

Incoterms transfer of risk: clearly regulating the passing of risk in international procurement

The Incoterms transfer of risk describes the point in time at which the risk of loss of or damage to the goods passes from the seller to the buyer. It is a central component of the Incoterms rules published by the International Chamber of Commerce and determines who bears the risk in which transport phase. For technical buyers, correctly agreeing the transfer of risk is essential in order to clearly regulate liability issues, insurance cover and cost responsibility within the supply chain.

Key facts

- The transfer of risk defines from when the buyer bears the risk of loss of or damage to the goods – irrespective of the transfer of title.
- The eleven Incoterms rules (2020 edition) define the transfer of risk at different points in the supply chain depending on the clause, for example EXW, FCA, FOB, CIF, CIP, DAP or DDP.
- Under C-group clauses, the risk already passes at the place of departure, even though the seller bears the main transport costs to the place of destination.
- The clause should always be specified with a named place, e.g. "FCA supplier plant, Regensburg, Incoterms 2020".
- Without a clear clause agreement, the statutory provisions of the applicable sales law apply – considerable potential for dispute.
- The transfer of risk should be reconciled with the insurance period, transport costs and the delivery date and quantity agreements in the ordering process.

Definition: Incoterms transfer of risk

The Incoterms transfer of risk denotes the contractually agreed point in time and place at which the risk of accidental loss of or damage to the goods passes from the seller to the buyer. It is determined by the chosen Incoterms clause and must be distinguished from the allocation of costs and the transfer of title.

Distinction: risk, costs and title

The transfer of risk does not automatically coincide with the transfer of costs or the transfer of title. Under CIF, for example, the seller bears the freight costs to the port of destination, but the risk already passes on board the vessel at the port of shipment. Title, moreover, generally follows the agreement-specific or law-specific transfer rules and is not governed by the Incoterms. Buyers should therefore assess all three dimensions – risk, costs and rights of disposal – separately and have them reviewed in the individual sales contract.

The group logic of Incoterms 2020

The eleven clauses can be grouped by function: E-term (EXW, minimal seller obligations), F-terms

(FCA, FAS, FOB, transfer of risk on handover to the main carrier), C-terms (CFR, CIF, CPT, CIP, transfer of costs later than transfer of risk) and D-terms (DAP, DPU, DDP, transfer of risk only at the place of destination). For the buyer, this means that depending on the clause, they bear the transport risk over very different stretches, which has a direct impact on insurance requirements and claims management.

Methods and procedure for agreeing the transfer of risk

Choosing the right clause follows no rigid pattern but results from the mode of transport, negotiating power, insurance capability and the internal logistics organisation. A systematic approach in the procurement process prevents incorrect agreements and disputes.

Clause selection by mode of transport and capability

For container and multimodal transport, FCA and CIP have proven their worth; FOB and CIF are classic sea freight clauses and strictly speaking only fit liner shipping. Where a company has its own freight forwarding capability and framework agreements with a Preferred Carrier, it frequently chooses F-terms in order to control freight costs and transport itself. Where this capability is lacking, C- or D-terms are more practical because the seller takes over the transport organisation.

Precise place specification and Incoterms version

A clause without a precise place is a common and costly mistake: "FCA China" is non-binding, whereas "FCA supplier plant Shanghai, loaded, Incoterms 2020" clearly defines the transfer of risk. Under FCA, it should additionally be agreed whether the risk passes when unloaded or only after loading onto the buyer's vehicle. Stating the current Incoterms edition (2020) in the order text is standard practice and belongs in an approved clause library in the Contract Repository.

Alignment with transport insurance and customs

The transfer of risk must be synchronised with the insurance contract: whoever bears the risk from the clause point needs cover from that point in time. Under DDP, the seller also handles export and import clearance, which is convenient for the buyer but not always advantageous with regard to customs representation and input tax deduction. Customs and tax details should be reviewed by specialists on a case-by-case basis.

