

KNOWLEDGE IN TRANSIT



BASIS OF VALUATION (BOV)

If an importer wants to insure annual fabric shipments with a purchase cost of \$1,000,000 and the BOV is CIF + 10% (Cost + Insurance + Freight + 10%) the \$1,000,000 cost of the fabric needs to be increased by the amount paid for insurance and freight plus an additional 10% in order to arrive at the amount declared for insurance.

At its extreme, import duty on alcohol and tobacco can be over 100% of the invoice cost of the goods so it is easy to see why insurers would want to receive premium for their exposure to claims for duty.

WHAT IS IT?

The BOV establishes the manner in which cargo will be valued in the policy for the purposes of calculating a shipment's insured value. This is particularly relevant to annual cargo policies where the policy sum insured reflects the maximum potential value at risk rather than the value of each shipment.

While BOV is usually stated in the cargo policy schedule, policy wordings may also refer to a 'standard' BOV of "CIF+10% unless otherwise stated in the schedule".

Many schedules will also state different BOVs that apply to such items as second-hand machinery and household goods and personal effects.

WHY IS IT IMPORTANT?

Most insurers' marine cargo application forms ask that the amount declared as "estimated sendings" is increased by the cost of freight and insurance plus 10% (i.e. CIF+10%). In addition, if the policy covers additional costs such as import customs duty many insurers will also stipulate that the values declared to them be increased to include such costs.

When there is a claim insurers will base their claim settlement on the amount calculated according to the basis of valuation. Insurers therefore try to have those incidental amounts such as freight and duty included in the figures declared to them and upon which they base their premium calculations.

MARINE INSURANCE ACT/ INSURANCE CONTRACTS ACT

Many marine insurers' policies which insure both within Australia and overseas risks do not contain a Basis of Settlement. This could result in some ambiguity when it comes to settling claims.

AND FINALLY...

Insurers will generally be reluctant to increase the "+10%" loading beyond a reasonable amount for out of pocket expenses. Many marine insurers offer a separate loss of profits or consequential loss insurance that is provided in addition to an underlying marine insurance risk.

RELATIONSHIP TO CLAIMS SETTLEMENT

Something that is often overlooked is that the Basis of Valuation is not the same as the Basis of Settlement.

The BOV establishes the amount that is to be insured while the Basis of Settlement sets out the mechanism an insurer is to use for claim settlement. For example, if an insured machine has a BOV of CIF+10%, an insurer may then have a Basis of Settlement that states any damage is paid on the basis of the machine's market value if it is over 5 years of age.

How does it work?

Marine insurance policies that predominantly cover maritime risks (imports/exports plus incidental inland transit) will be settled in accordance with the Marine Insurance Act which sets out how claims are to be calculated.

Where policies insure transit risks that are predominately within Australia, it is up to the insurer to clearly set out the Basis of Settlement that will be used for claims.

What is the "+10%" all about?

The BOV is most commonly stated as "CIF+10%". There are occasions however, where insurers may provide a higher percentage loading, e.g. CIF + 20%.

This loading amount is often incorrectly stated as insuring the profit margin whereas its primary intent is to cover costs incidental to the claim such as the insured's loss of time in preparing the claim as well as possible currency fluctuations in having to source replacement goods at a less favourable exchange rate.