CIP (Carriage and Insurance Paid to): precisely governing transport and cost responsibility

CIP stands for 'Carriage and Insurance Paid to' and is one of the eleven Incoterms rules of the International Chamber of Commerce (ICC). It stipulates that the seller bears the freight costs to the named place of destination as well as transport insurance, while the transfer of risk already occurs upon handover to the first carrier. For technical buyers, CIP is particularly relevant in the international procurement of components, as it deliberately keeps cost responsibility and risk transfer apart.

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Key facts at a glance

01 CIP is an Incoterms rule and applies to all modes of transport, including multimodal traffic.

02 The seller bears the freight costs to the named place of destination and takes out transport insurance.

03 The transfer of risk occurs as early as handover of the goods to the first carrier, not at the place of destination.

04 Since Incoterms 2020, the standard insurance covers the perils under Clause C of the Institute Cargo Clauses; a higher level of protection must be agreed separately.

05 CIP is typically suitable for container and consolidated consignments; for full truck or rail loads, CPT is often the more appropriate alternative.

06 As with CPT, the buyer bears import formalities, import duties and taxes at the place of destination.

Definition: CIP

CIP (Carriage and Insurance Paid to) belongs to the family of Incoterms rules and obliges the seller to conclude a contract of carriage to the named place of destination and to pay the freight. In addition, the

seller must take out transport insurance for the perils during carriage. However, the transfer of risk to the buyer already takes place as soon as the goods have been handed over to the first carrier.

Distinction from CPT

CPT (Carriage Paid to) and CIP differ in only one respect: under CIP, the seller is additionally obliged to take out transport insurance. All other obligations – carriage to the place of destination, export handling, provision of trade documents – are identical. In practice, buyers choose CIP when the goods must be insured during transport, for example high-value electronic components or sensitive mechanical parts.

Distinction from CIF and FOB

CIF (Cost, Insurance and Freight) is limited to sea and inland waterway transport, whereas CIP applies to all modes of transport, in particular also container transport with pre-carriage and on-carriage. FOB (Free on Board), by contrast, only transfers costs and risk to the buyer upon loading on board the sea vessel. The choice between these rules should be guided by mode of transport, loading unit and the desired allocation of risk.

Cost responsibility and transfer of risk under CIP

What is special about CIP is the separation of cost and risk responsibility: the seller pays the freight to the place of destination but, from handover to the first carrier onwards, no longer bears the transport risk. For buyers, this means that losses in transit are handled through the insurance taken out by the seller – however, the buyer is nevertheless entitled to the risk from handover onwards.

Advantages for the seller

The seller retains control over carrier, route and insurance cover and can optimise freight rates with its volumes. The transport risk ends early, so delays or losses from the time of despatch no longer affect its liability. At the same time, it can arrange insurance more cost-effectively through framework policies, which is often reflected in the sales price.

Advantages for the buyer

The buyer receives the goods delivered insured at the place of destination without having to conclude carriage contracts itself and can concentrate on its goods receiving process. It only bears costs for import clearance, duties and taxes from the place of destination onwards. Nevertheless, it is important to check the insured amount and cover in the purchase contract, since the Incoterms standard cover does not always match the value of the goods.

Methods and approach: applying CIP correctly in the procurement process

For CIP to work smoothly in order processing, the order text, delivery terms and transport

documentation must be consistently aligned. Vague details regarding the named place of destination or the desired cover are the most common sources of disputes.

Name the place of destination precisely

The rule requires the most precise place possible, ideally with address, port or airport terminal and, where applicable, loading logistics details. Vague indications such as 'Hamburg' frequently lead in practice to disputes over the final address, unloading aids and dwell time. It is advisable to word the place of destination identically in the price sheet and the purchase order and, where applicable, to use a framework supply agreement with firmly agreed destinations.

Agree insurance cover specifically

Since Incoterms 2020, the seller must, under CIP, demonstrate cover under Clause C (Institute Cargo Clauses) of at least 110 per cent of the value of the goods; Clause A (All Risks) must be agreed separately. Buyers of critical goods should therefore specify in the contract the desired level of protection, insurer requirements and the provision of the insurance certificate. A review of the cover documentation should be an integral part of the order fulfilment process.

Key KPIs and inspection criteria for CIP transactions

CIP can be managed using classic logistics and procurement KPIs, supplemented by specific inspection characteristics relating to insurance and transport documentation. The values should be reviewed regularly in supplier management and discussed with the supplier if anomalies occur.

On-time delivery and milestone tracking

On-time delivery at the named place of destination is the key metric for transport reliability. In addition, tracking along the transport chain provides early indications of delays, for example during transhipment or customs clearance. If on-time delivery is permanently below expectations, an adjustment of the supplier base or a shift to logistically better positioned suppliers is advisable.

Completeness of transport and insurance documents

Metric or at least inspection quota for complete document sets: transport document, insurance certificate, export documents and, where applicable, waybill. Missing insurance proofs are a typical problem area that only becomes visible when a loss occurs. A documented inspection routine in goods receiving significantly reduces this risk.

