

INSURANCE REQUIREMENTS OF THE INDIAN LOGISTICS AND WAREHOUSING INDUSTRY AND THEIR CUSTOMERS

(Ready Reckoner)
2017-18



भारतीय बीमा संस्थान
INSURANCE INSTITUTE OF INDIA

Commissioned by Transport Corporation of India (TCI)



Launched by : Shri. Nitin Gadkari, Honorable Minister for Road Transport & Highways, Shipping and Water Resources, River Development & Ganga Rejuvenation

Venue : India Habitat Centre, New Delhi

Date & Time : 7th June, 11.00 am



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Glossary

- * **LW**- Logistics and Warehousing.
- * **LSP**-Logistics Service Provider
- * **UNESCAP**- The United Nations Economic and Social Commission for Asia and the Pacific

About TCI and III



Transport Corporation of India Ltd. (TCI), with revenues of over Rs.3200 crore, is India's leading integrated multi-modal logistics and supply chain solutions provider. TCI group with expertise developed over 6 decades has an extensive network of company owned 1400+ offices, 11.5 mn. sqft of Warehousing space and a strong team of 6000+ trained employees. With its customer-centric approach, world class resources, State-of-Art technology and professional management, the group follows strong corporate governance and is committed to value creation for its stakeholders and social responsibilities. The whole corporation is composed of various special divisions and Group Companies catering to the various needs of logistics namely: TCI Freight, TCI Supply Chain Solution, TCI Seaways, TCI Express Ltd , TCI Developers Ltd and TCI Foundation.

As part of its commitment to the Logistics industry and the Nation, TCI conducts academic studies periodically on matters of topical interest. Some of the well-known and widely referred TCI studies are 'Operational Efficiency of National Highways for Freight Transportation in India' (2009-10) and 'Operational Efficiency of Freight Transportation by Road in India' (2008-09, 2011-12, 2014-15) conducted jointly by TCI and IIM Kolkata.

Insurance Institute of India (III) was established in 1955 for imparting insurance education & training. Today, III conducts examinations leading to globally recognized certifications as Associated and Fellow Members of III and has 91 insurance institutes across the country. III is formally aligned with International Organizations like International Association of Insurance Supervisors (IAIS), United Nations Environment Program-Finance Initiative (UNEP-FI), Institute of Global Insurance Education (IGIE) International Insurance Society (IIS) and the Federation of State Insurance Organizations of SAARC Countries (FSIO). III is represented on the GOI - Finance Ministry's Advisory Committee/ Advisory Groups on Life Insurance and General Insurance. III works with the Government/ Insurance Regulatory and Development Authority of India (IRDA) as well.

College of Insurance (COI), the knowledge arm of III, is recognized for insurance training in India and under the Colombo Plan for SAARC countries. COI has been training insurance professionals from India, the SAARC Region, Middle East, Africa and beyond is the alma mater of many senior executives. COI/III conducts a Post Graduate Diploma in Health Insurance (PGDHI) in collaboration with the Department of Economics (Autonomous) of University of Mumbai. III's Research Centre, recognized by the University of Mumbai for Ph. D. in Business Management, conducts various research studies for the Institute and for reputed national and international entities.

Objective of **the Study**



This exploratory research study was initiated by **Transport Corporation of India** (as part of its knowledge initiatives for the logistics, transportation, warehousing and supply chain management industry) as a joint study with **Insurance Institute of India** with the **broad objectives:**

- ❖ to evaluate the insurance requirements of the Indian Logistics and Warehousing industry and their customers, from an in-country cum multi-modal operations point of view
- ❖ to find the gaps between the needs of the logistics industry and the insurance policies available in the Indian market and
- ❖ to indicate possible solutions.

Executive Summary



The research was essentially a quest to find out the gaps between the needs of the logistics industry and the insurance policies available in the Indian market.

