CIF: Costs, Insurance and Freight at a Glance

CIF (Cost, Insurance and Freight) is an international delivery term from the Incoterms stipulating that the seller bears the transport costs and a transport insurance policy up to the named port of destination. Nevertheless, the risk already passes once the goods are on board the vessel at the port of shipment. For technical buyers, CIF is therefore a classic sea and inland waterway term that creates cost transparency but requires particular attention to insurance cover and risk transfer.

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Key facts at a glance

01 CIF means: the seller bears the costs of transport, insurance and freight up to the named port of destination.

02 Risk transfer takes place on board at the port of shipment, not at the port of destination.

03 Under the Incoterms 2020, CIF may be used exclusively for sea and inland waterway transport.

04 The seller must typically take out insurance under clause C of the Incoterms, e.g. at 110% of the goods value.

05 From arrival at the port of destination, the buyer bears import charges, duties and other domestic costs.

06 CIF is primarily suitable for container and conventional sea freight, not for air or road transport.

Definition: CIF

CIF (Cost, Insurance and Freight) is a delivery term from the Incoterms of the International Chamber of Commerce, last published in the 2020 edition. It governs which party bears transport, insurance and costs in sea freight.

Allocation of costs under CIF

Under CIF, the seller bears the costs and the organisation of the main carriage up to the named port of destination. This includes delivery to the port of shipment, export clearance, the ocean freight and a transport insurance policy for the account of the buyer. The buyer then handles import clearance, duties, import VAT and costs from the port of destination onwards, such as terminal charges, inland transport and storage. Important for buyers: under CIF, the shipment is typically meant to be 'free to the manifest', meaning the main costs are included in the purchase price, but downstream costs such as demurrage or import clearance are not. A clean landed cost calculation should therefore also capture these items in order to make the true procurement cost comparable.

Risk transfer and insurance relationship

What is special about CIF is the discrepancy between cost and risk responsibility: the costs run to the port of destination, but the risk already passes to the buyer once the goods are on board at the port of shipment. If the goods are damaged at sea, the buyer must claim via the transport insurance taken out by the seller. This is permissible because the seller, as owner until the risk transfer, may take out the insurance, while the buyer is the beneficiary of the policy. Buyers should check whether the sum insured and the risks covered meet their requirements, as the Incoterms only set a minimum standard.

Methods and approach when applying CIF

For CIF to work reliably in procurement, clear processes are needed from the request for quotation to goods receipt. The term should always be agreed in writing with a named place and Incoterms version, e.g. 'CIF Hamburg Incoterms 2020'.

Specifying the term correctly

In the supplier portfolio and in requests for quotation, CIF should be specified precisely with the port of destination and the version, e.g. 'CIF Rotterdam Incoterms 2020'. Incomplete specifications frequently lead to disputes over terminal handling charges or the scope of insurance. For blanket orders and call-off orders from Asia, the term belongs in every framework agreement and every individual transaction. Procurement should also check whether the supplier, as an A-supplier, actually organises the ocean freight itself or unnoticedly resorts to forwarders whose carrier performance varies.

Checking insurance and documentation

Under CIF, sellers must provide evidence of insurance at least under Incoterms clause C, in practice often 110% of the goods value plus freight. Buyers should clarify in advance whether additional cover such as war risks or higher sums insured is necessary, and whether an own cargo insurance policy would be cheaper or more comprehensive. The document set typically includes the bill of lading, commercial invoice, packing list and insurance policy; without clean documents, customs clearance and claims handling are hindered. A supplier declaration on the scope of insurance can significantly facilitate claims in the event of damage.

Integrating inbound logistics and customs

Under CIF, the buyer organises the import itself: customs declaration, import charges and, where applicable, preference documents. The choice of forwarder from the port of destination, container unloading and onward transport are the buyer's own responsibility. Buyers should know the terminology of the upstream supply chain, such as the difference between a bill of lading and a sea waybill, and should contractually govern the notification of arrival (Notice of Readiness). Processes planned in advance reduce demurrage risks and measurably improve the service level of inbound logistics.

