

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

2017-18



Context: This explorative research was jointly conducted by Transport Corporation of India Ltd.¹ (TCIL) and the Insurance Institute of India² (III) to evaluate the insurance requirements of the Indian Logistics and Warehousing Industry and their Customers (Focusing on in-country and multi-modal operations). Like the various studies/ reports brought out by TCIL as part of its ongoing knowledge initiatives for the logistics, transportation and SCM industry, this study also essentially aims to provide an academic basis for the Logistics and Warehousing industry to educate their customers on utilizing the full potential of the insurance mechanism.

Caveat: Findings of the Research Study are primarily intended to provide an academic foundation on this subject for the industries concerned and their customers. Neither TCIL nor III would be in any way legally liable to any commercial/ regulatory decision directly or indirectly based on the findings of this report.

Intellectual Property Rights: All intellectual property rights related to the research study shall jointly vest with the Research Centre of Insurance Institute of India and the Transport Corporation of India Ltd.

Transport Corporation of India Ltd.

Address

Corporate Office , TCI House, 69, Institutional Area, Sector-32,Gurgaon-122201 (Haryana) (India)

Contacts:

Phone: +91-124-2381603 to 07,

Fax: +91-124-2381611

E-mail: corporate@tcil.com

Website: www.tcil.com

Insurance Institute of India

Address

C-46, G-Block, Near American Consulate, Bandra-Kurla Complex, Mumbai - 400 051.

Contacts:

Phone: +91-22-26541154 / +91 22 26541156.

Fax: +912226541170

Email: research@iii.org.in

Website: www.insuranceinstituteofindia.com

Note: This research report is finalized by the Transport Corporation of India Ltd (TCIL) and the Insurance Institute of India (III). It is published by TCIL for internal and/ or private

circulation, with due permissions. Errors and Omissions excepted.

¹ **Transport Corporation of India Ltd. (TCI)**, with revenues of over Rs. 3100 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, 2011-12, 2014-15) conducted jointly by TCI and IIM Kolkata.

² **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.

Background of the Study: This exploratory research study³ 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 of evaluating the insurance requirements of the Indian Logistics and Warehousing Industry⁴ (LWI) and their customers for their in-country operations including multi-modal transport; and indicating possible solutions.

The research was essentially a quest to find out the gaps between the needs of the logistics industry (and its customers) and the insurance policies available in the Indian market. By way of detail, the study attempts to achieve the following;

Benchmarking: Documenting the broad legal position in India relating to transportation and logistics in respect of contractual liability, third party liability, other obligations and redressal mechanisms vis-à-vis those of other countries in order to facilitate some degree of benchmarking.

- Demarcating the broad legal contours of the contractual, third party and other obligations/ liabilities of Logistics Service Providers⁵ (LSPs) and the redressal mechanisms available to them.

- Assessing typical contracts used in the LWI focusing on in-country operations and finding out the gaps between the needs of the industry and the insurance policies available in the Indian market.

Market Completeness and Efficacy: Examining the extent of availability of insurance products for addressing the market needs in the specific contexts and risks faced by the LWI and their customers as also whether the solutions available are appropriate and adequate.

- Assessing the intrinsic worth of the insurance products in terms of risk transfer and value for money;

- Assessing the efficacy of products and processes of the insurance industry related to assessment and

classification of the risk, impact of adverse selection, moral hazard, transaction costs and market-forces.

Quality of Service/ Relationships: Studying the service/ relationship experiences of the LWI, their customers and insurers from the ease of doing business on a sustainable basis. This includes flexibility and customization of products and services, administrative ease and smooth claims servicing systems to meet the expectations of the buyers of insurance over the long term.

Academic Strength: Providing an academic basis for the LWI to educate themselves and their customers on utilizing the full potential of the insurance mechanism for protecting their respective interests from transit, storage and liability related risks; and concomitantly minimizing the liability exposures of the LWI through standard procedures. The report would also serve as a position paper on the risk exposure of the industry with recommendations to the Government and policymakers. It would also help the Logistics and Warehousing industry to develop a broad objective perspective about the risks involved and the solutions available.

