

INSURANCE DOCUMENTS

Goods in transit are exposed to various risks, including fire, theft, natural calamities, and acts of terrorism. Insurance plays a vital role in mitigating these risks during the transportation of goods in international trade. The seller's risk passes to the buyer based on the Incoterms and the delivery point specified in the sales contract. It is the responsibility of each party to cover their respective risks—i.e., the seller is exposed to risks up to the delivery point, and thereafter, the risk shifts to the buyer.

Under CIF or CIP Incoterms, while the risk passes to the buyer at the country of export—either when the goods are loaded onboard or taken in charge by the carrier—the seller is obligated to arrange insurance coverage, as specified in the sales contract, up to the agreed destination. This is because the contract price under CIF or CIP includes insurance. The seller must provide the buyer with the insurance document along with all other relevant shipping documents.

In the case of letter of credit (LC) transactions, the issuing bank, when considering the goods as collateral and requiring the transport document to be made out to its order or in its name, may require the applicant to arrange transit insurance for the goods. For Incoterms other than CIF or CIP, the applicant may be required to submit a duly endorsed insurance document to the issuing bank as part of the LC issuance process.

For **CIF** or **CIP Incoterms**, the Letter of Credit (LC) must explicitly require the presentation of an **insurance document** under the "documents required" section, as the seller is obligated to provide insurance coverage up to the agreed destination under these Incoterms.

While **UCP 600** does not specify the type of insurance coverage, the requirement for specific coverage is governed by **Incoterms 2020**. When the LC does not indicate the risks to be covered:

- The **beneficiary** must provide insurance coverage equivalent to **ICC (A)** for **CIP**, and
- Insurance coverage equivalent to **ICC (C)** for **CIF**, to meet the obligations outlined under **Incoterms 2020**.

It is important to note that UCP 600 only mandates compliance with the documentary requirements stated in the LC, and any additional obligations related to the nature of insurance coverage arise from the agreed Incoterms, not from UCP 600.

Types of Insurance Documents

1. Insurance Policy

A comprehensive document serving as the primary evidence of the insurance contract. It outlines all terms, conditions, risks covered, exclusions, policy duration, and the insured amount. The policy is the definitive legal document governing the insurance coverage.

2. Insurance Certificate

A subordinate document to the insurance policy, issued as a summary or proof of coverage under the policy. It certifies that insurance is in place and provides key details, such as the insured party, risks covered, and period of insurance. It is commonly used in trade transactions, especially under letters of credit, and must reference the underlying policy.

3. Open Cover Agreement

An open cover is a long-term agreement between an insured party and an insurance company, providing automatic coverage for multiple shipments over a specified period or until a pre-agreed limit is reached. Unlike a traditional insurance policy issued per shipment, an open cover policy eliminates the need for separate insurance arrangements for each consignment.

The insured is required to declare each shipment's details (e.g., value, nature of goods, and destination) to the insurer as they occur. The insurer issues a signed declaration or an insurance certificate for each declared shipment, ensuring compliance with requirements such as those under UCP 600 Article 28 for presentation in letter of credit transactions.

4. Declaration Under an Open Cover

A declaration under an open cover is a document issued by the insurance company under an open cover policy. It provides details of the shipment, such as the value, nature, and destination of the goods being shipped, and confirms that the shipment is covered under the open cover insurance policy.

5. Cover Note

A temporary document issued before the insurance policy is finalised. It serves as interim evidence of coverage, typically containing essential details like insured risks, period of insurance, and insured value. However, an insurance cover note is not acceptable under letters of credit, as it is considered a temporary document that can be canceled at the discretion of the insurer at any time, lacking the finality and certainty of an insurance policy.

Requirements under UCP 600 & ISBP

1. Issuer

- The insurance document must appear to be signed by an insurance company, underwriters, or their agents or proxies.
- Any signature by an agent or proxy must indicate whether the agent or proxy has signed for or on behalf of the insurance company or underwriter.
- When an issuer is identified as “insurer”, the insurance document need not indicate that it is an insurance company or underwriter.
- An insurance document may also be issued on an insurance broker’s stationery, provided the insurance document has been signed by an insurance company or underwriters or their agents or proxy. A broker may sign insurance document as agent or proxy for or on behalf of a named insurance company or named underwriter.

- An insurance document may show only the signing name of the insurance company in the signing field, provided it is identified as the insurance company elsewhere on the document.

2. Number of Originals

- It is not mandatory to indicate the number of originals issued unless LC requires presentation of more than one original
- If the document indicates that more than one original is issued, all originals must be presented. In this case, documents may be marked as original, duplicate or first original, second original etc

3. Type of Insurance Document

- When the LC requires the presentation of an insurance certificate or declaration under open cover, the presentation of an insurance policy is also allowed.
- If the policy is specifically required by the credit, the presentation of a certificate or declaration under an open cover is not acceptable.
- Cover notes are not acceptable as they are revocable and can be canceled at any time.