Key KPIs for steering risk allocation and transport quality

The transfer of risk itself is a contractual clause, but its effects can be made measurable via key figures. These KPIs link procurement, logistics and quality controlling and ideally feed into the supplier rating.

Damage rate and claim rate

The transport damage rate – typically measured as the proportion of damaged consignments out of all consignments – shows how often the risk assumed actually materialises. In practice, common target values depending on the type of goods are often in the low single-digit percentage range; for sensitive machinery components, considerably stricter requirements apply. In addition, the claim rate measures the proportion of successfully enforced damage claims, an indicator of the quality of documentation and evidence preservation.

Delivery reliability and traceability

Delivery reliability (On-Time-In-Full) records whether goods arrive complete and on time at the

risk-relevant handover point. Traceability of materials via consignment and batch numbers enables rapid narrowing down of affected batches in the event of damage – an aspect that is also relevant for regulatory requirements such as RoHS. In ERP integrations, these data are increasingly fed automatically from the order-to-cash process.

Insurance and freight cost ratio

The ratio of transport and insurance premiums to the value of the goods shows whether the chosen risk allocation is economically sensible. With strong in-house transport capability, F-terms frequently reduce total costs; without this capability, they generate hidden additional costs via service providers. This analysis belongs in the procurement function's regular clause portfolio analysis.

Risks and controls surrounding the transfer of risk

Incorrectly or incompletely agreed clauses lead to gaps in insurance cover, disputes over damage items and unintended cost absorption. Structured controls in the procurement and logistics process minimise these risks.

Typical sources of error

Common mistakes are missing place specifications, outdated Incoterms versions, the use of CIF for container transport and the confusion of cost and risk transfer under C-terms. The manner of handover under FCA (unloaded versus loaded) is also overlooked, although it can shift the transfer of risk by an essential step. Finally, the transfer of risk occasionally remains deliberately but unreflectively with the seller, for example under DDP, even though the buyer depends operationally on the delivery and has no control over the transport.

Control instruments in the procurement process

Proven controls include an approved clause library in the Contract Repository, mandatory Incoterms fields on the purchase order form with ERP integration and four-eyes review in the event of deviations. Supplier audits and the supplier rating can capture clause compliance and transport damage history. In tenders, a uniform procurement guideline with clause specifications helps to produce comparable bids and to make hidden cost differences visible.

Evidence preservation in the event of damage

Since the transfer of risk is closely linked to the handover of the goods, the documentation of the moment of handover determines the success of claims: handover protocols, photographic documentation, notes on waybills and bills of lading as well as timely notification of damage. Without this evidence, the contracting party who does not actually bear the risk frequently loses their right of recourse. Proven practices of this kind should be internalised and stored as standard operating instructions.

Current developments: Incoterms 2020 and digitalisation

The Incoterms 2020 edition introduced several relevant amendments affecting the transfer of risk, in particular under FCA, CIP and DPU. In parallel, the digitalisation of the transport chain is shifting the possibilities for evidence and control.

Changes under Incoterms 2020

Under FCA, a bill-of-lading variant relating to the vessel can now be agreed without the seller having to assume the risk before loading – relevant for buyers who pay via letter of credit. Under CIP, the standard insurance obligation was raised to a higher level of cover, while CIF remains at the previous level. DPU replaces the old DAT clause and allows delivery at any place, not only at the terminal.

Digital evidence and supply chain transparency

Electronic transport and trade documents, track-and-trace data and digital handover protocols make the transfer of risk provable in real time. Systems for duplicate detection and catalogue content management ensure the data quality of item and clause master data. For operational protection against short-term disruptions, S&OE (Sales and Operations Execution) is additionally gaining in importance, translating transport deviations quickly into planning and inventory optimisation.

Supply chain pressure and sustainability requirements

Reporting obligations and customer enquiries about the supply chain link transport and risk questions with sustainability data, for example from suppliers' EcoVadis ratings. Emissions and efficiency of the chosen transport route are linked to the clause selection, as the latter determines who specifies the mode of transport and route. Buyers should take this dimension into account more systematically in future in tenders and procurement marketing.