Key KPIs for CIF procurement

Because CIF prices appear all-inclusive, buyers easily lose sight of downstream costs. Targeted KPIs help steer the actual cost and delivery performance.

Landed cost and freight cost share

The landed cost captures the full procurement cost: CIF price, import charges, terminal charges, inland transport and handling. The freight cost share of the goods value is typically tracked as a percentage and shows whether freight rate fluctuations are eroding margins. Since the seller sources the ocean freight, procurement should regularly demand the underlying freight costs in supplier discussions in order to be able to follow price adjustments. A data steward in procurement can ensure that these cost items are maintained consistently.

Service level and carrier performance

Relevant are suppliers' on-time delivery (service level), the duration of delays on the sea leg and the reliability of the carriers used. Carrier performance can also be tracked under CIF by evaluating departure and arrival data from bills of lading and tracking data. Additionally useful: the insurance claim rate and the cycle time of claims handling. These KPIs belong in procurement controlling and should ideally feed into incentive models for innovation and supplier evaluations.

Risks and controls with CIF

CIF entails specific risks, above all because risk and cost transfer diverge and the seller selects the freight and insurance.

Insurance and quality risks

The mandatory insurance cover under clause C is a minimum: in practice, additional risks such as spoilage, war or port strikes are often not included. Anyone with higher requirements should demand extended cover from the seller or combine it with an own policy. Another risk: quality returns or subsequent complaints after the risk transfer at the port of shipment must be settled under warranty law, not under the delivery term. A risk register for critical imported items, for example with a view to compliance requirements such as RoHS, helps determine which goods may be procured under CIF at all and where alternative sourcing routes make more sense.

Cost risks and incentives for manipulation

Since the seller sources the freight, they can pass on price adjustments without any reference point. Buyers should ask for period freight rates or negotiate in parallel with several A-suppliers on CPT or FOB variants in order to keep prices comparable. Moreover, CIF transactions carry a reputational risk in procurement when buyers ignore the fact that they bear the risk from the port of shipment onwards: in incidents such as casualty or port blockades, their own organisation is responsible for follow-up measures. Contracts should therefore clearly govern responsibilities for emergencies.

Compliance and document risks

Imports under CIF touch customs and export control law. Procurement must ensure that the supplier declaration, origin and preference documents and, where applicable, re-export controls are in place. Missing documents can lead to customs delays and fines, which is often underestimated in controlling reports. The carnet (ATA) for exhibition goods and demonstration items must also be checked separately; it does not replace a CIF term but affects the same level of international goods traffic.

CIF in the context of digital procurement

Digital tools make CIF handling more transparent and controllable. Linking freight data, customs processes and supplier master data is a central lever for process optimisation in procurement.

Transparency over transport and costs

Digital procurement here means: automatically feeding tracking data from the carriers' platforms into the ERP procurement module, capturing freight and insurance costs in a structured way and linking them with the landed cost. This makes it possible to assess the true value of the CIF term. Those who operate demand aggregation across locations can negotiate better CIF terms with larger volumes or deliberately switch to FOB or EXW variants and source the freight themselves via tenders.

Master data and process automation

Consistent supplier master data, including unique supplier identifiers, is a fundamental prerequisite for booking CIF transactions automatically and pre-populating customs processes. Vendor onboarding that captures terms, Incoterms version, insurance data and documentation requirements in a structured manner reduces manual queries. Likewise, automating bill of lading checks and invoice matching can avoid mispostings and make the savings forecast more robust, because freight and insurance costs are reflected in the planning cycle.

Current developments and alternatives to CIF

The Incoterms 2020 have brought some clarifications, and the market is shifting due to freight rate volatility and sustainability requirements. Buyers should deliberately weigh CIF against alternatives.