4. Date of Insurance Coverage

- Insurance coverage must commence prior to the start of the risk (i.e., on or before the date of shipment).
- The insurance document must be dated on or before the date of shipment.
- If issued after the date of shipment, the document must indicate that coverage is effective from a particular date, and that date must be on or before the date of shipment.
- If there is no indication of an issue date or effective date, the counter-signature date will be considered the effective date.

5. Insurance Amount and Currency

- The insurance document must indicate the amount of coverage and be in the currency of the credit.
- In the absence of a specified percentage in the LC, the insurance must cover a minimum of 110% of the CIF or CIP value of the goods.
- If the CIF or CIP value cannot be determined from the document, it must be calculated based on the demanded amount or the gross value of the goods (not the net amount after deductions, such as discounts or advance payments) as shown in the invoice, whichever is greater.
- Calculations should be rounded to the next whole number, avoiding more than two decimal places.

6. Risks to Be Covered

- The insurance document must indicate the risks to be covered as required by the LC.

- If the LC uses imprecise terms such as "usual risks" or "customary risks," the insurance document will be accepted without regard to risks not covered.
- When the LC requires insurance against "all risks," an insurance document with any "all risks" notation or clause (regardless of heading) will be accepted without regard to excluded risks.
- An insurance document covering Institute Cargo Clauses (A) or ICC (Air) satisfies a credit requiring an "all risks" clause or notation.
- If the LC specifically calls for ICC(A), the insurance document must indicate ICC(A). An "all risks" clause alone is not acceptable for ICC(A) requirements.
- The insurance document may contain any exclusion clauses.

7. Coverage between places

- The insurance document must indicate that risks are covered at least between the places specified in the credit.
- Extended coverage (e.g., warehouse-to-warehouse) is also acceptable.

8. Counter-Signature

- When required by the insurance document, a counter-signature by the assured party must be provided.

9. Franchise or Excess (Deductible)

- An insurance document may indicate that coverage is subject to a franchise or excess (deductible).
- However, if the LC requires coverage irrespective of percentage, the insurance document must not contain clauses stating that coverage is subject to a franchise or excess.
- An insurance document does not need to state "irrespective of percentage"

Aspect	Franchise	Excess (Deductible)
Definition	A minimum claim amount below which no compensation is paid. If the loss exceeds this amount, the insurer pays the full claim.	A fixed amount the insured must bear for every claim, regardless of the total loss amount.
Threshold Impact	If the loss is below the franchise amount, the insurer pays nothing . If it is above , the insurer pays the entire loss .	The insurer pays the claim amount minus the deductible , regardless of how large the claim is.
Example	Franchise Amount: \$1,000 - Loss of \$800: Insurer pays \$0. - Loss of \$1,200: Insurer pays \$1,200.	Excess (Deductible) Amount: \$500 - Loss of \$800: Insurer pays \$300. - Loss of \$1,200: Insurer pays \$700.

10. Multiple Insurers

- An insurance document indicating cover by more than one insurer may be signed by:
 - A single agent or proxy on behalf of all insurers, or
 - An insurer as the lead insurer for all co-insurers.
- In such cases, the names of each insurer or the percentage of cover need not be indicated.
- Multiple insurance documents issued by each insurer providing partial cover are acceptable, provided their total meets the minimum required coverage.

11. Expiry Date for Claims

- An insurance document must not indicate an expiry date for the presentation of a claim.

12. Insured Party and Endorsement

- The insurance document must conform to the LC requirements and, if necessary, be endorsed by the entity to whose order or in whose favour claims are payable.
- A credit should not require an insurance document to be issued "to bearer" or "to order."
- A credit should indicate the name of the insured party.
- When the LC requires an insurance document to be issued "to the order of" a named entity, the document need not explicitly state "to order," provided:
 - The named entity is shown as the insured party, or
 - Claims are payable to the named entity, and assignment by endorsement is not expressly prohibited.
- If the LC is silent about the insured party, the insurance document must not indicate that claims are payable to the beneficiary or any entity other than the issuing bank or applicant.
- The insurance document must be issued or endorsed so that the right to payment under it passes upon or before the release of the documents.

13. General Terms and Conditions

- Banks do not examine the general terms and conditions in an insurance document.

14. Premium Payment

- Any indication of the payment of an insurance premium is disregarded unless the insurance document states that it is invalid unless the premium has been paid and also indicates that the premium has not been paid.