

Standard Operating Procedures – SOP

Default Insurance Program

DIP

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1) IATA Financial Securities (IFS):

- a) For IATA Approved, Air Cargo Agents of Pakistan, the International Air Transport Association (IATA), has two types of IFS Programs for the Agents in Pakistan. Namely (a) Bank Guarantee and (b) Insurance Bond.
- b) Over past two decades, especially past 9/11 scenario, the IATA & Airlines developed “extra vigilant systems” for worldwide IATA Approved Agents, particularly in Pakistan.
- c) The IATA Agents were forced for extra Bank or Cash Guarantees by individual Airlines to provide additional Financial Securities apart from the yearly IATA Guarantees, every year.
- d) ACAAP Members faced tremendous pressure from IATA & Airlines for increments in Financial Securities (both type, general market and individual). Many of them were forced to provide **additional IFS, in form of cash and/or Bank Guarantees.**
- e) These were provided in form of two available options, as mentioned in 1(a).
- f) These additional **heavy burden on ACAAP members due to gradually increasing strict rules & costs by State Bank of Pakistan and that resulted in;**
 - i). Heavy Bank Charges & Processing and Legal Fees
 - ii). Cash Margin (upto 30% in some cases)
 - iii). Huge – valued collaterals (150%) in many cases.
- g) On the other area , those respectable ACAAP member whose IATA CASS Sales were 150 million or less per annum, were to pay Insurance Bond or Bank Guarantee Charges for providing Financial Security to IATA.

- h)** For that matter, the yearly costs of Insurance Bond or Bank Guarantee were only a cost on every IATA Agent, for no benefit for themselves.
- i)** Thirdly, the weakened rupee value, is the great factor, although that played positive role for Exporters, apparently had a negative impact for Airlines operating in Pakistan. As they had to pay all their costs (including Fuel) in hard currencies i.e. US \$
- j)** The increment of high risk and vulnerability for Airlines operating in Pakistan, is another factor.
- k)** Interestingly to note here that the tonnage capacity & uplift figures have not increased in the same ratio of increase of rates increase, and that is due to weakening of PKR gradually.
- l)** The rates hike due to weak PKR created huge receivables from the Customers and leading to financial complications for the logistics sector, especially IATA Agents due to high financial turnovers.
- m)** Keeping in view of the above, the ACAAP management in 2011 found a win win solution for securing all the three main players in market, i.e. IATA Agents, Airlines and IATA, **the Default Insurance Program - DIP**

2) What is DIP?

The DIP is an IATA approved program for IFS worldwide IATA Approved Agents, its functions:

- i) **100% Financial Security to Airlines**, through insurance companies..
- ii) **Airwaybill's freight amount is insured**, instead of IATA Cargo Agents.
- iii) **Pay-as-you-go** option means Agents pay premium as they book freight.
- iv) **One Premium irrespective of the freight** payable to Airlines.
- v) Initially for 2017-2018 UIC have its fixed at **PKR 550/MAWB for any amount of Freight**
- vi) Airway bill freight amount's premiums charged through CASS billing, for CASS Airlines and Chartered Accountants / UIC for NON-CASS Airlines for off line and online carriers respectively.
- vii) The **Insured- Period** for each MAWB shall be **180 days**.
- viii) The Claim-Ability or right to claim in case of any default from IATA agent, for first 46 days will be with the airlines and from **47th day to (23:59 PST) 179th day**, the claim-right shall be with ACAAP Members IATA cargo agents.
- ix) The best part of DIP is that it also **secures ACAAP's IATA Approved Agents for their customer's defaults**. This option is a greatest achievement of ACAAP in the world.
- x) All IATA Approved Cargo Agents in Pakistan can apply for DIP only through ACAAP Head Office. A processing fee of Rupees Five Thousand (5,000/-) shall be charged, branch registration charges are not applicable.
- xi) Due to SECP rules of Insurance Policy's applicability, the premium amount must be **Prepaid**. Therefore, all members shall pay an average amount of one fortnight AWB premium to UIC in advance. *(For e.g an IATA Agents executes 500 MAWB per annum, therefore, a cheque of PKR 11,458.00 as Prepaid Insurance shall be required from that agent).*

3) DIP System for CASS-Airlines, procedure & settlement:

- a) All the Airlines, operating through CASS billing systems shall have Financial Coverage / Security through DIP. They will be secured by the Insurance Providers through IATA @ 100%.
- b) M/s. United Insurance Company Pakistan Limited has been designated and authorized by IATA to cover Guarantees under DIP.
- c) The IATA Area 3 Regional Management has already circulated to IATA Agents and Airlines for implementation of DIP in Pakistan and affect above mentioned in 3(a) & 3 (b), effective 01 September 2017, and extended for one month to affect DIP from **01 October 2017**.
- d) The IATA CASS Manager will collect the DIP amount through CASS Billing for periods and subsequently settle to Insurance Company according to the arrangements among themselves.

