Transport Insurance for International trade

1) **International trade** insurance indemnifies **importers** and exporters against various types of losses, including damage to goods in transit, products injuring consumers and importer non-payment. To indemnify means to compensate a company when it loses money due to one of these events. The **insurance industry** plays a role alongside banks and financial **intermediaries** in ensuring that parties to an international sale have the capacity to effectively transact business across international borders. Insurance agencies take on some of the risk so that exporters, particularly, are able to seize opportunities to expand their businesses into foreign markets.

The insurance industry has a vested interest in a robust economy with a healthy business environment that can reach customers globally. Along with governments, banks and financial intermediaries, insurance agencies develop products that facilitate international sales. Particularly with small and mid-size businesses, insurance agencies can use their familiarity with foreign markets to relieve some of the risk a novice exporter experiences by not having the type of institutional reach that would allow the exporter to easily check an importer's credit and business history.

Insurance agencies develop different international trade insurance products from time to time, such as foreign **currency exchange** insurance, but the main types of insurance used to facilitate trade include export credit, **cargo** and product **liability** insurance. Export **credit insurance** enables exporters to offer importers open credit terms. The insurance provides protection again nonpayment by the importer and will payout the majority of the value of a defaulted receivable. Provided the exporter has the resources and cash flow to comfortably float product to the importer with a promise of payment that might not happen for as long as 180 days, the insurance removes the risk inherent in the credit extension.

Cargo insurance is a type of international trade insurance that insures goods in transit. It can be taken out by importers or exporters and typically contains provisions that are determined by the terms of the sales contract. This type of insurance guards against complete loss, damage that occurs while shipping and any damage that happens while the goods are sitting in customs warehouses in either country. Certain eventualities that can happen when goods enter a foreign country are also covered, such as seizure and products opened during inspections and rendered unsalable.

The other common type of international trade insurance covers product liability. If a customer suffers an injury as a result of imported products, the liability can be significant. Often, the exporter and importer have this type of coverage as part of their blanket business insurance policies. Specific coverage of goods imported or exported to foreign countries often has to be added to policies that only cover domestic sales. Alternatively, the parties must obtain a separate policy to protect their business interests. SOURCE: wisegeek.com

2) If your business is new to international trade, it is important to assess and plan for the different risks you will invariably face. As well as physical loss or damage to goods, you need to plan for problems of cashflow or non-payment by your customers. In some cases you also need to plan for risks associated with faulty goods or services. This guide outlines the key risks you should consider and the available insurance and financing options. It also provides links to experts who can offer you advice or find you insurance.

Weighing up the risks

As an **exporter** of goods or services you need to insure against the risks of:

- loss or damage of goods in transit
- a fault that causes an end-customer to sue
- non-payment for your goods or services

If you are an **importer**, you may need to take into account:

- possible loss or damage of goods in transit
- supplier problems, including failure to supply
- transport delays and potential hold-ups at ports
- the risk of performance or health and safety problems
- import duties
- storage of goods in bonded warehouses
- currency fluctuations

The responsibility for organising insurance can be shared between the importer and exporter, or be taken on by just one of them. Make sure your contract confirms which option has been chosen. If the contract does not make this explicit, the common international trade terms, Incoterms 2000, clarify to what extent a party must take responsibility for particular risks.

Loss or damage of goods

The goods you export or import must have cover from the beginning of their journey until their arrival with either yourself or the buyer. In some cases you will pay for this cover, otherwise it will be built into the cost of the goods.

Product faults

In exceptional circumstances, a fault with the product supplied may result in an end user taking legal action against your business. Depending on the nature of your product or service, you may need to take out insurance to cover this risk.

Non-payment

You might not be paid in full for the goods or services that you export because:

- your customer can't or won't pay
- war or a natural disaster prevents your goods from reaching the customer, or you from completing your contract
- political reasons prevent you from completing your contract, such as an export licence ban in your own country, or import restrictions or a change in the law in the buyer's country
- currency problems prevent your buyer from getting the cash they need to pay you

Insuring goods in transit

Cargo insurance covers loss of or damage to goods while in transit by land, sea and air.

Exports

Many exporters arrange insurance and freight but pass on the cost to the buyer. Foreign buyers often insist on this service, because rates in some European countries are relatively cheap.
The **benefits**:

- you have greater control over the risk as the European insurance industry is highly regulated
- you could win business from competitors who do not offer insurance

Remember that if you leave your buyer to arrange insurance, they will do so before paying for the goods. You may not be paid in full if there's a problem and they're not adequately insured. In addition, if the goods are rejected when they get to the port of entry or to the customer's premises, they won't be covered by insurance, and the responsibility will be back with you.

Imports

You will minimise your risks if you arrange insurance of goods that you import. You'll know how much you are paying and what's included. Your supplier might not be able to give you full details of insurance cover they arrange, or if they do, the information may not be entirely reliable.
The following types of cover are available:

- open cover - for all journeys
- specific (voyage) policy - for one-off shipments
- seller's interest contingency - back-up for physical loss or damage where you've not arranged the cargo insurance

Where to get cargo insurance

A specialist **cargo insurance broker** will find you a good price, ensure the cover suits your needs and help you with claims.
Some banks offer cargo insurance as part of a finance package. You can also ask your **freight forwarder** for a quote, but research suggests that their costs and service don't match those offered by specialist brokers.
You need to be aware that carriers, freight forwarders or third-party service suppliers will not automatically insure goods that are under their care or control. They can only do so if instructed in writing.
This applies to freight forwarders and others who provide insurance of goods in transit.

Product liability insurance

If you supply goods for export, you need to consider whether your product could in a very rare case cause damage to a third party - either a person or property. These types of risks are covered by product liability insurance.
If you already have this insurance, check that the policy covers you for claims made outside your own country. Many policies have restrictions on where they apply.

