

Incoterms® 2020

Who Pays Freight & Insurance? The Definitive Global Buyer's Reference

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01 What Are Incoterms?

Incoterms® (International Commercial Terms) are a set of 11 standardised trade terms published by the International Chamber of Commerce (ICC). They define who — the buyer or the seller — is responsible for freight costs, insurance, customs clearance, and the transfer of risk at each stage of an international shipment.

They are recognised and legally referenced in trade contracts worldwide. Using them correctly eliminates ambiguity and prevents costly disputes.

Critical Distinction: Freight ≠ Risk



Even when the seller pays freight (as in CFR or CIF terms), risk may already transfer to the buyer the moment goods are loaded. This is one of the most misunderstood aspects of Incoterms® and a leading cause of commercial disputes.

02 Quick Rule — Freight & Insurance

Freight (Transport Cost)

- Buyer pays freight → E and F terms (EXW, FCA, FAS, FOB)
- Seller pays freight → C and D terms (CFR, CPT, CIF, CIP, DAP, DPU, DDP)

Insurance

- Buyer pays insurance → Most terms by default
- Seller pays insurance → Only CIF and CIP

03 The Four Responsibility Groups

Group 1 — Buyer Pays Freight & Insurance (E / F Terms)

Minimum obligation for the seller. The buyer assumes control and cost at or near the seller's premises or port of origin.

- EXW — Ex Works: Buyer collects from seller's premises. Maximum buyer obligation.
- FCA — Free Carrier: Seller delivers to named carrier. Suitable for multimodal transport.
- FAS — Free Alongside Ship: Seller delivers goods alongside the vessel at origin port.

- FOB — Free On Board: Seller loads goods on board the vessel. Most common term for sea freight.

Group 2 — Seller Pays Freight, Buyer Pays Insurance (C Terms — No Insurance)

The seller pays main carriage, but risk transfers to the buyer at shipment. Insurance is the buyer's responsibility.

- CFR — Cost and Freight: Seller pays freight to destination port. Buyer arranges own insurance.
- CPT — Carriage Paid To: Like CFR but for multimodal/non-sea transport.

Group 3 — Seller Pays Freight AND Insurance (C Terms — With Insurance)

Only two Incoterms include seller-paid insurance by default.

- CIF — Cost, Insurance & Freight: Seller pays freight and insurance (minimum cover) to destination port.
- CIP — Carriage and Insurance Paid To: Like CIF for multimodal; requires higher insurance coverage (all-risk).

Group 4 — Seller Pays Everything (D Terms — Delivery Terms)

Maximum obligation for the seller. Goods are delivered to a named place near the buyer. Risk transfers late.

- DAP — Delivered at Place: Seller delivers to named destination, uncleared for import.
- DPU — Delivered at Place Unloaded: Like DAP but seller also unloads at destination.
- DDP — Delivered Duty Paid: Maximum seller obligation — seller pays all costs including import duties.

04 Incoterms® Cheat Sheet

| Term | Full Name | Freight | Insurance | Risk Transfers At | Mode |
|------|-----------------------------|---------|-----------|----------------------|----------|
| EXW | Ex Works | Buyer | Buyer | At seller's premises | Any |
| FCA | Free Carrier | Buyer | Buyer | Delivery to carrier | Any |
| FAS | Free Alongside Ship | Buyer | Buyer | Alongside vessel | Sea only |
| FOB | Free On Board | Buyer | Buyer | On board vessel | Sea only |
| CFR | Cost & Freight | Seller | Buyer | On board vessel | Sea only |
| CPT | Carriage Paid To | Seller | Buyer | Delivery to carrier | Any |
| CIF | Cost, Insurance & Freight | Seller | Seller | On board vessel | Sea only |
| CIP | Carriage & Insurance Paid | Seller | Seller | Delivery to carrier | Any |
| DAP | Delivered at Place | Seller | Seller* | Named destination | Any |
| DPU | Delivered at Place Unloaded | Seller | Seller* | Named destination | Any |
| DDP | Delivered Duty Paid | Seller | Seller* | Named destination | Any |

* D-term insurance is seller-arranged by convention but not mandated in the Incoterm itself.

05 Choosing the Right Term — Decision Guide

FOB / FCA

Best for experienced importers who want control over freight and can negotiate better shipping rates. Risk transfers early.

CIF / CIP

Best for buyers who want hassle-free insurance included in the deal. Simpler for new importers but seller chooses the insurer.

DAP / DDP

Best when you want door-delivery convenience. DDP is the simplest — seller handles everything including customs. Usually highest seller price.

06 Key Insights for Indian Trade

- India's exports are predominantly quoted FOB — verify with your supplier that the price includes all origin charges up to the vessel.
- For agricultural and perishable goods from India, prefer CIF or DAP to ensure insurance coverage during the longer transit periods.
- DDP from India is uncommon — Indian exporters rarely handle destination import duties. Confirm capability before accepting DDP quotes.
- Always specify the named place/port explicitly in the contract (e.g., 'FOB Mumbai Port') to avoid ambiguity.
- CIP requires all-risk insurance (Institute Cargo Clauses A) — significantly broader than the minimum CIF coverage (ICC C).

IRASHA Recommendation



For first-time imports from India, CIF or CPT terms offer the best balance of simplicity and protection. As your relationships mature, consider migrating to FOB or FCA terms where you can negotiate directly with freight forwarders for better rates and full control.