'S THE BEST INSURANCE OPTION?

You have many options for purchasing supplemental insurance:

- **Carriers:** Every carrier offers its own supplemental insurance, which you can purchase directly when setting up your shipment.

- **Third parties:** There are numerous third-party insurance providers such as Shipsurance, ShippingEasy's insurance partner. You purchase insurance from these companies on a shipment-by-shipment basis. ShippingEasy's partnership with Shipsurance means it's easy to automatically or manually add supplemental insurance as part of the shipping label generation process; see http://bit.ly/Insurepackages for more information on manually adding insurance, and see http://bit.ly/InsuranceDefaults for more information on setting up automatic insurance defaults. ShippingEasy also lets you set up powerful if/then rules that can be used to further automate the inclusion of supplemental insurance; see http://bit.ly/ShippingRules for more information.

- **Self-insurance:** Theoretically, shippers who "self-insure" save money over other options by factoring the cost of losses into their pricing then carefully managing the claims process. In reality, few eCommerce sellers are sophisticated or large enough to do this efficiently and effectively, and when they try they end up spending more on loss coverage than they would under any of the other options.

Since carrier pricing is public, we can compare the major carriers' supplemental insurance costs with those of Shipsurance's ShippingEasy program costs:

Insurance Provider	Carrier: Destination	Cost per $100 in coverage[6]
UNITED STATES POSTAL SERVICE	USPS: Domestic	<$50: $2.10 $50-$100: $2.65 $100-$200: $3.35 $200-$300: $4.35 $300-$400: $5.50 $400-$500: $6.65 $500-$600: $9.05 $600-$5,000: $1.25 per $100 in incremental value
UNITED STATES POSTAL SERVICE	USPS: International	Varies by service; More details at http://pe.usps.com/text/dmm300/Notice123.htm
Shipsurance	USPS: Domestic	$0.77 per $100 in value
Shipsurance	USPS: International	$1.28 per $100 in value
FedEx	FedEx: Domestic Express Services Domestic Ground Services International Ground Services	• $0 for shipments up to $100 • $3 for shipments valued between $100.01–$300 • $1 per $100 of declared value for shipments valued in excess of $300
FedEx	FedEx: International Express Package Services, International Express Freight Services	• $1 per $100 of value • $9.07 per lb., whichever is greater
Shipsurance	FedEx: Domestic and International	$0.59 per $100 of value
UPS	UPS: Domestic and International	• $0 for shipments up to $100 • $0.90 per $100 of value • $2.70 minimum
Shipsurance	UPS	$0.59 per $100 of value

[6] *Or fraction of $100*

Depending on your volume and other factors, you may be able to negotiate better shipping rates with your carrier(s) and/or a third-party provider. Check with your rep if you think this may be an option for you.

CALCULATING DECLARED VALUE

For any supplemental insurance, the value you declare is the maximum value you can recover from the insurance provider in case of a loss. All providers will require you to provide proof of the lost item's value, and will pay the lesser of the proven value versus the declared value. As discussed previously, this provides the option of insuring for your replacement cost rather than retail value, assuming your customer will be satisfied with a replacement rather than a refund in case of loss.

> "value you declare is the maximum value you can recover from the insurance provider in case of a loss"

If you buy supplemental coverage from a carrier, it will automatically comprehend the coverage that's included for free (e.g., UPS covers up to $100 of declared value for free). In these cases, if you need to file a claim, you'll file a single claim with the carrier and they will pay it all at once (see the "Filing a Claim" section).

One thing to note about Shipsurance (and most third-party providers') rates is that they are based on whatever value you declare, with no built-in accommodation for any carrier-provided free coverage. So when using Shipsurance (and most third-party providers), you can:

- Insure the full package amount, ignoring any carrier-provided free coverage. This allows you to deal with a single provider if you have to file a claim, at the (typically small) expense of paying for the carrier-provided portion you'd otherwise get for free. This can significantly reduce both the amount of work you have to do and the time it takes to get paid, since carriers typically take longer to resolve claims.
- Insure the full package amount minus the carrier-provided free coverage amount. This means you will pay less for the insurance but spend more time and effort should you have to file a claim, since you'll have to deal with both entities and submit all documentation twice.

Also, some insurers (like Shipsurance) will cover the cost of shipping and packaging in a claim if (1) the declared value includes it and (2) it is invoiced to the customer. Many carriers and some third-party insurers will not cover these costs, so be sure to check with your provider.

TERMS AND CONDITIONS

It's important that your eCommerce site thoroughly explains your liability in the case of a lost, damaged or stolen package; you must provide this information as part of your legal terms and conditions, but customers also appreciate seeing it in a more user-friendly format in a help, FAQs or policies section.