Multiple aspects of the industry, such as

(i) the broad legal contours of the contractual, third party and other obligations/ liabilities of Logistics Service Providers (LSPs) and the redress mechanisms available to them;

(ii) the availability of insurance products for addressing the specific needs of the market;

(iii) the intrinsic worth and efficacy of the products in terms of risk transfer and value for money; and

(iv) the ease, flexibility and sustainability of doing business in terms of access to products and reliability on claims servicing systems were examined as part of the study.

The findings presented in this report would help:

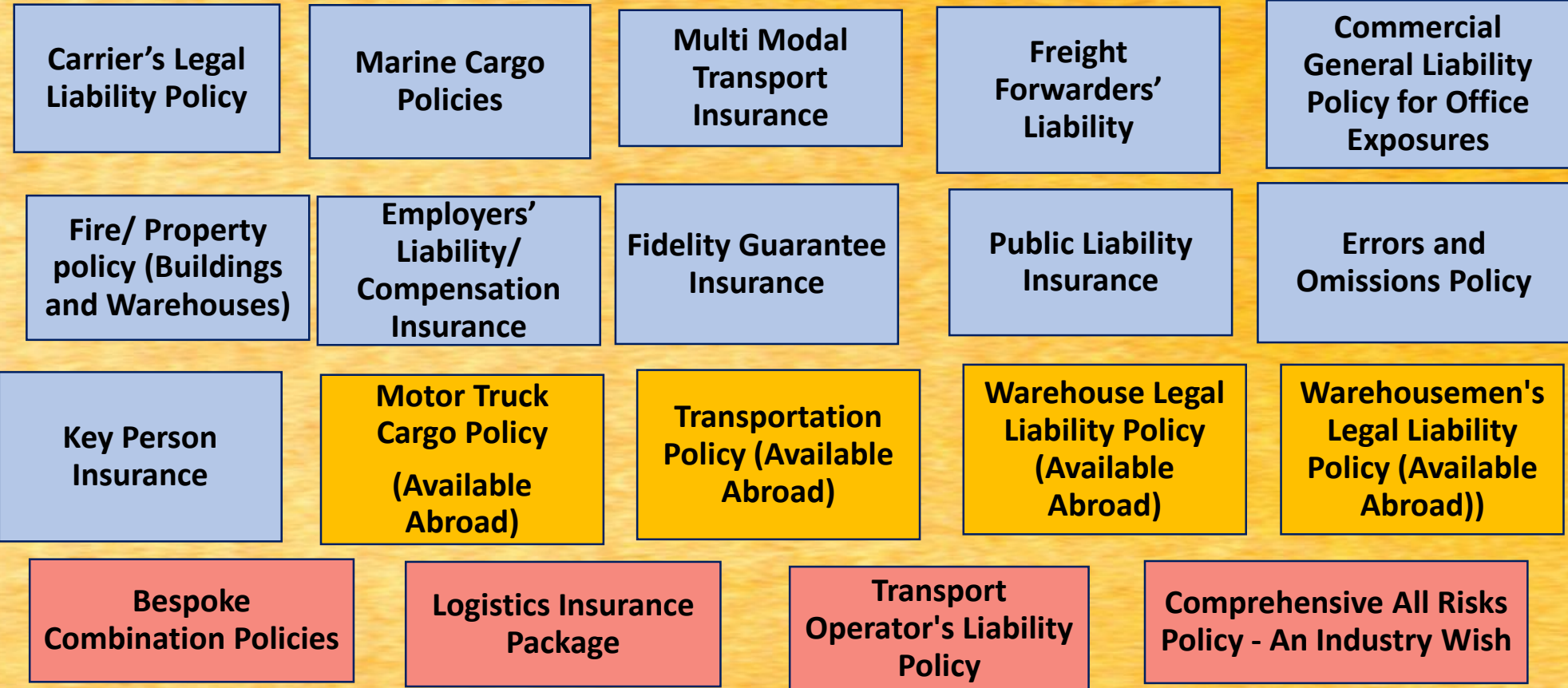
(a) the logistics industry in protecting their business interests in a better manner,

