

Incoterms CIP: allocating transport and insurance costs correctly

Incoterms CIP (Carriage and Insurance Paid to) is a delivery term of the International Chamber of Commerce under which the seller bears transport and insurance to the agreed destination, but the transfer of risk already takes place upon handover to the first carrier. For technical buyers, CIP thus defines a typical combination of high seller obligation in terms of cost coverage and early transfer of risk to the buyer's side. The term is particularly relevant in practice for the international procurement of machinery, components and industrial materials.

Key facts

- CIP belongs to the ICC Incoterms 2020 version and is suitable for all modes of transport, especially container and multimodal traffic.
- The seller bears the transport costs to the named destination and usually takes out transport insurance.
- The transfer of risk occurs as early as the place of dispatch upon handover to the first carrier, not only at the destination.
- Since Incoterms 2020, the seller must provide proof of insurance with typically all-risks cover of at least 110 per cent of the goods value in the currency of the sales contract.
- CIP is typically used for container transport and prepaid shipments, while FOB or EXW are better suited to other constellations.
- The term does not replace the drafting of the commercial contract: transfer of ownership, payment terms and warranty must be regulated separately.

Definition: Incoterms CIP

Incoterms CIP is one of the eleven delivery terms of the International Chamber of Commerce and stands for "Carriage and Insurance Paid to" (freight-paid and insured to). The term defines which contractual party assumes transport costs, insurance and risk in international trade in goods. It is binding when the parties cite it in the sales contract or purchase order with place and Incoterms version, e.g. "CIP Hamburg Incoterms 2020".

Core rule of the term

In a CIP transaction, the seller delivers the goods to the carrier it has engaged at the named place of dispatch and arranges the contract of carriage to the named destination at its own cost. In addition, it takes out transport insurance for the benefit of the buyer. The costs of main carriage, insurance and often also export clearance are therefore borne by the seller, while import formalities and customs clearance in the destination country are generally the buyer's responsibility.

Distinction from Incoterms CPT

CPT (Carriage Paid to) is the sister term without an insurance obligation: the seller likewise pays the

transport to the destination but does not have to take out insurance. The transfer of risk is identical under both terms and occurs as early as handover to the first carrier. Buyers choose CIP when they want to keep insurance responsibility with the seller as part of their own risk policy, and CPT when cover via their own warehouse or blanket policies is more efficient.

Methods and approach: anchoring CIP in the procurement process

For CIP to work reliably in operational procurement, the term should be understood not as an isolated decision but as part of a systematic delivery term strategy. Experience shows that the greatest friction losses arise when purchase order, order confirmation and freight documentation reference different terms or places. A clear decision tree by mode of transport, goods value and destination provides a remedy here.

Term selection by transport constellation

In practice, CIP is frequently suitable for container and air freight as well as multimodal shipments where the seller organises prepaid shipping anyway. For construction or heavy-lift transports, terms such as FAS or DAP are preferred instead. Buyers should check whether the seller actually achieves better freight rates and insurance terms than their own logistics department; otherwise one takes on unnecessary surcharges.

Precise agreement in the sales contract

The term specification must name the named destination as precisely as possible, ideally with terminal or transshipment point, and state the Incoterms version used. In addition, it is advisable to agree who organises and pays for customs clearance and local delivery at the destination under CIP. These details belong in standardised ordering conditions, which are managed via digital contract management and automatically supplied with every purchase order release.

Interface to logistics and finance

The chosen term determines which cost items are included in the purchase price and how the goods value is to be applied for customs, insurance and valuation. Buyers should align the definitions with the freight forwarder, insurer and internal audit and store them in master data. Sound master data governance prevents different interpretations of terms circulating per supplier or material class.

Key KPIs: making CIP performance measurable

Anyone using CIP agreements should regularly review their economic impact in procurement controlling. Core questions are whether the freight and insurance costs priced in by the seller are market-appropriate and whether the promised delivery and supply performance is actually achieved.

Cost and terms key figures

Particularly relevant are the freight cost ratio (transport costs in relation to goods value), the price effect actually achieved compared with CPT alternatives, and the deviation between calculated and invoiced freight/insurance items. In practice, the freight cost ratio often lies between 2 and 10 per cent depending on the commodity group, and considerably above that for light, high-value goods.

Service and throughput key figures

In addition to the cost view, on-time delivery, compliance with the delivery schedule agreement and the

goods receipt throughput time from arrival at the destination count. Since the transfer of risk under CIP occurs early, the duration of transport damage notifications is also a robust indicator. A clearly defined service level objective per supplier group makes these requirements contractually enforceable.

Risks and controls: typical sources of error with CIP

The central risk core of CIP lies in the discrepancy between cost and risk transfer: the buyer pays for a transported and insured carriage but bears the transport risk from handover to the first carrier onwards. Anyone who does not understand this system misrecords loss cases and overestimates their own cover.

Risk transfer and scope of insurance

Since Incoterms 2020, CIP by default requires cover according to all-risks criteria of at least 110 per cent of the goods value in the contract currency; the seller bears the premium. Buyers should actively request proof of insurance, check sums insured and exclusions and clarify whether their own blanket policies are more efficient. For high-value plant components, a supplier feasibility review is also advisable in order to assess loading and packing competence in advance.

