Basis of Valuation

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What is a Basis of Valuation (BOV)?

Basis of Valuation, commonly shortened to BOV is a methodology or formula to identify the value of 'goods' at any given time during a transit.

As defined under the Marine Insurance Act (Section 22), the Measure of Insurable Value is stated as follows – "In insurance on goods or merchandise, the insurable value is the prime cost of the property insured, plus the expenses of and incidental to shipping and the charges of insurance upon the whole" with the only exception to this being where there is a express provision or valuation in the policy.

The Basis of Valuation is not always uniform and consistent across all types of transits. Overseas transits use a separate BOV to inland transits and the BOV on inland transits can vary depending on the type of transit.

Importance of a Basis of Valuation

The basis of valuation is to allow for the accurate calculation of the indemnity value of goods in the event of a loss.

The agreed basis of valuation is noted on the policy, so, should an insured loss occur, it will automatically be covered for the value agreed under the policy.

Most overseas shipments are negotiated using intermediate banks who reimburse monies between the buyer and seller. One of the documents necessary for negotiation of the documentation is an insurance certificate correctly reflecting the stipulated basis of valuation (commonly 110% of CIF value). Without this the buyer's bank will usually refuse to remit funds.

Exports/Imports

The most common BOV for exports/imports incorporates CIF, being Invoice Cost (Prime Cost), Insurance Premium (Cost of Insurance) and Shipping and/or Airfreight Costs (Expenses of and Incidental to Shipping).

The CIF value is normally elevated by 10% to incorporate the additional costs at country of destination, however, it is important to note that any markup applied to the CIF value will not be done so to factor in a profit margin.

Where required, Marine Protect may consider more than a 10% markup for 'seasonal' goods.

Inland

The BOV for inland transits often varies depending on the type of transit, some common examples are as follows:

- Sales – Sales Invoice Price (Including freight)
- Purchases – Purchase Invoice Cost (Including freight)
- Stock Transfers – Intercompany cost (Including freight)
- Plant and Equipment Transfers – either replacement cost or indemnity value, depending upon the age of the equipment

Summary

By its insertion into a contract, a BOV enables all parties to clearly understand and agree the insured value for each shipment and clarifies, in the event of a claim, how settlement is to be calculated.

How can I find out more?

Contact your local NTI Marine Specialist and State Development Specialist, or visit **www.nti.com.au**