The findings of the TCIL & III Research Paper are expected to provide insights, practical tips and suggestions to help the various stakeholders of the Indian LWI in multiple ways.

The Logistics Service Providers - in protecting their business interests in a better manner

The Customers of the Logistics and warehousing Industry - in appreciating their insurance needs and adequately protecting their interests

The Insurance Industry - in providing the kind of covers that the LWI and their customers really need

The government and policy makers - in creating congenial regulatory environments, supporting the government's development initiatives by supporting manufacturing, trade and commerce.

³ Transport Corporation of India Ltd and Insurance Institute of India Research Paper' - in short 'TCIL & III Research Paper'

⁴ ibid.

⁵ LSP/ LWI: For the purpose of this study, providers of a broad range of business operations and services traditionally rendered by carriers, warehouse providers, terminal operators, freight forwarders, non-vessel operating common carriers, multimodal transport operators and brokers (and beyond) are collectively referred to as 'Logistics Service Providers' (LSP) or as 'Logistics and Warehousing Industry (LWI).

FOREWORD



Developing rates for cargo in-transit insurance coverage is as much an art as a science. Underwriters consider the products shipped; susceptibility to loss and damage; number of shipments; trade lanes travelled; and transportation methods and modes. But insurance premiums are also driven by a firm's loss history.

Our findings presented in this report would help the logistics industry in protecting their business interests in a better manner, the insurance industry in understanding the Logistics and Warehousing market and providing appropriate covers, the government for policy framing and regulatory purposes and the customers of the logistics industry who would be the ultimate beneficiaries of such studies.

We hope that the ideas and data we have set out in this study will be thought provoking and useful.

We are delighted that Insurance Institute of India has supported in creating this research report.

Our teams welcome the opportunity to discuss these market trends and possible solutions with you in more depth.

Thank you for your interest.

DP Agarwal
Vice Chairman & Managing Director
Transport Corporation of India

Special thanks to the editorial team of TCI who worked relentlessly to make it happen viz. Rajkiran Kanagala, Group Head- Business Development and Meena Bora, Executive- Group Business Development & Marketing.

FOREWORD



The Insurance Institute of India (III) has been contributing to the knowledge base of the insurance industry and its customers for the last 62 years. Our activities include conducting examinations leading to Licentiate, Associate and Fellowship certifications, imparting training under the College of Insurance banner, holding seminars, conducting research and disseminating insurance knowledge. In the past few years we have been able to reach out globally and conduct examinations at twenty overseas locations as also to attract trainees from thirty six countries.

The Research Department of the Institute has been working with the industry to address its knowledge gaps and find solutions. An approved Research Centre of the Mumbai University for Ph.D. research, III's Research Department supports the industry's research requirements as well. Our noteworthy contributions to the industry in the recent past include research studies on:

1. Evaluating the impact of Regulations on Micro-insurance in India - for the GIZ.
2. Assessing the design and performance of the Industrial All Risk Policy - for the General Insurance Corporation of India
3. Diagnostic Study on Mutuals and Cooperatives in India - for the International Cooperative and Mutual Insurance Federation's (ICMIF) 5-5-5 Strategy
4. Buying behaviour and customer satisfaction vis-a-vis life insurance in India

The III is thankful to the TCIL for giving us the opportunity to conduct this joint research on an area of vital importance for the country's growth and development.

I am happy to acknowledge the contributions of many experts from the insurance industry, the logistics and transportation industry and some customers who shared valuable insights with our research team through interviews and questionnaires.

We are happy to dedicate the study for the benefit of both the industries.

P Venugopal
Secretary General
Insurance Institute of India



RESEARCH TEAM



भारतीय बीमा संस्थान
INSURANCE INSTITUTE OF INDIA

III's Research Centre is recognized by the University of Mumbai for Ph. D. in Business Management. It conducts various research studies for the Institute and for reputed national and international entities. III fosters learning and research by supporting budding researchers through research based essay competitions and by extending financial support to researchers. Under its Knowledge Management Initiatives, III reaches out to around 1,00,000 practitioners of insurance and keep them abreast of the latest in the industry every week. Institute news is shared on a monthly basis and the III Journal is published every quarter.



