

Note From Our President: Memo/ Consignment Goods

Many of the policies we sell extend insurance coverage for merchandise on "Consignment", or "Goods on Memorandum" which is the term used in most trades goods on "Memorandum". The merchandise can either be received or given out by a policy holder on memorandum.

Almost all policies cover the goods received by the policy holder while the goods are in the policyholder's care custody and control. This is considered a part of the declared stock per the terms and conditions of the issued policy. The amount paid by the insurer for the goods on memorandum in the event of a covered loss is generally the value declared on the memorandum document. On occasion evidence of insurance with a "Loss Payee Certificate" may be required before the goods are delivered to the policy holder.

In the event of a covered loss, in such cases, the insurer will pay the certificate holder to the extent of their interest before they pay the insured policy holder. When accepting goods on Memorandum and signing off on the receipt, care needs to be taken to note that the small print generally holds the recipient "personally" responsible for such goods. Therefore signing a memorandum may place your personal assets at risk.

Much care needs to be taken when the policy holder gives out merchandise on memorandum. First one must make sure that proper memorandum documents are being used. An acceptable memo document must have legal wording that holds the memo holder personally responsible for the merchandise until it is returned. This is important because without the proper legal wording on these documents the insurer will not have the opportunity to recover from the memo holder. If the memo document is not proper the insurer may decline to pay a claim. If you are not sure about the memo documents that you are currently using, it is best to check the document with your broker and or insurer.

Additionally it is common practice to accept partial payments on memo goods and not issue an invoice until the item is totally paid for. Accepting any sum on any item on a memo is considered, legally, to be the sale of that item. Sale of an item transfers ownership of that item. The insurer will not therefore have an opportunity to collect on that item because now the amount owed is considered to be accounts receivable on a sale. The insurer will therefore have no option but to decline a claim.

JSIS Insurance, February 2008