CIF, CIP and FOB compared

With the Incoterms 2020, CIP (Carriage and Insurance Paid To) is suitable for all modes of transport and requires by default more comprehensive insurance cover under clause A, whereas CIF remains at the lower clause C. For container and multimodal transport, many practitioners therefore recommend CIP instead of CIF. FOB (Free on Board) leaves freight and insurance sourcing entirely to the buyer, which is often cheaper with professional logistics teams. The choice depends on market power, risk profile and own logistics expertise.

Sustainability and freight rate volatility

Sea freight is under pressure: carbon pricing, social responsibility reporting obligations and SBTi targets in one's own supply chains are drawing attention to the main carriage. Under CIF, the seller chooses the carrier, and the buyer has little influence on the emissions balance of the sea leg. Anyone pursuing sustainability targets should consider FOB or FCA arrangements in order to select carriers based on emissions criteria. Cross-selling in procurement, in the sense of bundling with forwarders and insurers, can also unlock cost advantages. In extreme freight rate phases, as experienced several times in recent years, zero-based budgeting of logistics costs can help bring structure to the cost picture.

Typical metrics

Metric	Typical value
Freight cost share of goods value	typically 2–8% *strongly dependent on goods, distance and the freight rate cycle*
On-time delivery of import shipments	> 95% *service level based on agreed arrival dates*
Insurance cover	at least 110% of the goods value *Incoterms minimum standard, clause C, under CIF*
Document completeness	> 98% *share of shipments with a complete document set on arrival*

Practical example

A mid-sized mechanical engineering company sourced castings from Asia under CIF Hamburg. After repeated delays and a casualty where the insurance cover was insufficient, procurement overhauled its processes:

- Switching long-term blanket orders to CIP with increased insurance cover under clause A
- Building a risk register for all imported items, including documentation requirements and carrier dependencies

- Negotiating ocean freight in parallel with two freight forwarders through demand aggregation, thereby reducing the freight cost share of the landed cost
- Introducing a monthly carrier performance review in procurement controlling

Conclusion

CIF is a proven term for classic sea freight imports that offers buyers cost transparency and reduced logistics effort, provided they understand the consequences: the risk already passes at the port of shipment, and the standard insurance is only a minimum. Those who calculate landed costs properly, set up documentation and customs processes professionally and deliberately weigh the term against CIP or FOB can use CIF safely. In digitalised procurement, tracking, costs and supplier evaluation can be connected in such a way that CIF no longer remains a black box. Ultimately, the fit with risk appetite, logistics expertise and sustainability goals determines the right term for each commodity group.

Frequently asked questions

? What does CIF mean in procurement?

CIF stands for Cost, Insurance and Freight. The seller bears the costs of transport, insurance and freight up to the named port of destination. However, the risk passes to the buyer as soon as the goods are on board at the port of shipment.

? Who pays for the insurance under CIF?

Formally, the seller takes out the transport insurance, but it covers the buyer's interests during transit. The Incoterms 2020 require at least cover under clause C, in practice often 110% of the goods value. Higher levels of cover must be agreed separately.

? CIF or FOB – which is better for the buyer?

CIF relieves procurement of freight and insurance sourcing, but removes control over carriers and rates. FOB leaves freight sourcing to the buyer, which is often cheaper and more transparent when the buyer has its own logistics expertise and volumes. The right choice depends on market power, risk appetite and sustainability requirements.

? May CIF be used for air freight or road transport?

No. Under the Incoterms 2020, CIF is intended exclusively for sea and inland waterway transport. For all modes of transport, including multimodal, CIP (Carriage and Insurance Paid To) is the appropriate term, which also requires more comprehensive insurance cover.

? When does the risk pass to the buyer under CIF?

As soon as the goods are on board the vessel at the port of shipment, not only at the port of destination. This is the key difference from the allocation of costs, which extends to the port of destination. Damage at sea is therefore handled by the buyer via the transport insurance.

? What is not included in the CIF price?

Typically not included are import clearance, duties, import VAT, terminal charges at the port of destination, inland transport, storage and any demurrage costs. Procurement should capture these items in the landed cost calculation in order to know the true procurement cost.

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