

**Join Hands and Develop Liability Insurance for International
Road Freight Transport,
To better Support CAREC**

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Distinguished leaders, guests, Ladies and Gentlemen:

Good afternoon!

I am from PICC Property & Casualty Co. Ltd. PICC P&A has the longest history among all Chinese property insurance companies. It has the widest scope of business, and has the strongest comprehensive strength among all Chinese peers. It is also the biggest property insurance company in Asia, and is ranked 2# among all single-branded property insurance companies worldwide. I am currently working in the Insurance Division, and am in charge of market development for liability insurance. PICC P&A is one of the earliest in China to provide liability insurance to carriers, international FF and logistic providers, etc. We have advanced insurance technologies and wide reaching service network in China. It's a great honor for me to attend the CFCFA 2014 Annual Meeting on behalf of my company, and to share some of our views on international road freight transport liability insurance.

1. Liability insurance is an effective tool to diversify risks on international road freight related operators

Members of CFCFA are logistic associations, road carrier's associations and Int'l FF associations from ten CAREC countries. They are all actively engaged in business related to international road freight transport. As we all know that carriers are faced with liability risks in the whole process of transport, because goods transported might suffer from loss, damage or delayed delivery. These unfavorable outcomes might have direct or indirect connections to carrier's transport behavior. Most Central Asian countries have accessed to the Convention on the Contract for the International Carriage of Goods by Road (CMR), of which Article Four specifies the liabilities of international road carriers, with as many as 13 provision, accounting for 1/4 of total text of CMR. This signifies the importance of international road carrier's liabilities.

Facing all the liability risks, carriers can adopt several risk management measures, i.e. to strengthen on-job training to all the staff, to clearly specify liabilities in the contract, to clearly specify standard trading conditions, and to have liability insurance coverage. Many years of practice by PICC P&A on domestic road freight liability insurance has also proved it. The liability insurance can help the carrier in the following areas: (1) In case of accidents,

insurance claims can help the business to continue to run smoothly.

(2) Insurance company will step in to identify and settle liability accidents, which helps to resolve dispute with client over the liability.

(3) By undertaking the insurance obligations, the insurance company will help improve risk management awareness and reduce the occurrence of accidents. (4) To better maintain client relationships and increase business opportunities. Liability insurance can protect carrier's smooth operation, settle liability disputes and stabilize client relationships.

In addition, I'd like also to emphasize that, it is important to distinguish freight carrier's liability insurance from freight insurance. Freight insurance focuses on the risk of physical damage of the goods, while carrier's liability insurance focuses on the intangible legal liability risk borne by the carrier. In international freight transport, it's very common that the freight owner and the carrier are different entities. If the owner has freight insurance, and the carrier is not covered by liability insurance, in case of damage or loss of goods due to the carrier's fault, the owner can be compensated under the freight insurance coverage, yet the carrier is not released from its indemnity liability. On the contrary, the carrier will face claims from the insurer. If the carrier is insured, however, it can avoid such situation from happening. Hence,

liability insurance can better cover risks faced by the carrier in case of international road freight transport.

2. Development of road freight liability insurance in China

(1) Insurance products

Currently, there are mainly three road freight liability insurance products in China, namely Carrier Liability Insurance for Road Transport of Dangerous Goods, International Freight Forwarder's Liability Insurance, and Logistics Liability Insurance.

Carrier Liability Insurance for Road Transport of Dangerous Goods includes two parts – Freight Liability Insurance and Third Party Liability Insurance. Freight Liability Insurance mainly covers the legal liability of the carrier, in case of losses or damage of dangerous goods caused by accidents (fire, explosion; collision or capsizing of transport vehicle, break or damage of containers due to collision or extrusion). Third Party Liability Insurance covers the carrier's liability on personal injury or death and property loss to third party (the insurant, insured carrier and its employees, shipper and consignee and its employees or persons other than the agent) in case of accident. In addition, both liability insurances also cover the legal expenses. Third Party Liability Insurance also covers the cleansing expenses. This operation only applies to PRC Law (excl. laws of HKSAR, Macau SAR or Taiwan).

The international freight forwarder liability insurance system includes international freight forwarders liability insurance and bill of lading liability insurance. The int'l FF liability insurance mainly cover FF's legal financial liability in cases that lead to direct loss on the client (mis-delivery or mis-shipping, errors or omissions, loss due to delayed delivery, loss of goods due to errors in supervised loading, unloading and warehousing, container consolidation, loss of goods due to inappropriate or insufficient packaging or securing of goods, extra tariff has been levied due to carrier's faults, etc.). If the FF issues int'l FF B/L or assumes independent operator's liability, it can consider be covered by int'l FF B/L Liability Insurance. It covers all the liabilities in the Int'l FF Liability Insurance, but also covers carrier's legal financial liabilities in case of direct loss under the B/L caused by accidents (including fire, explosion; theft, unable to deliver, robbery; collision or capsizing of transport vehicle; loading/unloading staff load or move good in violation of procedure, water damage in compliance with transport safety rules, etc. In addition, Int'l FF Liability Insurance also covers rescue expenses and legal expenses of the FF. This operation applies to laws not exclusive in China

Logistics Liability Insurance mainly covers legal financial liabilities borne by the logistic company, in case of loss of goods

due to certain reasons (fire, explosion; theft, unable to deliver, robbery; collision or capsizing of transport vehicle; loading/unloading staff load or move good in violation of procedure, rainwater damage in compliance with transport safety rules, etc.) In addition, Logistics Liability Insurance also covers legal expenses of the logistic company. It also provides a series of optional supplementary insurance, such as Supplementary Theft Liability Insurance, Supplementary No Delivery Insurance, Supplementary Chilled Goods Liability Insurance, Supplementary Mis-Deliver Mis-Shipping Loss Liability Insurance, etc. This operation only applies to PRC Law (excl. laws of HKSAR, Macau SAR or Taiwan).

