Goods in Transit – Basis of Valuation

3. Underwriting · https://mjdbrokers.com/knowledge-base/goods-in-transit-basis-of-valuation/

When seeking to insure a cargo shipment, the emphasis is placed on the marine insurance terms and conditions. There is not enough attention placed on whether the shipment in question is adequately valued at the time of risk.

In practice the insured value provided to the Underwriter is agreed and is conclusive. Basically, the insurable value of the cargo is the cost of the goods plus freight and insurance charges (CIF) and is void of any other shipping costs incurred after discharge into a seaport or airport. These additional charges could comprise of Customs Duty, Customs Vat, Port Handling Charges, Road freight and Clearing Agents Costs. If these charges are not included in the declared Sum Insured to underwriters, the insurer will not compensate the policy holder for these amounts when settling a total loss or partial loss claim.

Technically the Insured Value is the value expressed in a policy as an agreed value for insurance purposes and is conclusive between insurer and insured. The Sum Insured is the maximum amount of liability of the insurer under the policy and is the measure of indemnity for a total loss. Usually the Sum Insured is for the same amount as the insured value on one-off shipments but, this can differ on Open Policies where the sum insured is shown as the maximum any one vessel or conveyance (insurers maximum liability) and the actual shipment being declared is for the actual insured value.

To arrive at an equitable Insured value, a basis of valuation (B.O.V.) must be determined. Basis of Valuation is the marine term used to arrive at the Sum Insured of the subject matter to be insured. The basis normally includes the prime cost of the goods (converted at the customs exchange rate) plus insurance charges, freight, customs duty, customs vat, clearing charges and local transport costs. In addition to these charges the insured is permitted to add a percentage (between 10% and 50%) to the total of the aforementioned charges. The added percentage is not the insured’s profit but, it makes provision for currency fluctuation, increase freight and clearing charges in the event that goods lost or damaged have to be re-ordered.

Examples of Basis of Valuation (B.O.V.) which could apply:

- Cost Insurance Freight (C.I.F.) + 10% or more – mainly used for export shipments
- Landed Cost to final destination + 10% (costs of the goods, freight charges, customs duty, customs vat, clearing charges and local transportation costs). Freight and clearing charges appear on the Clearing Agents Invoice. Rate of exchange appears of the Customs Worksheet.
- Selling Price – mainly used on local sales
- Invoice Value – mainly used for local purposes

Calculation of Landed Cost + 10% :

Cost of Goods $10 000.00 converted at R16.50	= R165 000.00
Seafreight $ 900.00 converted at R16.50	= R 14 850.00
Cost + Freight	= R179 850.00
Customs Duty	= R 49 500.00
Customs Vat	= R 24 750.00
Clearing & Forwarding Charges	= R 11 695.00
Landed Cost to final destination	= R265 795.00
Plus 10%	= R 26 579.50
Total Sum Insured	= R292 374.50

Claims Settlement in the event of Total Loss:

B.O.V. – Cost + Freight	= R179 850.00
B.O.V. – CIF + 10%	= R197 835.00
B.O.V. – Landed Cost (above)	= R292 374.50

Where partial losses occur, the Insurer will apportion the loss proportionately by using the Sum Insured as the basis to arrive at a fair settlement.

The client will be out of pocket if the subject matter to be insured is not calculated correctly.