(b) the insurance industry in understanding the Logistics and Warehousing market and providing appropriate covers,

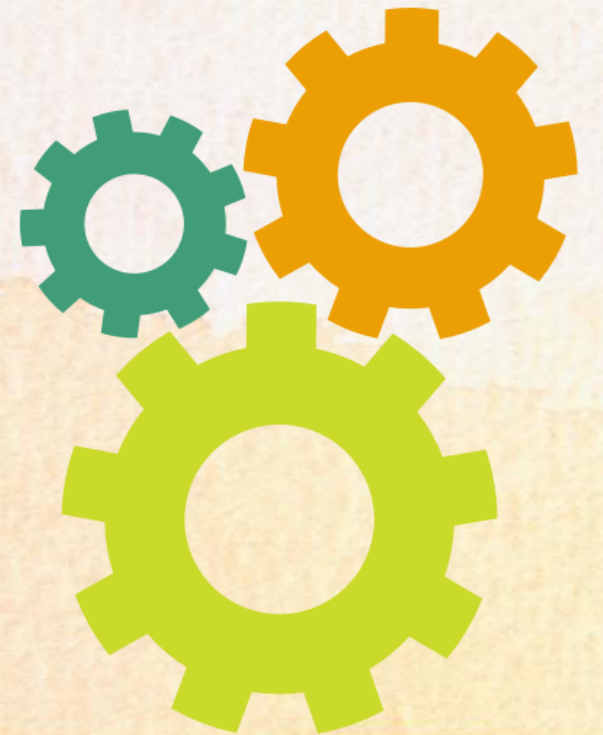
(c) the government for policy framing and regulatory purposes and

(d) the customers of the logistics industry who would be the ultimate beneficiaries of such studies.

Cluster of the Insurance Solutions



Research Methodology and Hypothesis



The conceptual strength and robustness of the research emanates from a review of

- insurance policies,
- court verdicts
- published literature.

Interviews of 62 experts were taken. These experts were

- ❖ from the Insurance industry,
- ❖ from the Logistics and Warehousing industry and
- ❖ from the Corporate customers

Experiences and views shared by 231 customers through questionnaires have enhanced the practical relevance of the findings of the study.