In either case, you should work with your legal counsel to ensure you're using the correct language. Here are some topics related to product liability you should be sure to cover:

- Covered vs. uncovered items or product categories
- Covered vs. uncovered destinations
- Included vs. optional coverage (with any appropriate cut-off values)
- Variations by shipping carrier and method if you offer more than one of either
- Rules for coverage of multi-box shipments
- Coverage limits
- The claims process and proof of loss requirements
- Any situations for which insurance coverage is not required for you to cover the cost of a loss

If you allow customers to select supplemental insurance as an option during checkout, and if your eCommerce platform supports it, you can consider automating some checks of the order's insurability—e.g., flagging uninsurable items, values or destinations if the customer has added optional insurance.

INSURING RETURNS

Assuming you provide the customer with a shipping label for returns, the business case for insuring them should be determined the same way you determine the business case for outbound shipments—basically, if an item is worth insuring on its way to the customer, it's worth insuring on its way back.

> "if an item is worth insuring on its way to the customer, it's worth insuring on its way back."

In general, we don't recommend allowing customers to arrange their own shipping for returns, as it leaves too much to chance. ShippingEasy makes it easy to include a return label or let the customer print one on demand, which allows you to control all aspects of—and thereby de-risk—the return process.

CANCELLING INSURANCE FOR CANCELLED/UNSHIPPED ORDERS

Generally speaking, if you buy supplemental coverage through your carrier and cancel the shipment, if you qualify for a shipping cost refund, you will qualify for an insurance refund.

If you use Shipsurance through ShippingEasy, you will automatically be refunded for the insurance charges (as well as the shipping charges) related to any cancelled shipments. See http://bit.ly/CancelledLabel for more information.

For the cancellation policies of any other third-party providers, consult them directly.

FILING A CLAIM

HOW DO I FILE?

Filing an insurance claim typically involves filling out the insurance provider's claim form and providing proof of loss, and depends on who is insuring your package:

• If the package is below the included-coverage threshold (see previous "Should I Insure It?" section), you need only to file with the carrier.

• If you bought supplemental insurance only for the value of the package over the included coverage threshold, you will have to file with both the carrier and the supplemental insurance provider.

• If you are dealing with a single party (e.g., you insured the entire declared value through either the carrier or a third party), you need only to file with the insurance-providing party. This is how ShippingEasy's arrangement with Shipsurance works—when you buy supplemental insurance within ShippingEasy, Shipsurance will insure the package for the full amount, making it simple to file a single claim with them if the package is lost. For more information see http://bit.ly/ShipsuranceCosts.

PROOF OF LOSS

If the item was delivered damaged, you will need to provide proof; be sure your recipient understands your specific insurance provider's requirements for this before receiving the package, as in some cases the damage must be reported when the package is signed for by the recipient. Also, the recipient should not discard the damaged item until the claim is paid.

If the item is not delivered, proof of pickup from your facility should be all that is required. If the item is stolen after the carrier can prove delivery, you may not be covered—be sure to understand your insurer's policy on this. Many third-party insurers will only insure "trackable" packages.

PROOF OF VALUE

For most eCommerce shipments and most insurers, being able to demonstrate a purchase price equal to or above the declared value should be sufficient proof of the item's value. Again, double check with the insurer on their requirements.

FILING TIMEFRAME

All insurance providers have requirements for both how long you must wait before filing a claim, and the time limit on when a claim can be filed. For the complete rules—which can vary widely by shipping method—refer to the following pages:

MORE INFO ON CLAIMS

UNITED STATES POSTAL SERVICE® Shipsurance

http://bit.ly/USPSClaim

FedEx®

http://bit.ly/FedExClaims

ups

http://bit.ly/UPSClaims

The existence of a filing timeframe adds incentive to follow up with your customers on their satisfaction with the item and delivery—it's not only an opportunity to engage and get feedback, but also to ensure that if the item does not arrive in the expected timeframe, they know the timing requirements for filing a claim.

SETTLEMENT TIMEFRAME

This is the amount of time it takes for the insurer to reimburse you once you've filed a claim and all the required supporting documentation. The timeframe varies based on the insurer; ShippingEasy's partner, Shipsurance, is a leader in this area, with average turnaround times of five (5) days.

HOW SHIPPINGEASY CAN HELP

ShippingEasy (www.shippingeasy.com) is the premier shipping platform for eCommerce retailers. Whether you ship 5 packages per month or 50,000, we can help you improve your customer experience and increase your ROI on shipping operations through our industry-leading suite of capabilities, which include:

- Access to the **lowest USPS domestic and international rates available**-up to a 46% discount to normal rates
- **Integration with all major eCommerce platforms**, shopping carts, marketplaces, and carriers
- **Support for multiple stores and fulfillment locations**, international selling, offline orders, and returns processing
- **Support for real-time order synchronization** with selling platform (order download and status updates)
- **Predictive analytics** teach the machine to recognize shipping patterns and make shipping decisions on your approval
- **Automatic population of customs form**, international shipping rules, and international consolidator support
- **World-class support** with full set-up and configuration included, plus ongoing help 7am-7pm CST

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