(2) Current development

As for the scale of the insurances, Carrier Liability Insurance for Road Transport of Dangerous Goods is compulsory as promulgated in the PRC Road Transport Regulations, therefore is of bigger scale. Neither Int'l FF Liability Insurance nor Logistic Liability Insurance develops well in China. Many factors contribute to this underdevelopment. The underdeveloped laws and regulations on int'l freight forward and logistics, fierce competitions among logistic companies, underdeveloped creditworthiness system and complex procedures made liability division difficult. Price competition in insurance market also contributes to it. Int'l FF

Liability Insurance and Logistic Liability Insurance have suffered significant losses since 2007. On one hand, most China's property insurance company's loss ratio is above 100% but both liability insurances. On the other hand, international freight forwarders and logistic companies still see the premium too high comparing to their thin profit margin, and the coverage too limited. The difference in understanding by the supplier and the demander of insurance services hindered healthy development of both insurances.

3 . International development on liability insurances related to road freight transport

(1) Insurance products 保险产品

There are two typical international liability insurances – Freight Forwarder Liability Insurance and Freight Service Liability Insurance, FSL, provided by Through Transport Club, TT Club.

TT Club's FF Liability Insurance covers: (1) client claims in case of damage, mistake or loss of goods due to FF's negligence or mistake, or inappropriate handling of client's goods; (2) Mis-filling out of documentations, delayed or mis-deliver, B/L fraud, deliver without B/L, etc.; (3) claims on third party property loss or personal injury or death due to mistake or omission in operation; (4) penalties imposed by customs or administration due to staff negligence; (5) expense to handle the loss or associated expenses

in addition to regular business expenses, etc.

International Freight Service Liability Insurance mainly covers General Liability, Error and Omission and Legal Expenses. General Liability is limited by the liabilities stipulated in standard trading conditions, instead of using value of goods as its indemnity standard.

(2) Current development

Due to different legal systems in various countries, road freight liability insurances' development varies in different countries. In general, liability insurances in EU and US have higher combined loss ration. Causes of loss are mainly road accidents, loss and theft of goods during inland transportation, and errors or omissions in customs clearance. In addition, as sub-contracting happens quite often, numerous disputes were raised on liability division, and international lawsuit are commonly seen in this area. Large insurance companies normally provide legal expenses, hoping that clients will use lawsuit to resolve the issue and the insurance company's loss ration would be lowered. This is very different from China, where most issues are solved through negotiation. As for distribution channels, although some international FF's associations and logistic associations do recommend liability insurances to their members, only limited number of insurances is

taken through the associations, as the insurances are not compulsory.

4 . Suggestions on the development of CAREC International Road Freight Liability Insurance

(1) To conduct a project study – It is suggested that ADB shall work with road freight administrations and insurance regulators of ten CAREC member countries to launch a research project on “CAREC International Road Freight Liability Insurance”. CFCFA shall take the lead and coordinate the research, work with CFCFA members to select on experienced property insurance company from each country to join the study.

(2) To focus on the business model – From the previous presentation on international and China road freight related liability insurance, one can see that, this insurance business is not running well. However, if international road freight operators run their business for long term without liability insurance, their business risks won't be diversified. Once a major liability incident happens, some severe chain effects can hamper the healthy development of the whole sector. If insurance companies cannot obtain reasonable profit and return in this sector for a long period of time, they won't be able to provide quality services even if they don't withdraw from this business. Therefore, it is crucial to find a mutually recognized

and sustainable business model. I suggest that we use that as the focus for the study.

(3) To provide standardized procedures – CAREC countries differ quite a lot in their insurance law, transportation legislations, etc. In order to address issues such as cross-border service cost, risks, etc., it suggested establishing a cross-country cooperation mechanism, which provides standardized insurance procedures. Transport companies of difference countries shall be insured according to their specific country standard, and then reinsured according to the agreed ratio. The insurance company of the country in which the accident happens shall be responsible for the investigation and settlement of claims, and shall provide legal assistance to insurance companies in other countries.

(4) To first pilot on carrier's liability insurance – International road freight transport involves numerous operators and has very complex processes. CAREC countries vary in their transport liability insurance. It would be too difficult to develop an international road freight transport liability insurance that is fully standardized, fit-for all and covers all the links, and the cost of trial-and-error would be too high. Hence, it is suggested to pilot on the carrier's liability insurance. The coverage of such insurance can be listed to carrier's legal financial liability in case of loss of goods

due to accidents (fire, explosion; collision or capsizing of transport vehicle, break or damage of containers due to collision or extrusion) or third party personal injuries or death or property loss due to the accident. As for the basis the premium calculation, in China, the premium is commonly calculated based on the carrier's business revenue, irrespective of the volume or the routes of the transportation. Although this provides great convenience to the carrier, it also bears moral hazards. In practice, it often happens that the insurant understates its revenue, causing mismatch of insurance's company's premium and the risks it assumes. A more justifiable premium basis would be needed. As for risk control measures, currently, in order to better manage the insurance risks involved, China's insurance companies require all shipment be submitted and processed one by one. Does this fit into CAREC road freight transport? That's something we should carefully study on.

As a company that thinks highly of economical and social development, we would like to join this research project, and join all the CAREC colleagues to promote international road freight liability insurance in CAREC and to contribute to the overall development of CAREC.

Thank you very much!