

Incoterms® Rules 2020

Controlling costs and cover

An introduction to the insurance needs of importers and exporters using the Incoterms Rules 2020

What are the Incoterms Rules?

Commonly known as “terms of sale,” and published by the International Chamber of Commerce (ICC), the Incoterms Rules allow buyers and sellers to transact business with the certainty that both parties understand their obligations related to:

- a) The point at which the risk of loss of or damage to the goods passes from the seller to the buyer.
- b) Which party bears each of the various costs associated with the shipment.

The risk transfer point (a), also called the “delivery” point, is important in relation to marine cargo insurance underwriting and claims because it is a factor in establishing insurable interest at the time of loss. See page 2 for more details.

Buyers’ and sellers’ insurance needs

Many traders know that the seller arranges insurance for the buyer under the CIP and CIF rules. But the insurance needs of buyers and sellers under the other rules are often overlooked.

We have summarized these needs on pages 3 and 4.

Dispute resolution

Although the rules can be used for dispute resolution, this is of little use if an inappropriate rule has been used in the first place.

To ensure that the terms used meet their needs, buyers and sellers are advised to refer to the rules prior to entering into contracts.

Payment and title

It should be noted that the rules do not deal with payment or the passing of title.

What changed in the 2020 Rules?

In the introduction to the Incoterms Rules, greater emphasis is placed on making the right choice, and there are enhanced explanatory notes at the beginning of each Incoterms Rule.

The guidance also highlights how misuse of the port-to-port terms (FOB, CFR, and CIF) for multimodal shipments can cause problems and recommends the use of FCA, CPT, or CIP instead.

Because the CIP term is typically used for containerized goods, the minimum level of cover has been increased to ICC(A). The minimum level of cover for the CIF term, which is not suitable for containerized shipments, remains at ICC(C).

The ten obligations within each Incoterms Rule have been re-ordered to give greater prominence to the more important ones, such as transfer of risk.

“On-board” bills of lading are now catered for under the FCA rule to comply with letter of credit requirements.

The use by buyers and sellers of their own means of transport under the FCA, DAP, DPU, and DDP rules is now expressly provided for. (Remarkably, this was never previously included.)

The DAT term has been replaced by DPU (Delivered at Place Unloaded). The provisions of this rule have not changed, the aim simply being to better convey the difference between DAP and DPU.

Security-related obligations have been enhanced.

All of the costs for which the seller and buyer (respectively) are liable have been grouped together in one place in each rule.

The last section of the Guide includes a useful comparison of the rules, grouped by obligation.



Delivery

In the Incoterms Rules, the delivery point defines where risk in the goods passes from the seller to the buyer. In the E-, F-, and D-terms, this is the place named when the terms are specified, for example “FOB (Southampton Port).”

But in the C-terms, the named place is the point to which the main carriage has been paid for by the seller. However, the delivery (i.e., risk transfer) point is still the point at which the goods are given to the main carrier. Under the CPT and CIP terms, this might even be at the seller's premises.

The tables below summarize the delivery points.

Containerized or multimodal shipments, and those by road, rail, or air

	Seller's risk		Buyer's risk	
Main carriage at buyer's risk	EXW	at seller's premises or other named place ¹		EXW
	FCA	at seller's premises ²		FCA
	FCA	at the named place ³		FCA
Main carriage arranged by the seller but at the buyer's risk	CPT	when handed to carrier		CPT
	CIP	when handed to carrier		CIP
Main carriage at seller's risk	DPU	at named place ⁴		DAT
	DAP	at named place ⁵		DAP
	DDP	at named place ⁵		DDP

Port-to-port shipments by sea or inland waterway only

	Seller's risk		Buyer's risk	
Main carriage at buyer's risk	FAS	when alongside ship nominated by the buyer	FAS	
	FOB	when on board the ship nominated by the buyer	FOB	
Main carriage arranged by the seller at the buyer's risk	CFR	when on board the ship nominated by the seller	CFR	
	CIF		CIF	

Key

BEWARE	Buyers have less control over the insurance arrangements.
CAUTION	Buyers/sellers do not control some of the carriage or insurance arrangements.
PREFERRED	Buyers/sellers have greater control over the carriage and insurance arrangements.

¹ Ready for loading to the buyer's conveyance, prior to the main carriage arranged by the buyer

² Loaded to the buyer's conveyance, prior to the main carriage arranged by the buyer

³ Ready for unloading from the seller's conveyance, prior to the main carriage arranged by the buyer

⁴ Unloaded from the seller's conveyance

⁵ Ready for unloading from the seller's conveyance



Buyer’s perspective

To take control of the cost of cargo insurance and the level of cover it provides, those who import finished goods, components, or raw materials from overseas may prefer to propose alternative trading terms if suppliers quote a “CIF” price. Buyers who do purchase goods sold on CIP or CIF terms may be able to declare such shipments to their own cargo insurers and to arrange difference-in-conditions cover.