BRIEF PROFILE OF RESEARCH HEAD

Dr. George E. Thomas is Professor (Research and Non-Life) in III's College of Insurance. He has done his Ph.D. in Management from University of Pune.

His qualifications include MBA, MA (English), MA (Sociology), FIII, BGL, Diploma in Insurance Law and Diploma in PR & Advertising. He is Fellow Life Member of Indian Council of Arbitration and Life Member of Indian Institute of Public Administration.

He joined the General Insurance Industry in 1985 as direct recruit Officer in Tariff Advisory Committee (TAC). He has exposure to different areas of non-life insurance, particularly insurance regulation, product design and approval at TAC & IRDA, tariff administration and health insurance. He is the International Insurance Society's Ambassador for India.

Dr. Thomas is the International Insurance Society's (IIS) Ambassador for India, Member of the Academic Steering Committee on Financial Inclusion of the International Cooperatives and Mutuals Insurance Federation (ICMIF) and Member of the Working Group on Insurance Regulation and Resilience Policies of the Insurance Development Forum (IDF). He is also part of the Board of Studies (Insurance Management) of Pondicherry University and Ad-hoc Board of Studies of Jankidevi Bajaj Institute of Management Studies (SNDT Women's University). He was part of the Finance Ministry's Advisory Group (Non-Life Sector) and the Expert Group (Curriculum Review) of the National Institute of Disaster Management. He has authored a number of articles, a couple of books and presented papers at various national/ international forums.

A Research Guide of the University of Mumbai for Ph.D. Research in Business Management, Dr. Thomas's research interests in insurance include health, catastrophe, cargo, microinsurance and litigation. In the recent past, he concluded a consortium research on the impact of regulations on microinsurance for GIZ, a Research study on the Country Landscape on Mutual and Cooperative Insurance in India for ICMIF and on the Industrial All Risk Policy for GIC Re. He can be contacted at <thomas@iii.org.in>.



BRIEF PROFILE OF CO-RESEARCHER

Prof. Archana Vaze is Assistant Professor (Non-Life) in III's College of Insurance. She has done her Engineering in Computer Technology from Nagpur University and M.B.A. in Finance & Marketing from IIT Madras.

Prof. Vaze is a Fellow Member (FIII) of the Insurance Institute of India and holds a specialized Diploma in Health Insurance. She is pursuing her Associateship with the American Institute for Chartered Property Casualty Underwriters (AICPCU).

Prof. Vaze's exposure to the insurance industry spans multiple areas including underwriting, business strategy and process management. Prior to joining III she headed the Maharashtra and Goa Region of SBI General Insurance Co. Ltd., as 'Manager Underwriting - Corporate and SME Lines'. Prof. Vaze has also worked as 'Senior Manager - Commercial Underwriting' for the Mumbai Zonal Office of Cholamandalam MS General Insurance Co. Ltd. and also at their Head Office in Chennai. Prof. Vaze's corporate exposure includes a stint with TCS as a Systems Analyst and Domain Expert in their Insurance vertical.

Her research exposure includes a research study on the Country Landscape on Mutual and Cooperative Insurance in India for ICMIF and another study on the Industrial All Risk Policy for GIC Re. She has conducted an Equity Research on the Indian Life Insurance industry in the past. Her research interests include Legal aspects of insurance and Property Insurance. She can be contacted at <vaze@iii.org.in>.

CONTENTS



Executive Summary.....08

**Key Findings and
Recommendations of the
Report.....18**

1. Insurance and the Logistics and Warehousing Industry14

- 1.1 Historical Perspectives of the Logistics and Warehousing Industry on the Availability of Insurance 16
- 1.2 Needs of the Logistics and Warehousing Industry and Gaps in Availability of Insurance.. 17
 - 1.2.1 Insurable Interest
 - 1.2.2 Deductibles in Insurance Policies
 - 1.2.3 Issues due to Subrogation Rights of Insurers
 - 1.2.4 Concerns arising from Contract Wordings
 - 1.2.5 Systems for Efficient Driving
 - 1.2.6 Changes in the way the Business is done
 - 1.2.7 New Issues and Challenges in the e-Commerce Context
- 1.3 A grey area for Insurers 23
- 1.4 Need for Closer Attention ... 24
- 1.5 Experiences Shared by Insurers..... 24