What you need to cover

You'll need a policy that protects you against:

- safety claims
- manufacturing defects
- spoilage costs
- legal defence costs
- medical costs

A **specialist broker** will advise you on the best policy for your business.

Poor quality products and services

Note that product liability insurance does not cover you for claims against the supply of poor quality products or poor services. Introducing a rigorous system of quality control - ie checking that your products meet certain standards - can help you avoid producing poor goods.

Minimising the cost

A quality control system that ensures your products are safe, fit for the purpose and meet required industry standards will also cut the cost of your premiums. It demonstrates that you are taking responsibility for your business operations seriously, in addition to having insurance in place.

Insuring against non-payment

While most businesses insure their fixed assets, many overlook the risk of non-payment by the buyer. There may be buyer, country or political reasons for non-payment.
As an exporter, you can take out **export credit insurance**. This protects against non-payment and is an important tool in credit management. It means you can sell more goods or services on credit terms and increase your borrowing power. However, it should not replace good credit management practices.

Export insurance policy

An export insurance policy will cover up to 95 per cent of loss against non-payment for the supply of goods or services and can be tailored to your needs.
If you export consumer goods or raw materials on cash or credit terms of less than two years, you'll need to get a quote from a private credit insurer.
If you supply capital goods (plant, machinery etc) or services with payment terms of two years or more, contact the relevant Government department in your country that deals with export credit.

Bond insurance

Many buyers abroad ask sellers for bonds or bank guarantees in case the seller doesn't keep to their side of the contract on quality or performance after receiving advance payments.
Most export-related bonds are payable on demand, so pose a risk for European exporters. Outbreak of war, for example, or overnight imposition of trade embargoes can lead to the calling-in of a bond. A bond insurance policy will protect you against these risks.

Tender exchange rate indemnity

This insurance will protect you against adverse exchange rate movements when tendering for contracts in a foreign currency. If the currency weakens between submission of your firm tendering and winning the contract, you could lose a lot of money.
Private credit insurers offer this insurance.

Find an export credit insurer

Export credit insurance can be divided into two types - short and medium/long-term.
Consumer goods, raw materials and other similar items are normally sold on cash or short payment terms - of less than two years. Your insurance broker or banker may be able to advise you on suitable insurers who will cover short-term risks.
For payment terms exceeding two years, you will need more specialist help. Contact the relevant Government department in your country that deals with export credit. Specialist private sector insurance companies increasingly provide this kind of credit insurance.
Make sure that the credit insurer understands the market in which you are selling, and that they can cover all of the potential risks that you are likely to face. If you are new to exporting, get recommendations from other businesses, from your bank or financial adviser.

Export finance and insurance

A key problem all exporters face is cashflow - you need to offer credit to win customers, but you also need cash to finance growth. However, banks, credit insurers and trading houses all compete to convert credit arrangements into cash.
There are a number of common short-term finance options.

Documentary credit (DC)

DC is a fixed assurance from the buyer's bank in the buyer's country. It is issued on behalf of the buyer to say that payment will be made for the goods or services supplied by your business, providing you comply with all terms and conditions established by the credit:

- If it is a cash contract, the DC terms will provide for payment immediately upon presentation of conforming documents.
- If you have offered credit, the DC terms will state when payment is due, reflecting any extended payment terms you have granted. Your bank may be prepared to provide a short-term loan, for a percentage of the DC, prior to shipment to cover the temporary shortfall. They will then collect from the proceeds of the subsequent presentation of the DC.

Factoring

A factor enables you to receive cash within a few days of invoicing, by taking on the ongoing responsibility for collecting your short-term debt. In some cases the factor will also take on a percentage of the non-payment risk. This is called **non-recourse** factoring and means the factoring company won't come back to you if the payer defaults.
Your bank can advise you on factoring.

Forfaiting

This is for larger projects and involves a bank buying 100 per cent of the invoice value of an export transaction at a discount. You are then free from financial risk in the transaction and liable only for the quality and reliability of the goods or services provided.

Credit insurance facilities

As an exporter you can also raise finance by assigning your credit-insured invoices to banks. In return the bank will offer up to 100 per cent of the insured debt as a loan. Ask your bank whether they offer this kind of support,

Trade Facilitation Programme

If you trade with Russia, Eastern Europe or the Commonwealth of Independent States, you can benefit from special guarantees offered through the Trade Facilitation Programme (TFP).
The program, run by the European Bank for Reconstruction and Development (EBRD), promotes trade with this region by offering "confirming banks" (who finance exports) security against the commercial and political risks of non-payment by local "issuing banks" (who finance imports).

Credit guarantees

The EBRD guarantees payments under the terms of trade-related finance instruments issued by local banks, including:
- documentary letters of credit
- standby letters of credit
- advance payment bonds and guarantees
- contract guarantees, such as performance or bid bonds
- trade-related promissory notes or bills of exchange

Simply put, the EBRD guarantees payments promised by local banks for your exports against political and commercial risks. This makes it easier for you to secure finance through the national banks to trade with this region.
Note that the EBRD does not deal directly with importers and exporters, even though they are the final beneficiaries.

Goods and services covered

EBRD guarantees cover for financial transactions relating to consumer goods, commodities, equipment, machinery, power supply, and construction, technical and other services.
The bank requesting an EBRD guarantee pays the fees for this service. No fees are payable by the importers and exporters.

Using the TFP

There are over 90 issuing banks in 21 EBRD countries of operation. To help secure finance for a transaction in this region, contact an issuing bank in the country you are trading with to request support, or ask your buyer if their issuing bank can get an EBRD guarantee.
SOURCE: Inntels.biz