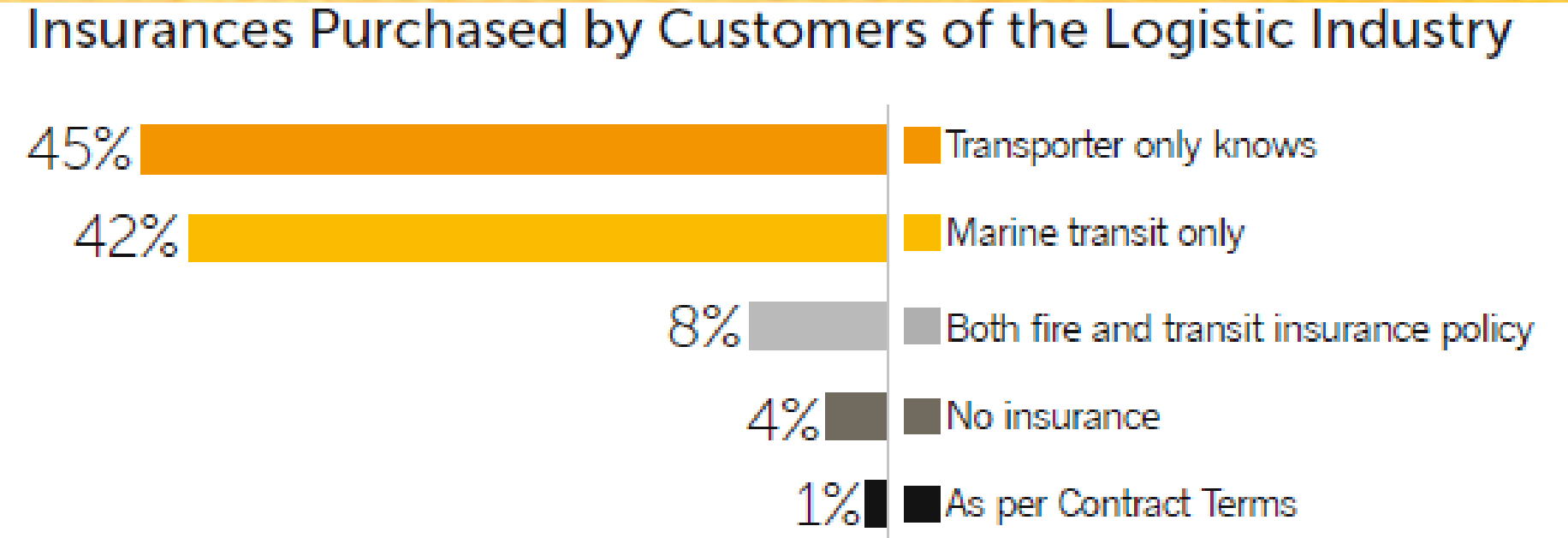
Responses



When a cross section of the customers of the Logistics industry were asked whether they would insure their own cargo during transportation.

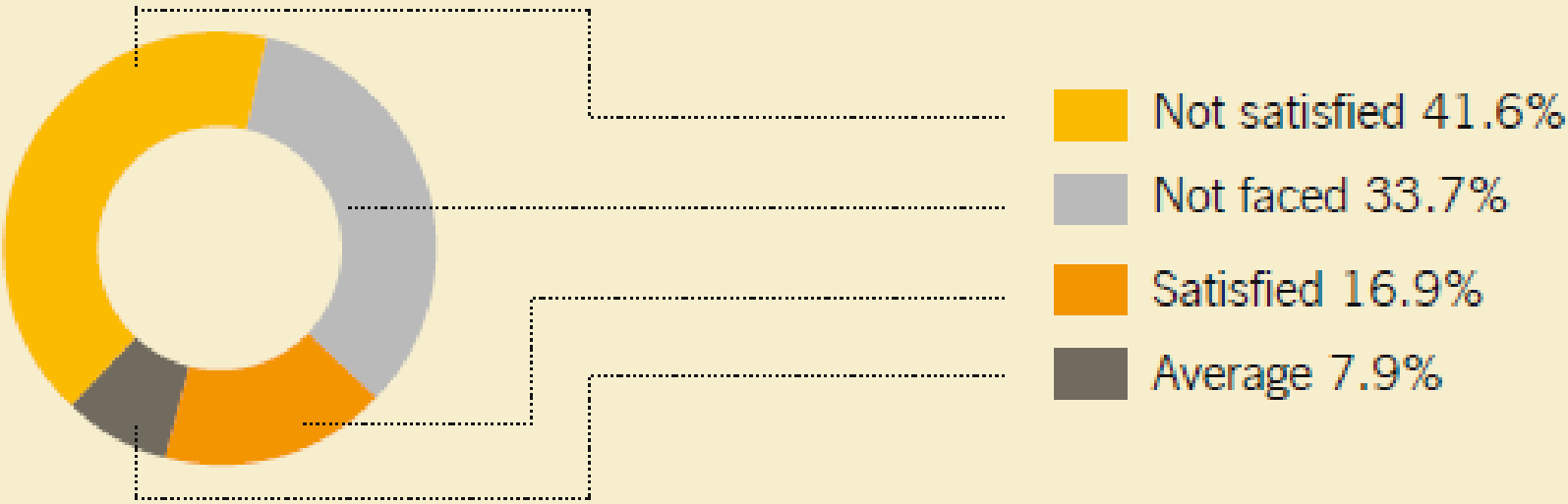
Response	Percentage
When unavoidable	4
Neve	8
Mostly	12
Selectively	17
Always	59

