ZURICH®

Exporters

Benefits to exporters of selling on cost, insurance and freight terms

EXPERTISE • SERVICE • SECURITY

Zurich is widely regarded as Australia's leading marine insurer. Our experience in imports and exports insurance means that we have identified the potential pitfalls or exposures that can be experienced by clients exporting their goods overseas.

The challenges for an exporter when selling on a free-on-board basis

Arranging an export sale can be difficult. With so much to consider, making the sale, collecting payment etc., selling goods on a free-on-board (FOB) basis looks an attractive choice because an exporter's only other responsibility is arranging delivery to the vessel. However, although it appears to be a simple option, selling FOB has some significant disadvantages for an exporter.

With FOB sales:

- the buyer controls the shipping arrangements
- it may suit them to delay sending a vessel to collect the goods
  - this can leave an exporter with extra costs, delayed payment or even an aborted sale.

If an exporter goes one step further and organises the freight and sells on cost and freight terms (CFR), they still face exposure and extra costs because the cargo insurance arranged by the buyer will only protect the buyer's interests and not the exporter.

Although the buyer's cargo insurance may appear to cover the goods from warehouse-to-warehouse, cover is only from the point the buyer's risk attaches under the sales contract (usually from loading on board the vessel or aircraft), leaving the exporter with no cover.

With all FOB and CFR sales, an exporter is exposed to the risk of cargo loss or damage from the warehouse until the goods are loaded on board and they should arrange cargo insurance on an annual basis to cover these risks.

A prudent exporter will also insure, under a seller's contingency policy, to protect their interests if the buyer reneges on the sale.

The benefits for an exporter to sell on cost, insurance and freight terms

Selling FOB or CFR leaves an exporter with less control, less flexibility, a much greater risk exposure and added expense.

To manage and reduce this risk, an exporter must be in a position to control it. While selling goods on cost, insurance and freight (CIF) terms may appear to be more complicated, it does place the exporter in a much better risk management position by allowing them to retain control of the transport chain, the cargo insurance arrangements and reduce costs.

Under CIF terms:

- the buyer is obliged to accept delivery at a port in their country when the exporter has the goods delivered or risk incurring demurrage and/or storage charges
- an exporter is better off with the goods being held at the buyer's expense at the destination rather than at the exporter's expense awaiting shipment
- warehouse-to-warehouse protection is achieved because the insurance covers an exporter until (as dictated by the terms of the sales contract) the risk in the goods passes to the buyer then it moves to covering the buyer's interest
    - this transfer of cover happens because the insurance policy is assigned to the overseas buyer by an exporter endorsing the reverse of the policy

– it is important this is done before the goods are loaded onto the vessel or aircraft and the risk in the goods passes form seller to buyer

– when properly assigned, the buyer is able to claim under the policy in their own name

- the exporter avoids the need for, and the cost of, separate annual cargo and seller's contingency insurances designed to protect their interest only
- the cost of insuring both an exporter's and buyer's exposure can be charged to the buyer in the CIF price.

Why choose Zurich for your insurance cover?

Given the complexity of marine insurance law, it is important for an exporter to select an insurer with expertise, an outstanding reputation for service and superior claims handling.

Zurich is an acknowledged market leader in marine cargo insurance.

Let us help you manage your export risk. Contact your local Zurich representative for more information.

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