

# Incoterms® Rules 2020

Controlling Costs & Coverage



## 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:

- the point at which the risk of loss of, or damage to, the goods, passes from the seller to the buyer, and
- 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’ve summarized these needs on pages 3 & 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 at the beginning of each Incoterms rule.

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

The 10 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.

### About Roanoke

Roanoke Insurance Group Inc. is a specialty insurance broker focused on surety bond and insurance solutions for logistics service providers, customs brokers and companies managing supply chains. Founded in 1935, Roanoke was the first provider of customs import bonds, as well as the first appointed ATA Carnet provider in the United States. Roanoke has decades of trusted partnership with the trade community as an expert provider of insurance, surety bonds, ATA Carnet products and specialty services.

### Want to Know More?

The publication Incoterms 2020 can be obtained from the ICC bookshop at [iccwbo.uk](http://iccwbo.uk)

# 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.

## Containerized 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	<b>EXW</b>	at the seller’s premises or other named place <sup>1</sup>	<b>EXW</b>
	<b>FCA</b>	at the seller’s premises <sup>2</sup>	<b>FCA</b>
	<b>FCA</b>	at the named place <sup>3</sup>	<b>FCA</b>
Main carriage arranged by the seller, but at the buyer’s risk	<b>CPT</b>	when handed to the carrier	<b>CPT</b>
	<b>CIP</b>	when handed to the carrier	<b>CIP</b>
Main carriage at the seller’s risk	<b>DPU</b>	at named place <sup>4</sup>	<b>DPU</b>
	<b>DAP</b>	at named place <sup>5</sup>	<b>DAP</b>
	<b>DDP</b>	at named place <sup>6</sup>	<b>DDP</b>

## Port-to-Port Shipments By Sea or Inland Waterway Only

	Seller’s Risk	Buyer’s Risk	
Main carriage at the buyer’s risk	<b>FAS</b>	when alongside the ship nominated by the buyer	<b>FOS</b>
	<b>FOB</b>	when on board the ship nominated by the buyer	<b>FOB</b>
Main carriage arranged by the seller, but at the buyer’s risk	<b>CFR</b>	when on board the ship nominated by the buyer	<b>CFR</b>
	<b>CIF</b>	when on board the ship nominated by the buyer	<b>CIF</b>

### 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 coverage 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 coverage.

	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	<b>EXW</b> <b>Ex Works</b> (named place) The buyer should insure the goods for their own account from the named place through to final destination.	
	<b>FCA</b> <b>Free Carrier</b> (seller's premises) The buyer should insure the goods for their own account from the seller's premises through to final destination.	<b>FAS</b> <b>Free Alongside Ship</b> (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.
	<b>FCA</b> <b>Free Carrier</b> (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.	<b>FOB</b> <b>Free on Board</b> (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	<b>CPT</b> <b>Carriage Paid To</b> (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.	<b>CFR</b> <b>Cost and Freight</b> (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.
	<b>CIP</b> <b>Carriage and Insurance Paid to</b> (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.	<b>CIF</b> <b>Cost, Insurance and Freight</b> (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	<b>DPU</b> <b>Delivered at Place Unloaded</b> (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.	
	<b>DAP</b> <b>Delivered at Place</b> (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.	
	<b>DDP</b> <b>Delivered Duty Paid</b> (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.	

BEWARE

CAUTION

PREFERRED

## SELLER'S PERSPECTIVE

To take control of the cost of cargo insurance and the level of coverage 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 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	<b>EXW</b> <b>Ex Works</b> (named place) The seller has no primary insurable interest in the goods during transit, since risk passes to the buyer upon collection.	
	<b>FCA</b> <b>Free Carrier</b> (seller's premises) The seller has no primary insurable interest in the goods during transit, since risk passes to the buyer upon loading.	<b>FAS</b> <b>Free Alongside Ship</b> (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.
	<b>FCA</b> <b>Free Carrier</b> (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.	<b>FOB</b> <b>Free on Board</b> (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	<b>CPT</b> <b>Carriage Paid To</b> (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.	<b>CFR</b> <b>Cost and Freight</b> (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.
	<b>CIP</b> <b>Carriage and Insurance Paid</b> (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.	<b>CIF</b> <b>Cost, Insurance and Freight</b> (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	<b>DPU</b> <b>Delivered at Place Unloaded</b> (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.	
	<b>DAP</b> <b>Delivered at Place</b> (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.	
	<b>DDP</b> <b>Delivered Duty Paid</b> (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.	

**BEWARE**

**CAUTION**

**PREFERRED**

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