Typical metrics

Transport damage rate: < 1 %

Typical benchmark; stricter targets common depending on the type of goods

On-Time-In-Full: > 95 %

Usual target corridor in serial procurement

Clause compliance of purchase orders: > 98 %

Proportion of purchase orders with a complete, versioned Incoterms specification

Claim enforcement rate: > 80 %

Measure of evidence preservation and documentation quality

Practical example

A medium-sized mechanical engineering company had previously sourced precision components from Asia predominantly on "CIF Port of Hamburg, Incoterms 2010" – without precise terminal details and with an outdated version. After several transport incidents with an unclear recourse position, the company systematically reviewed its clause structure, based its evaluation on a structured bid register in an ongoing tender and initially tested alternatives within the framework of a proof-of-concept procurement for one product family.

- Switching the standard shipments to "FCA supplier plant, loaded, Incoterms 2020" with own transport insurance and a Preferred Carrier
- Inclusion of mandatory Incoterms fields including version in the order system with ERP integration and a four-eyes-principle check
- Anchoring clause compliance and claims history in the supplier rating with defined target values
- Introduction of digital handover protocols to ensure seamless traceability of materials in the event of

damage

Conclusion

The Incoterms transfer of risk is not a formality but an economically relevant lever: it determines who bears transport risks, when insurance takes effect and how claims can be enforced in the event of damage. Buyers should systematically manage clause selection, place specification and the Incoterms version and reconcile them with insurance cover, logistics organisation and customs clearance. Key figures such as damage rate, OTIF and clause compliance make the quality of the risk allocation measurable. Those who maintain clauses centrally and integrate them into ordering processes and supplier evaluation sustainably reduce disputes and hidden costs. As a result, the transfer of risk turns from a contractual detail into a shapeable element of a more robust supply chain.

Frequently asked questions

When does risk pass under the FCA Incoterm?

Under FCA, risk passes as soon as the seller hands the goods over to the carrier nominated by the buyer at the agreed place. If the handover point is agreed at the seller's premises, the decisive factor is whether the goods are handed over unloaded or already loaded onto the buyer's vehicle – the former shifts the transfer of risk to the buyer earlier. The exact place and the manner of handover should therefore be expressly agreed.

Does the transfer of risk differ from the transfer of costs under CIF?

Yes. Under CIF, the seller bears the cost of freight and insurance to the port of destination, but the risk passes as soon as the goods are on board the vessel at the port of shipment. During the sea voyage, the buyer therefore bears the risk of loss even though they do not pay the main carriage. This discrepancy is the classic reason to align clause selection and the insurance contract carefully.

Which Incoterms version applies if none is specified?

Without a stated version, it is legally disputed which edition applies; reference is often made to the edition current at the time of contract conclusion, but this carries potential for dispute. In practice, every purchase order and every contract should state the version explicitly, i.e. "Incoterms 2020". Many companies enforce this through mandatory fields in the ERP system and an approved clause library.

When is DDP sensible for procurement?

DDP transfers costs, risk as well as export and import clearance to the seller, until the goods arrive ready for use at the place of destination. This is convenient and low-risk for the buyer, but may have disadvantages with regard to customs representation, input tax deduction and price comparability. Whether DDP makes sense depends on logistics capability, trade route and the tax assessment in each individual case and should be reviewed by specialists.

What insurance does the buyer need at the transfer of risk?

As a rule, the insurance period should begin no later than the transfer of risk and cover the entire risk-bearing leg. Under C-terms such as CIF or CIP, the seller is obliged to take out insurance, but often only at minimum cover level; the buyer must arrange additional cover themselves. Under E- and F-terms, the buyer is fully responsible for insurance as soon as the risk has passed to them.

Is the transfer of risk equivalent to the transfer of title?

No, these are two separate issues. The Incoterms govern risk, costs and delivery obligations exclusively, not the transfer of title and rights of disposal. The latter follows the applicable sales law and separate agreements, such as retention of title. Purchase contracts should therefore expressly and separately regulate both aspects.