	Containerized and other shipments by road, rail, sea, or air, or any combination of these	Port-to-port shipments by sea or inland waterway only
Main carriage at buyer’s risk	EXW Ex Works (named place) The buyer should insure the goods for their own account from the named place through to final destination.	
	FCA Free Carrier (named place) The buyer should insure the goods for their own account from the seller’s premises through to final destination.	FAS Free Alongside Ship (named port of shipment) The buyer should insure the goods for their own account from the point where the carrier takes custody of the goods – alongside the ship at the named port of shipment – through to final destination.
	FCA Free Carrier (named place) The buyer should insure the goods for their own account from the point where the carrier takes custody of the goods – the named place – through to final destination.	FOB Free on Board (named port of shipment) The buyer should insure the goods for their own account from the point where the carrier takes custody of the goods – on board the ship at the named port of shipment – through to final destination.
Main carriage at buyer’s risk but arranged by seller	CPT Carriage Paid to (named place) The buyer should insure the goods for their own account from the point where the carrier takes custody of the goods through to final destination.	CFR Cost and Freight (named port of destination) The buyer should insure the goods for their own account from the point where the carrier takes custody of the goods – on board the ship at the port of shipment – through to final destination.
	CIP Carriage and Insurance Paid to (named place) The seller is only obliged to insure the goods for the buyer’s benefit during the carriage to the named place. Where necessary, the buyer should insure for their own account thereafter.	CIF Cost, Insurance, and Freight (destination port) The seller is only obliged to insure the goods for the buyer’s benefit during the carriage to the named port of destination. The buyer should insure for their own account from the named port onward.
Main carriage at seller’s risk	DPU Delivered at Place Unloaded (named place) The seller retains the risk of loss or damage up until the terminal. The buyer should insure for their own account from the named place onward.	
	DAP Delivered at place (named place) The seller retains the risk of loss or damage up until delivery, which is often to the consignee’s premises; but if it is not, the buyer should insure for their own account from the named place onward.	
	DDP Delivered Duty Paid (named place) The seller retains the risk of loss or damage up until delivery, which is often to the consignee’s premises; but if it is not, the buyer should insure for their own account from that point onward.	



Seller's perspective

To take control of the cost of cargo insurance and the level of cover it provides, those who export finished goods, components, or raw materials to customers overseas may prefer to sell on CIP or CIF terms or on one of the D-terms. Sellers who expressly retain title to the goods until they have been paid for may be able to take out contingency coverage to insure the goods for their own account during any transit beyond the risk transfer point.

	Containerized or multimodal shipments, and those by road, rail, or air	Port-to-port shipments by sea or inland waterway only
Main carriage at buyer's risk	EXW Ex Works (named place) The seller has no primary insurable interest in the goods during this transit, since risk passes to the buyer upon collection.	
	FCA Free Carrier (seller's premises) The seller has no primary insurable interest in the goods during transit, since risk passes to the buyer upon loading.	FAS Free Alongside Ship (named port of shipment) The seller should insure the goods for their own account up to the point where the carrier takes custody of the goods – alongside the ship at the named port of shipment.
	FCA Free Carrier (named place) The seller should insure the goods for their own account up to the point where the carrier takes custody of the goods – the named place.	FOB Free on Board (named port of shipment) The seller should insure the goods for their own account up to the point where the carrier takes custody of the goods – on board the ship at the named port of shipment.
Main carriage at buyer's risk but arranged by seller	CPT Carriage Paid to (named place) The seller should insure the goods for their own account up to the point where the carrier takes custody of the goods.	CFR Cost and Freight (destination port) The seller should insure the goods for their own account up to the point where the carrier takes custody of the goods – on board the ship at the port of shipment.
	CIP Carriage and Insurance Paid to (named place) The seller should insure the goods for their own account up to the point where the carrier takes custody of the goods, and for the buyer's account thereafter, during the main carriage.	CIF Cost, Insurance, and Freight (destination port) The seller should insure the goods for their own account until the goods are on board the ship at the port of shipment, and for the buyer's account thereafter, up until arrival at the port of destination.
Main carriage at seller's risk	DPU Delivered at Place Unloaded (named place) The seller retains the risk of loss or damage and should insure the goods for their own account up until unloaded at the terminal.	
	DAP Delivered at Place (named place) The seller retains the risk of loss or damage and should insure the goods for their own account up until arrival at the named place, which is often the consignee's premises.	
	DDP Delivered Duty Paid (named place) The seller retains the risk of loss or damage and should insure the goods for their own account up until arrival at the named place, which is often the consignee's premises.	

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