



THE READERS SPEAK

SHOULD DISCOUNTS BE RE-ADDED TO THE CIF AMOUNT TO DETERMINE INSURANCE COVER?

Query:

I have recently had a discussion with one of our document checkers about the following:

UCP 600 Art. 28(f)(ii) states that the minimum amount of insurance coverage is to be 110% of the CIF or CIP value. If this cannot be determined, the gross value of the goods has to be taken into consideration to determine the basis of the 110% coverage amount.

Also, ISBP745 (2013) Paragraph K15 states that when the amount demanded only represents a certain part of the gross value of the goods (for example, due to discounts, pre-payments, or the like ...), the cover has to be calculated on the basis of this gross amount.

In my opinion, this is only the case if the CIF or CIP value cannot be determined (as in Art. 28 (f)(ii)). In all other cases, one takes the CIF value, whether or not there has been a discount. Pre-payments and the like are different, of course. These are amounts to be paid in any case by the buyer on top of the amount drawn under the LC.

We have a case whereby a beneficiary presents an invoice, stating value of goods, discount, freight and insurance charges, and a total making the CIF value.

I can understand that a pre-paid amount or an amount to be paid at a later date forms an integral part of the CIF value of the goods. But the amount of the discount is no longer part of the value of the goods since there has been a discount granted by the seller to the buyer. Hence, the amount of the discount is not to be added to the CIF amount to calculate the 110%.

I also refer to UCP600: AN ANALYTICAL COMMENTARY (p. 1159) whereby discount is put at the same level as pre-payments or post-payments. This analysis also refers to ICC Opinion R438 where this statement comes from. However, in this Opinion, I am missing the logic why discounts should be re-added to the CIF amount to determine the basis of calculation.

As referenced above, ISBP is also unclear that K15 only is applicable in case the CIF or CIP value cannot be determined from the documents.

Am I right? Or am I wrong? And is the ISBP perhaps a bit too generic in putting discounts at the same level as pre-payments or post-payments?

DCW Responds:

It depends on your perspective. To the seller, the value of the goods is what it expects to receive but to the buyer it is the total worth of the goods including discount which is what the buyer hopes to realize from the resale of the goods or what it would cost the buyer to replace them if they were lost en route. The buyer may not be able to obtain a discount the next time.

Comments to all queries posed are not necessarily those of DCW and are not provided as legal advice. If legal advice or other expert assistance is required, the service of a competent professional should be sought.

UCP600 Article 28(f)(ii) (Insurance Document and Coverage):

A requirement in the credit for insurance coverage to be for a percentage of the value of the goods, of the invoice value or similar is deemed to be the minimum amount of coverage required.

If there is no indication in the credit of the insurance coverage required, the amount of insurance coverage must be at least 110% of the CIF or CIP value of the goods.

When the CIF or CIP value cannot be determined from the documents, the amount of insurance coverage must be calculated on the basis of the amount for which honour or negotiation is requested or the gross value of the goods as shown on the invoice, whichever is greater.

ISBP745 (2013) Insurance Document and Coverage

Paragraph K15 (Amount of cover and percentage):

When it is apparent from the credit or from the presentation that the amount demanded only represents a certain part of the gross value of the goods (for example, due to discounts, pre-payments or the like, or because part of the value of the goods is to be paid at a later date), the calculation of insurance cover is to be based on the full gross value of the goods as shown on the invoice or the credit and subject to the requirements of UCP 600 sub-article 28 (f) (ii).



DCW READERS ...

What's your perspective? Is ISBP745 Paragraph K15 sufficiently clear in its treatment of how and when discounts should be used to calculate insurance cover?

Let us know! E-mail DCW: info@doccreditworld.com