Control over contractual and documentation obligations

Classic points of dispute arise when bills of lading, air waybills or CMR notes are not issued consistently with the ordered term, or the seller fails to present a valid insurance policy. A defined deviation workflow for quantity and documentation in goods receipt helps to capture deviations systematically rather than deciding them on a case-by-case basis. In addition, the Incoterms version should be verifiable in every order, since term contents differ between the 2010, 2020 and future editions.

Supplier qualification and compliance

What is often overlooked is that under CIP the seller handles export formalities including dangerous goods documentation – the quality of which depends directly on its logistics maturity. A regular supplier audit or a targeted supplier development workshop with critical overseas suppliers demonstrably reduces loss and delay risks. These measures belong in the onboarding and qualification process for relevant material classes.

Current developments: CIP in the age of digitalisation and global sourcing

The importance of precise delivery terms grows with the internationalisation of procurement. Global supply chains, stricter compliance requirements and more volatile freight markets increase the pressure to actively manage term effects, insurance cover and transport risks rather than leaving them to chance.

Incoterms 2020 and adjustments to the insurance obligation

The 2020 edition mainly tightened the insurance obligation under CIP: the standard is now cover similar to Institute Cargo Clauses (A), while the earlier minimum cover was retained for the CIF term. Buyers should have contract templates, standard letters and price markings in ERP systems checked against this change. Old order confirmations referencing Incoterms 2010 may give rise to differing obligations.

Digital transport and contract documentation

Electronic waybills, tracking data and digital insurance proofs are making the verification of CIP agreements increasingly automatable. Anyone maintaining term, place and version as mandatory fields

in order and supplier master data can detect deviations at an early stage and integrate them into the procurement workflow. In the long term, this also supports systematic inventory optimisation, because lead and transit times can be forecast more reliably.

Strategic embedding in procurement

CIP is not an isolated detail but part of the sourcing strategy: in global sourcing, the term decides which party organises freight risk, customs clearance and insurance, and thus also who has to react to market price fluctuations. Combined with currency hedging (FX) and clear payment terms, the overall risk of international procurement can be managed in a structured manner.

Typical metrics

Freight cost ratio: typically 2–10 % of the goods value

varies considerably depending on commodity group and mode of transport

On-time delivery of CIP shipments: > 95 %

share of punctual arrivals at the named destination

Goods receipt throughput time: < 2 days from arrival

time from terminal arrival to availability in the warehouse

Insurance proof rate: 100 %

share of shipments with verifiable policy proof before dispatch

Practical example

A medium-sized mechanical engineering company sourced custom drive units from an Asian component supplier. The contracts cited CIP without a version specification, the order confirmation referred to CPT and the insurance was covered by a domestic blanket policy. After a marine loss without verifiable cover by the seller, the arrangement was restructured.

- Standardisation of all terms per commodity group with mandatory specification of place and Incoterms version in the purchase order.
- Switching critical shipments to CIP with documented all-risks cover, or a deliberate move to CPT with the buyer's own blanket policy.
- Inclusion of logistics and insurance topics in the supplier's annual supplier audit.
- Integration of term verification into the quantity deviation workflow and goods receipt inspection.

Conclusion

Incoterms CIP is a term with an asymmetric structure: the seller pays for transport and insurance, but the transport risk passes to the buyer as early as the place of dispatch. Buyers should deploy the term specifically where the seller actually has better transport and insurance terms, and actively verify the insurance policy. What matters is consistent implementation in purchase order, contract and documentation, supplemented by clear KPIs in procurement controlling. Anyone managing CIP systematically reduces loss and dispute costs and creates a reliable basis for international global sourcing. However, the term does not replace the careful drafting of the rest of the sales contract.

Frequently asked questions

What does Incoterms CIP mean?

CIP stands for "Carriage and Insurance Paid to" and is a delivery term of the ICC. The seller bears the transport costs to the named destination and takes out transport insurance. However, the transfer of risk occurs as early as when the goods are handed over to the first carrier.

How does CIP differ from CPT?

Both terms contain identical cost and risk transfer rules. The only difference is the insurance obligation: under CIP the seller must take out transport insurance, under CPT not. Buyers with their own blanket policy therefore often use CPT.

When is CIP the right term for procurement?

CIP typically suits container and air freight shipments as well as multimodal transports where the seller organises prepaid shipping anyway. It is advisable when the seller has better freight and insurance terms. For heavy-lift or project cargo, other terms such as DAP or FAS are often more suitable.

Who bears the transport risk under CIP?

The buyer bears the transport risk, even though the seller pays for transport and insurance. The transfer of risk occurs as early as the place of dispatch, upon handover to the first carrier. Damage during transport must therefore be settled via the seller's insurance, not via the seller's liability.

Which insurance obligation applies under CIP since Incoterms 2020?

Since the 2020 version, the seller must take out insurance with extended all-risks cover of at least 110 per cent of the goods value in the contract currency. This rule applies only to CIP, not to CIF. Buyers should contractually demand proof of the policy and verify the cover.

Does CIP mean the seller delivers to the buyer's doorstep?

No, CIP is not a delivered-duty term like DDP. The seller pays the main carriage to the named destination but does not have to unload, import or deliver there. Import clearance, duties and the last mile are typically the buyer's responsibility.