When the same customers were asked about the insurances that they had



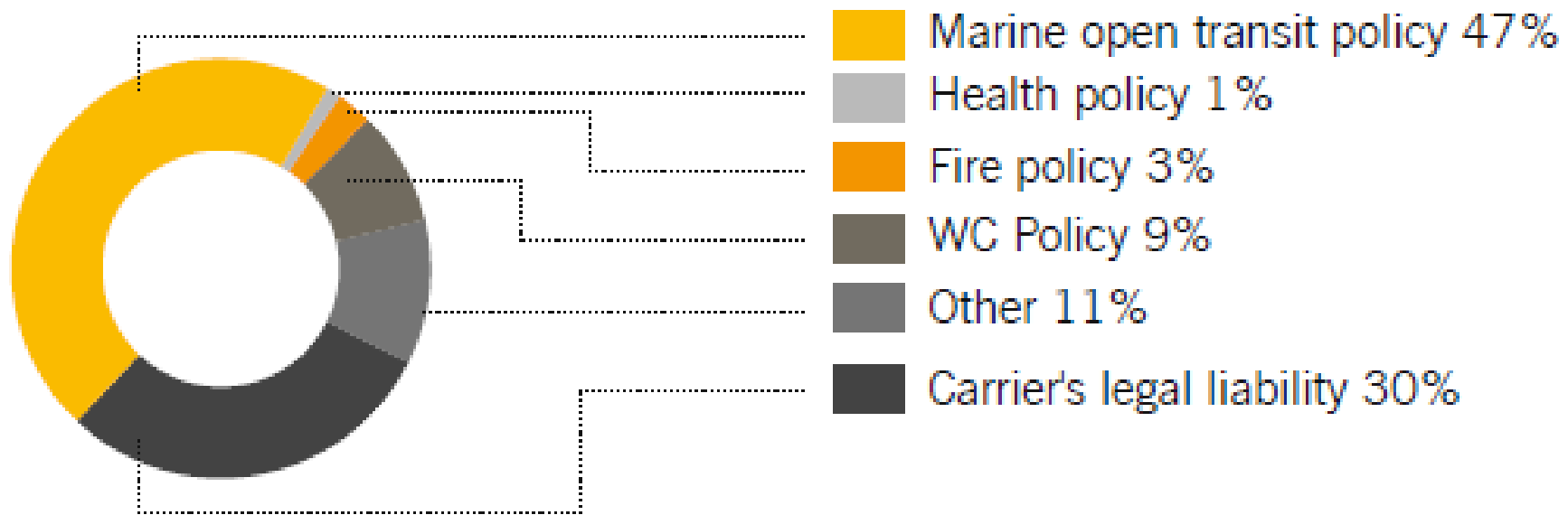
When it came to the satisfaction levels in respect of insurance claims.

