

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 in relation to:

- a) the point at which the risk of loss of or damage to the goods passes from the seller to the buyer, and
- 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 summarised 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.

Buyers and sellers are therefore recommended to refer to the rules prior to entering into contracts, to ensure that the terms used meet their needs.

Payment and title

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

What’s changed in the 2020 rules?

In the introduction to the Incoterms[®] rules, there is greater emphasis about making the right choice, and there are enhanced explanatory notes as the beginning of each Incoterms[®] rule.

Because the CIP term is typically used for containerised 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 containerised 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The DAT term has been replaced by DPU (Delivered at Place Unloaded).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 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 summarise the delivery points.

Containerised and other shipments by road, rail, sea or air, or any combination of these

		Seller’s risk	Buyer’s risk	
Main carriage at the buyer’s risk	EXW	at the seller’s premises or other named place ¹		EXW
	FCA	at the 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 the carrier		CPT
	CIP	when handed to the carrier		CIP
Main carriage at the seller’s risk	DPU	at named place ⁴		DPU
	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 the buyer’s risk	FAS	when alongside the ship nominated by the buyer		FAS
	FOB	when on board the ship nominated by the buyer		FOB
Main carriage arranged by the seller, but at the buyers risk	CFR	when on board the ship nominated by the seller		CFR
	CIF	when on board the ship nominated by the seller		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 on CIP or CIF terms may be able to declare such shipments to their own cargo insurers and to arrange difference-in-conditions cover.

	Containerised 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	<p>EXW Ex Works (named place) The buyer should insure the goods for their own account from the named place through to final destination.</p>	
	<p>FCA Free Carrier (seller's premises) The buyer should insure the goods for their own account from the seller's premises through to final destination.</p>	<p>FAS Free Alongside Ship (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.</p>
	<p>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.</p>	<p>FOB Free On Board (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.</p>
Main carriage at buyer's risk, but arranged by seller	<p>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.</p>	<p>CFR Cost and Freight (destination port) 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.</p>
	<p>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.</p>	<p>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 onwards.</p>
Main carriage at seller's risk	<p>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 onwards.</p>	
	<p>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 onwards.</p>	
	<p>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 onwards.</p>	

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 cover, to insure the goods for their own account during any transit beyond the risk transfer point.

	Containerised 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 seller has no primary insurable interest in the goods during 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 (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 (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 named place.	
	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.	

Want to know more?
The publication Incoterms® 2020 can be obtained from the ICC bookshop at iccwbo.uk

© 2024
www.munichre.com/specialty
All rights reserved.

'Munich Re Specialty – Global Markets, UK' is an approved trading names of Munich Re Specialty Insurance (UK) Limited. Munich Re Specialty Insurance (UK) Limited is registered in England: 01262636, Union, 2–10 Albert Square, Manchester, M2 6LW. Authorised and regulated by the Financial Conduct Authority (FRN: 310539).