Total cost of delivery

In addition to freight, buyers should record customs duties, port charges, storage and demurrage costs as well as handling at the place of destination. This total cost view enables robust comparisons between CIP and alternatives such as EXW or FOB and provides arguments for negotiation techniques when sellers pass on freight surcharges.

Risks and controls: typical pitfalls of CIP

The most common problems arise where the rule is misunderstood: risk and costs are conflated or the insurance gap goes unnoticed. Targeted controls in supply risk management significantly reduce these risks.

Risk gap between transfer of risk and place of destination

Since the transfer of risk occurs with the first carrier, the buyer formally bears the risk from that moment – even though the seller pays. Without sufficient cover, the buyer is left with the loss in the event of transport incidents if the seller's cover is too low or too narrow. Countermeasure: request proof of cover before despatch and, where necessary, agree Clause A contractually.

Unclear packaging, loading and pre-carriage responsibilities

Packaging standard, container management and pre-carriage to the terminal must be clearly allocated, otherwise disputes over costs arise. In framework agreements and MSAs (Master Service Agreements), a separate transport clause is recommended, governing references to the Incoterms, packaging requirements and notices of defects in the event of transport damage. Limitation of liability should also be checked for consistency with the chosen Incoterm – a final legal assessment should be made on a case-by-case basis.

Current developments: CIP in modern procurement

Incoterms 2020 raised the insurance obligation under CIP from the previous minimum cover to a higher level of cover, thereby making the rule more attractive for high-value industrial goods. At the same time, digitalisation, freight rate fluctuations and sustainability requirements are changing the assessment of the rule.

Price volatility in raw materials and freight costs

Fluctuating freight rates and price volatility for raw materials directly influence CIP prices, as the seller factors in the transport costs. Buyers should therefore combine price adjustment clauses with traceable indices and optimise call-offs under delivery schedules in order to smooth step changes in costs. Transparent cost breakdowns in the price sheet make prices easier to comprehend.

Sustainability and ESG requirements in transport

Emissions data and reporting obligations for transports are gaining in importance, particularly for carbon accounting and supply chain requirements. Those using CIP can request emissions reports and improvement measures from the seller, similar to how this is done through a supplier ESG improvement plan in supplier management. This integrates sustainability into the selection of transport modes and supports product life cycle management.

Typical metrics

Metric	Typical value
On-time delivery (delivery at place of destination)	> 98 % *usual benchmark for reliably sourced international upstream components*
Document completeness	> 99 % *proportion of complete sets of transport and insurance documents*
Insured amount	>= 110 % *minimum cover relative to the value of the goods as required by the Incoterms*

Practical example

A medium-sized machinery manufacturer had previously sourced electromechanical components from Asia on an FOB basis, managing transport and insurance itself. After repeated losses during the pre-carriage stage, the company switched to CIP with a named place of destination at the factory gate and required cover under Clause A.

- Place of destination precisely defined in the purchase order and price sheet, including unloading instructions
- Proof of insurance anchored as a release-for-shipment criterion in exception management
- On-time delivery and document quality reviewed quarterly in supplier meetings
- Total cost comparison of CIP vs. FOB prepared to inform future price negotiations

Conclusion

CIP is a well-proven Incoterms rule for international procurement on a container and multimodal basis, in which the seller takes on freight and insurance while risk passes at an early stage. The decisive lever lies in precision: an exact place of destination, a defined level of insurance and consistent contracts. Buyers who systematically monitor documentation, on-time delivery and total costs use CIP as a controllable design instrument rather than a formality. The rule should always be assessed in the context of framework agreements, defect processes and supply risk management.

Frequently asked questions

? What does CIP mean in international procurement?

CIP stands for Carriage and Insurance Paid to and is an Incoterms rule. The seller bears the freight costs to the named place of destination and takes out transport insurance. However, the transfer of risk occurs as early as handover to the first carrier.

? Who pays for insurance under CIP and at what level?

The seller must take out transport insurance and provide the certificate to the buyer on request. Since Incoterms 2020, the standard corresponds to cover under Clause C of the Institute Cargo Clauses with at least 110 per cent of the value of the goods. Higher protection such as Clause A must be agreed separately.

? What is the difference between CIP and CPT?

Both rules govern identical obligations regarding freight, export handling and transfer of risk. The only difference is the insurance obligation, which exists only under CIP. For goods requiring insurance, CIP is therefore the right choice, while CPT is often sufficient for insensitive bulk goods.

? Who bears the transport risk under CIP?

Formally, the risk passes to the buyer upon handover of the goods to the first carrier. In practice, however, a loss event is covered by the transport insurance taken out by the seller. Buyers should therefore check the scope and amount of cover in advance.

? When is CIP better suited than CIF or FOB?

CIP is suitable for all modes of transport, especially container and multimodal traffic, whereas CIF is limited to sea transport. FOB is suitable when the buyer wishes to manage transport themselves. For deliveries to the factory gate with desired insurance, CIP is often the most appropriate rule.

? What costs does the buyer bear under CIP?

At the place of destination, the buyer handles import clearance, import duties, taxes as well as costs for unloading and onward transport, unless otherwise agreed. Before the place of destination, only those costs arise for the buyer that the seller does not have to bear due to a lack of agreement, for example in the event of the buyer's act of disposition.

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