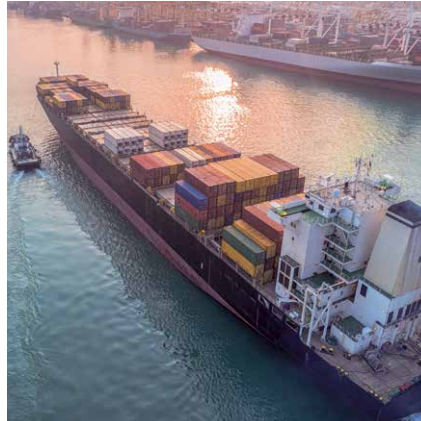
2. Insurance Solutions

2.1 Concerns

- 2.1.1 Property and Physical Infrastructure
- 2.1.2 Liability Exposure from Logistics Operations
- 2.1.3 Copyright, Trademark and Confidentiality
- 2.1.4 Cyber Liability
- 2.1.5 Defamation Liability
- 2.1.6 Negligent Hiring/ Oversight Claims
- 2.1.7 Delay Claims
- 2.1.8 Hazardous Materials Claims
- 2.1.9 Gaps between Insurance Policies
- 2.1.10 Legal Costs

2.2 A Cluster of Insurance Solutions

- 2.2.1 Carrier's Legal Liability Policy
- 2.2.2 Transport Operator's Liability Policy (Indian)
- 2.2.3 Freight Forwarders Liability - Insurance cover for freight and logistics liabilities (Available Abroad)
- 2.2.4 Multi Modal Transport Insurance (Indian)
- 2.2.5 Motor Truck Cargo policy (Available Abroad)
- 2.2.6 Transportation - An Overseas Product



- 2.2.7 Warehouse Legal Liability policy (Available Abroad)
- 2.2.8 Warehousemen's Legal Liability policy (Available Abroad)
- 2.2.9 Public Liability Insurance
- 2.2.10 Employers' Liability/ Workmen Compensation (WC) Insurance
- 2.2.11 Fidelity Guarantee Insurance
- 2.2.12 Commercial General Liability (CGL) Policy for Office Exposures
- 2.2.13 Key Person Insurance
- 2.2.14 Errors and Omissions Policy
- 2.2.15 Fire/ Property policy to Cover Loss to Buildings and Warehouses
- 2.2.16 Marine Cargo policies
- 2.2.17 Logistics Insurance Package
- 2.2.18 Bespoke Combination policies
- 2.2.19 A Comprehensive All Risks Policy - An Industry Wish

2.3 Claims Settlement

- 2.3.1 Inspection of Goods
- 2.3.2 Informing the Liability Insurer
- 2.3.3 Arranging a Survey and Report

- 2.3.4 Securing Recovery Rights
- 2.3.5 Accepting Liability

2.4 Judicious Selection of Insurance Coverages

2.5 Risk Retention Models

2.6 Protection and Indemnity Clubs

2.7 Risk Management through Loss Prevention/ Loss Minimization

- 2.7.1 Prevention of Theft
- 2.7.2 Emphasis on Packing
- 2.7.3 Training of Employees
- 2.7.4 Delayed Delivery
- 2.7.5 Retaining Goods to Secure Payment of Freight

2.8 Concluding Remarks

- 2.8.1 Self-Regulation
- 2.8.2 Risk Management
- 2.8.3 Risk Improvement
- 2.8.4 Risk Transfer
- 2.8.5 Risk Retention
- 2.8.6 Complementary Mechanisms
- 2.8.7 Communication
- 2.8.8 Risk Education

Annexures

Annexure A INCOTERMS

Annexure B History of Logistics & Supply Chain

Annexure C Influencing Packaging Behavior to Limit Liability

Annexure D Warehousing, Storage, Stowage Standards and Loss Reduction

Annexure E Starmakers v. Acme Fast Freight

Annexure F Definitions of Logistics Providers

Annexure G Carrier's Legal Liability – Specimen Coverages

Annexure H Multimodal Transport Operator's Liability – Specimen Coverages