Experience on claim settlement



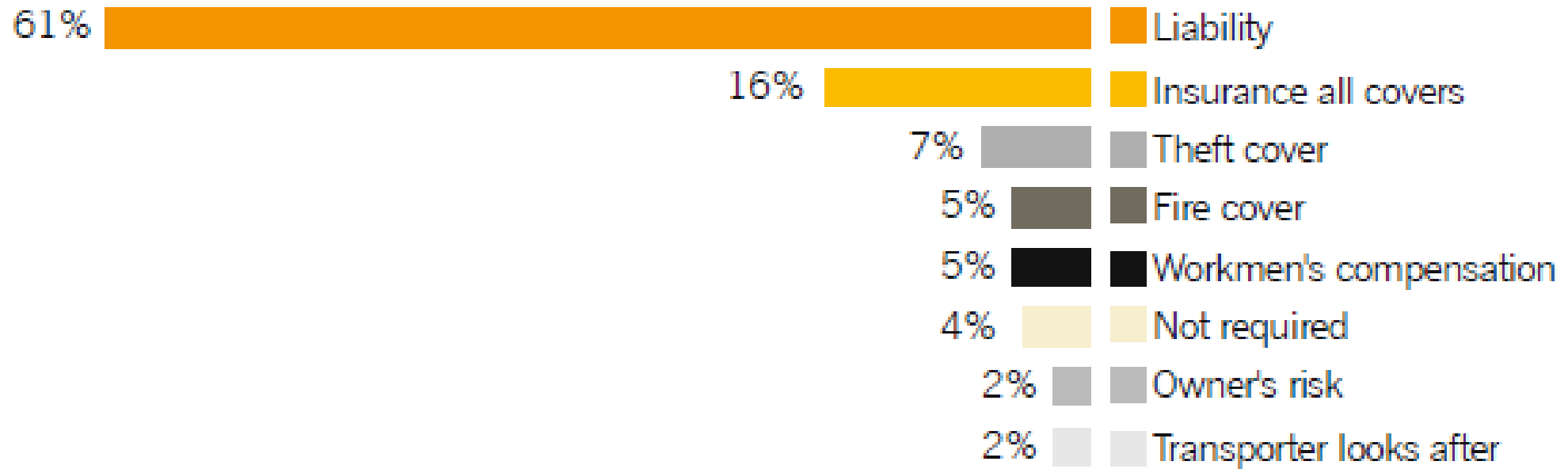
When the customers of the Logistics Industry were asked to rank insurance policies based on their individual experiences and satisfaction levels.

Insurance policies that customers of the logistics industry were satisfied with based on their past experience



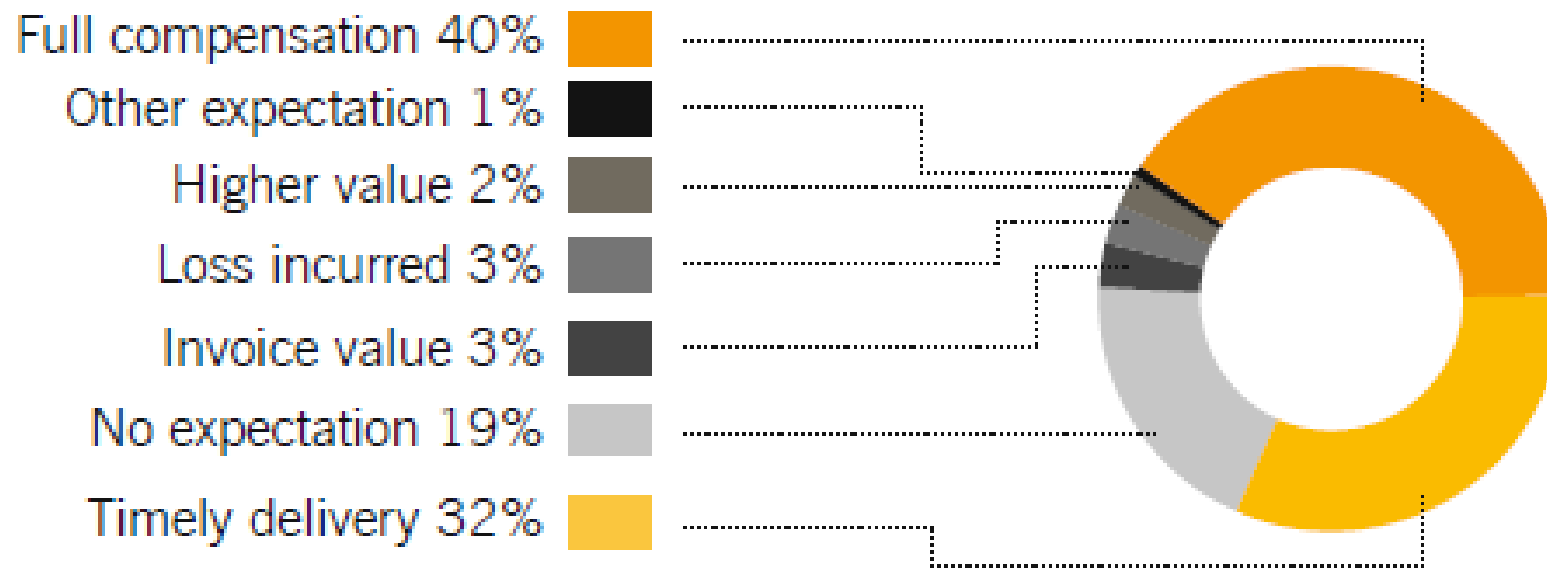
When a cross section of the customers of the Logistics Industry was asked to state the covers required by the Logistics Industry.