4) DIP System with NON-CASS-Airlines Procedure:

- a) The Airlines operating in Pakistan and the off line carriers, those which are not under CASS billing system of IATA in Pakistan, may also be secured by Default Insurance. Program upon their mandatory enrolment in DIP with effect from 01st November 2017 and a list of DIP enrolled carriers, shall be circulated and updated by ACAAP to all members time to time.
- b) Both the NON-CASS Airlines and Agents can conveniently book their cargoes under DIP.
- c) The UIC shall be bound to sign individual MoU with Non-Disclosure Clause (NDC) with all parties concerned; viz., NON-CASS Airlines, IATA Cargo Agents and Insurance Provider.

- d) The CA/UIC shall be entitled and authorized to collect only concerned data from Agent and verify the same from Airlines concerned or vice-versa.
- e) Those Air Cargo Agents who execute(s) their MAWB through for **NON-CASS Airline(s)** are required to follow the following Standard Operating Procedure given below:
 - i) All Cargo Agents are required to Submit the statement, that reflects the details of MAWB of NON-CASS Airlines, on following format. The same is to be emailed to United Insurance Company of Pakistan Limited, on or before 20th of each Calendar month for the First Fortnight of same month and by the 5th of next month for the Second Fortnight respectively.

| S. NO | AIRLINE NAME | MAWB NBR | EXECUTION DATE | AMOUNT PAYABLE TO AIRLINE | SHIPPER'S NAME |
|-------|-----------------|-------------|-------------------|------------------------------------|-------------------|
| (1) | (2) | (3) | (4) | (5) | (6) |

- ii) Following calendar shall be followed whilst sending the details to the UIC insurance company:
 - (1) 1st fortnight: 20th of same month
 - (2) 2nd Fortnight: 05th of next month
- iii) The statement shall be in excel format.
- iv) Incomplete, incorrect, wrong information and missing time frame might lose the Insurance cover, the concerned ACAAP IATA cargo agent shall be very vigilant and sure to provide the data appropriately to become entitle in case of future claim.
- v) In case of any amendment in fortnight statement, it is the responsibility of the Air Cargo Agent to intimate the Insurance Company on or before 26th day of 1st fortnight and 11th day of second fortnight, else, UIC will consider the given statement as authentic and final, the insurance shall be based on said data.

- f)** In case Air Cargo Agent fail to submit the above required details to UIC on given deadline, then no coverage might be provided to Cargo Agent for the same.
- g)** Only those Airway Bill/s covered whose details mentioned in said sheet irrespective of the premium amount paid on other MAWB's which might not be included in the Data sheet.
- h)** UIC may verify the information provided by the Agent by the airline. For NON-CASS airlines who enrolled under DIP 2017-18 program, UIC can cross check the statement of Agent with Airline, under the light of agreement signed between UIC and respective airline.
- i)** For the NON-CASS; NON-DIP airline(s), agent must provide accurate and complete information for their own security of the freight amount in case of claim.
- j)** Upon verification from Airline concerned and in case of any misdeclaration or difference or variation with the airlines' is reported; the coverage might nullify the claim entirely and agent might not be entitled to attain any claim from Insurance Company.
- k)** For NON-CASS (DIP) airlines the UIC can reconcile the agent's submitted data with the respective airline's record.
- l)** Based on information provided by cargo agents, UIC will prepare the final statement of each agent. The appointed courier will collect (identical collection procedure is adopted, as done by CASS Manger for IATA's cheque) the cheque of insurance premium in favor of UIC United Insurance Company of Pakistan Limited along with the original statement consist of MAWB data sheet from each of the agent as collected on by IATA calendar cheque.
- m)** Only those MAWB will be covered whose Premium is paid to the UIC. payment realize by UIC.

- n) In case of non-receipt of MAWB statement, less numbers of MAWB reporting, premium and / or the information is not in timely manner or incorrect, the UIC may issue the Notice to the Agent and share the information with IATA for necessary action.
- o) In case of IATA Cargo Agent's cheque is returned by the bank due to any reason (excluding the banker's mistake); the irregularity may be reported to IATA and the UIC company reserve the right to take appropriate action.
- p) In case of any loss or claim, the Claim procedure of this SOP shall apply. Simultaneously all the MAWBs, which are reported in claim, can be duly verified with respective Airline and in case of any variation, no claim might be paid, and UIC may use its right to close the case as NO CLAIM.

5) Eligibility of Claim:

- a) The Airlines & IATA Approved Agents, those who have opted for DIP, shall be entitled to claim for sum or sums of MAWB insured under DIP.
- b) The Airlines shall be entitled to claim for MAWB Freight amount due to IATA Agents for forty-six calendar (46) days from the date of its execution or according to the period of fortnight payment procedure and grace period as per IATA rules, in case of the default..
- c) From forty-seventh (47th) day to one-hundred-seventy-ninth (179th) day of the date of execution of MAWB by an IATA Agent, the Eligibility of claim shall be transferred to that specific IATA Cargo Agent only, that has paid the premium, provided, "***all the amount is settled by the Agent due to carrier***".

