

# Risk reduction insurance strategies for exporters

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**With globalisation, Australian companies are considering offshore markets to expand their business, particularly Asia. Austrade suggests Australia's top three export markets in 2007 were Japan, China and Korea, with China and Malaysia the fastest growing.**

## What do we export?

Raw materials and primary produce top the list but, Australian businesses are exporting everything from live lobsters (to Dubai and Japan), technologies for the production of banknotes (to central banks), neurological scanners (US army) to crocodile skins (exclusive French couturiers).

Making an export sale can be difficult: there's the delivery to organise, ensuring you receive payment for your goods and important insurance issues to be considered when negotiating terms of trade.

When arranging exports, it is important you are familiar with the basic tenets of terms of trade known as 'Incoterms'. Devised by the International Chamber of Commerce, Incoterms are adhered to by the major trading nations.

## Common Incoterms

Incoterms specify who is responsible for clearing goods for export, freight costs, arranging insurance and the point in the delivery/exchange process when the buyer assumes the risk for loss or damage to the goods.

Frequently used Incoterms in Australian exports are Ex works (EXW), Free on Board (FOB), Cost and Freight (CFR) and Cost, Insurance and Freight (CIF), with experienced exporters choosing CIF terms.

**EXW:** This term imposes the minimum obligation on the exporter, the buyer takes full responsibility for carriage and risk in the goods from the exporter's premises or other specified pick-up point.

**FOB:** The exporter has completed delivery of goods when they pass the ship's rail at the port of shipment. The buyer arranges and pays for freight and bears the risk from that point onwards. However, when dealing with overseas trading partners, selling FOB can leave exporters with less control, less commercial flexibility and greater risk exposure. To manage risk, exporters should retain control of the transport chain and the cargo insurance arrangements. With FOB sales, the buyer controls shipping and it may suit them to delay sending a vessel to collect the goods leaving the exporter with extra costs, delayed payment or an aborted sale.

**Cost and Freight (CFR):** As with FOB, the exporter delivers the goods when they pass the ship's rail at the port of shipment. Although the exporter pays for the freight to the destination port, the buyer assumes the risk for the goods on delivery. With CFR exporters still face risk and insurance costs because cargo insurance arranged by the buyer will only protect the buyer's interest from the point the goods pass the ships rail, and not the exporters interests to the ships rail.

**Cost, Insurance and Freight (CIF):** As with CFR, the exporter delivers the goods when they pass the ship's rail. Exporters pay freight and marine insurance costs to cover goods to the destination port. This fully protects the exporter and they can build these costs into their sale price. Another advantage of selling CIF is that the buyer is obliged to accept delivery on arrival in their country or risk incurring demurrage (detention of freight) and/or storage charges. The exporter is better off with goods held at the buyer's expense overseas rather than at his own expense awaiting shipment.

## When expertise counts

Given the complexity of transport and marine insurance law, it is important for an exporter to carefully select their cargo insurer, one with the requisite knowledge and expertise to fully protect them. For more information on reducing export risk and to ensure your exports are properly covered, talk to your insurance broker.

\*Associated Marine Insurers, part of the highly respected Zurich Group, is widely acknowledged as a market leader in marine cargo, transit and ship insurance both in Australia and the Pacific region.

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