Insurances Purchased by Customers of the Logistic Industry



It may be worth observing that when asked an open ended question about their expectations of compensation for service deficiencies.

Insurance policies that customers of the logistics industry were satisfied with based on their past experience





Key Findings of the Report

2. UNESCAP points out that with logistic services getting integrated with the supply chain, services have become more complex; and setting up limits of liability and minimum standards for liability insurance has become more difficult.



5. The freight charged by the logistics provider is not sufficient to meet the risk exposure of transportation and warehousing losses even though losses are infrequent.

1. Despite the legal position ushered in by Carriage by Road Rules, 2011, which appear benevolent towards the Logistics Industry, in reality, the Service Providers continue to be in a highly vulnerable position.

3. There are instances where LSPs purchase cargo policies in their favor, which do not actually protect them, as these are designed to protect only the owners' interests and not those of the carrier or other bailees.



4. The Logistics Industry does not realize that its complex business models are often not fully understood by insurers and hence they do not enjoy the fullest confidence of the Insurance Industry.





7. Carrier's Legal Liability policies are not practically effective as insurers do not settle claims till legal steps are initiated against the carrier. LSPs have no option but to pay to retain business.

10. There is an acute shortage of skilled drivers and Transporters do not have the capacity to identify fake driving licenses. This increases their commercial costs like vehicle maintenance etc.; as also social costs like damage to goods, loss of life and damage to road infrastructure.

6. Insurers provide marine cargo policies to consignees based on the consignment notes issued by transporters. Insurers do not inspect the cargo, check the standard of packing, method of packing or insist on standard risk management practices.

8. Some of the contract wordings between shippers and LSPs are highly one sided and absolve shippers even when they are at fault.

9. There is scope for exercising more care in packing, loading and lashing of cargo to prevent accidents during transport as also in choosing appropriate vehicles. Efforts to create better awareness among the customers of the Logistic & Warehousing Industry are needed.

Key Recommendations of the Report



1. LSPs may appeal to the Ministry to make it mandatory for all goods, at least those transported through third party LSPs, be insured.

2. Risks that are intentionally not covered by consignors/ consignees and those falling under the Excess/ High Deductible clauses need to be clearly communicated to the LSPs as part of the contract. Governmental mandates or collective decision by the LW Industry may be required in this regard.

3. The big players of the Logistic Industry can think of creating Protection and Indemnity clubs to take care of their uninsurable risks and the claims that do not fall under insurance policies.

4. Carrier's Legal Liability policies need to be redesigned by Insurers after understanding the present day realities of the LW Industry.






Warehouse Insurance

5. It would be advisable for the logistic Industry to build internal capacity to understand their insurance needs as also those of their customers. This would ensure adequate coverage of risks and buying effective insurance covers that give optimum protection.

6. LSPs should be aware of the risks which are not insured by the consignor/consignee and of the liabilities of the LSPs in a worst-case scenario. They should have a board approved risk management/risk transfer policy.



7. Governmental systems for issuing/ renewing motor driving licenses may be made more robust by making mechanisms like 'Aadhaar' linking compulsory and by providing mobile apps to check the veracity/ validity of licenses and the drivers' accident record.

8. The LW Industry should make conscious efforts to position itself as a knowledge-rich industry performing a vital nation building activity. Every employee of the industry should be taught/ trained to improve the industry's culture and take it to greater glory in the years to come.

Insurance requirements of the Indian logistics and warehousing industry and their customers

For Copy of Complete Report & Feedback...

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Thank you