6) Claim acceptance & procedure by IATA Agents:

a) That after the passage of 46th day and the amount of MAWB or MAWBs are settled to CASS or NON-CASS Airlines; an IATA Agent, in case of non-receipt of due freight amount for their Customer can file a claim, on or before 179th day of date of execution on MAWB, by adopting the following procedure:

i) Send an intent of claim to ACAAP head office in Original, duly signed & stamped by the Authorized representative, with below documents:

- (1) Three copies of each MAWB intended for claim.
- (2) Copy of invoice / debit note to the customer.
- (3) Business Agreement or Customer Information Form – CIF, the same is circulated to each member, along-with FDSC SoP earlier and attached herewith for ready reference.
- (4) Accounts ledger of the specific customer/s.
- (5) Previous business dealings with the same specific Customer.
- (6) Communication or correspondence (if any) with customer for recovery of the amount.
- (7) Cheques / Payment instruments provided by the customers, if any.
- (8) Recovery Fee of 5% due to ACAAP.
- (9) Any other document, such as Notice/s sent or received from customer for recovery, which can assist ACAAP FDSC & insurance provider in recovering the amount.
- (10) A subrogation letter in favor of Insurance Company. (*This letter will be sent in-case, where the FDSC ACAAP & EC reaches to the point as mentioned in 7(g) mentioned in this SOP*).

7) Procedure of Claim at ACAAP:

- a) Once an intent of claim from any member of ACAAP is received, the same shall be informed to concerned Insurance provider by the Secretary General, within three (03) working days under the information of concerned FDSC convener by copying FDSC national Convener.
- b) The Secretary General, shall circulate the name of such customer, to check from other ACAAP members as well, of non-receipt of payment/s from 'the customer', who has not cleared the payment of claimant IATA Agent and those who also give their intention to recover their amounts from same customer/s.
- c) The subcommittee DIP-FDSC of ACAAP; consisting of ACAAP members, a representative from Insurance Company and a maybe a member from any airline/IATA.
- d) The subcommittee DIP-FDSC, shall process the claims as per the laid down procedures of DIP-FDSC-SOP of ACAAP.
- e) The Subcommittee shall be bound to settle the case in thirty days, from the date of intent of claim received.
- f) The DIP-FDSC will follow Standard Operating Procedures – **SOP** as implemented by Association, and updated.
- g) In case of the payment is received by IATA Agents from Customer, the intent of claim from UIC shall be withdrawn immediately and the ACAAP will deposit the recovery fee cheque. The recovery status and the amount will be shared to UIC. The partial claim can be submitted / applied to UIC in case of less payment received by Acaap member, the FDSC-ACAAP will verify the same and forward to UIC for the difference of the amount to be paid.

- h)** In case, God Forbid, the amount is not settled by the Customer, the claim will be sent by Secretary General of ACAAP to Insurance Provider accordingly.
- i)** The Insurance Company will process the case to pay, as soon as possible as per IATA rules of Claim settlement days along-with the below mentioned documents:
 - i)** case-notes & proceedings of FDSC, duly signed by the National Convener of FDSC covering with the regional Convener of FDSC along with the members of DIP FDSC Subcommittee
 - ii)** A covering note from Secretary General, duly signed by an Executive Committee member and an office bearer of the region. In case of unavailability of EC and/or office bearer, the National and/or Regional Convener can sign.
 - ii)** Subrogation letter in favor of insurance company in which recovery rights shall be transferred to Insurance Company.
- j)** Once the amount so claimed by the member, received from Insurance provider, the Fee cheque shall be deposited by ACAAP for clearance.
- k)** The defaulted Customer will be termed as defaulter and any member booking the defaulters' shipments, shall be responsible for booking and shall be subjected to penalties and no-claim will be entertained for such customer may receive by Association and or Insurance Provider. After the circulation of default. In case of any claim intimation received by ACAAP regarding respective shipper, ACAAP will imperatively circulate the details of said shipper to industry regarding restriction for Agents to perform business activities with said potential defaulter (shipper), otherwise responsibility will be solely of Agent.

- 1) It will be the responsibility of Cargo Agent who lodge claim with ACAAP and subsequently ACAAP will process and send claim after due process to Insurance Company with subrogation letter (issued by claimer) in favor of insurance company in which recovery rights shall be transferred to Insurance Company. Further, if any collateral (of the worth of the claim) attained by Cargo Agent from Shipper, will be also handed over to insurance company for their recovery from respective shipper.

8) Association's advisory to members (All ACAAP members are strongly advised for the mandatory compliance:

- a) To adopt Customer Information Form (CIF) at the time of starting business with new Customers. Recommended format attached as Annexure "A". Or maintain this from all existing customers for any or all future claim/s.
- b) To ensure periodical account reconciliation with Customers to help keep abreast of account balances and credit controls. Indeed, if the accounts are reconciled regularly both the parties shall not be able to deny in case of defaults or disputes.
- c) At any time during the proceedings of the claim/complaint by a member if the case is referred to judiciary (FIR or Court) shall be treated as not maintainable at subcommittee DIP-FDSC ACAAP or if an information is kept unknown by complaint it shall be subject to penalty of 10,000/-.
- d) In case of a member who, continue supports defaulted declared by ACAAP, does not abide by circulars, rules, regulations and bye laws of SOP of FDSC of ACAAP or DIP-FDSC, his case shall be subject to penalty may be decided by the FDSC ACAAP.