

THE EXISTENCE OF COVER FIDELITY INSURANCE IN THE DEVELOPMENT OF WAREHOUSE RECEIPT SYSTEM IN INDONESIA

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Abstract

Warehouse Receipt System (WRS) is an activity related to the issuance, transfer, guarantee, and settlement of Warehouse Receipt transactions. The Warehouse Receipt System is one of the essential and effective instruments in the financing system. This is evidenced by credit facilities for farmers and the business world with collateral for goods stored in warehouses. The Warehouse Manager will then issue the goods stored in the Warehouse a Warehouse Receipt for the Goods Owner. Then the Warehouse Receipt is used as collateral/guarantee to the Financial Institution (Bank/Non-Bank) because the Warehouse Receipt is guaranteed with commodities always maintained and managed by an accredited Warehouse Manager (having a permit from Bappebti). As for ensuring that there is no loss for the parties, then in the provisions of the law in Indonesia, WRS must be equipped with insurance as a party that guarantees compensation for losses. Insurance in WRS certainly varies, but in this study, what the author will explore is fidelity insurance. Fidelity insurance itself is insurance against fraud or theft committed by the warehouse employee concerned. The study results indicate that fidelity insurance does not provide a guarantee to the parties involved in this case, the Property Owner as the Owner and the Financial Institution as the recipient of the guarantee who suffers losses due to an act of dishonesty/cheating committed by Warehouse Management employees. Still, this fidelity insurance becomes an obstacle in implementing WRS because fidelity insurance is one of the obstacles to the professionalism of Warehouse Managers in managing their warehouses. In addition, there are difficulties in proving the dishonesty/cheating act committed, then to what extent the insurance company covers the dishonesty/cheating of the Warehouse Manager employee.

Keywords: Warehouse Receipt System, Warehouse Manager, Property Owner, Financial Institution, Fidelity Insurance

INTRODUCTION

Warehouse Receipt System (WRS) is an activity related to the issuance, transfer, guarantee, and settlement of Warehouse Receipt transactions[1]. The Warehouse Receipt System is one of the essential and effective instruments in the trade finance system because it can facilitate the provision of credit for farmers and the business world with goods stored in the Warehouse as collateral[2].

Furthermore, the General Elucidation of the WRS Law states the benefits of the Warehouse Receipt System, as follows:

"The Warehouse Receipt System is also useful in stabilizing market prices by facilitating sales methods that can be carried out throughout the year. In addition, the Warehouse Receipt System can be used by the Government to control prices and national inventories."

Furthermore, the General Elucidation of the Warehouse Receipt System Law states the benefits of the Warehouse Receipt System (Warehouse Receipt System), as follows:

"The Law on the Warehouse Receipt System is intended to provide legal certainty, guarantee and protect the interests of the community, smooth the flow of goods, efficiency in the cost of distribution of goods, as well as being able to create a business climate that can further encourage the pace of national development..."

The WRS Law is enacted to provide and increase public access to legal certainty, protect the community and expand their access to financing facilities. The WRS Law certainly provides benefits, especially for small and medium-sized entrepreneurs, farmers and farmer groups, warehouse management companies, lending companies, and banks, to access capital to increase their business[3].

Furthermore, Warehouse Receipt is a document of proof of ownership of goods stored in the Warehouse issued by the Warehouse Manager [4]. Warehouse Receipts can be used as collateral/collateral to obtain financing from Financial Institutions (Bank/Non-Bank) because the Receipt is guaranteed by commodities continually maintained and managed by an accredited Warehouse Manager (having a permit from Bappebti) [5]

The WRS Law gave birth to a new guarantee institution expected to be an alternative to the commodity trade financing system [6]. There are more types of material guarantee institutions with Guarantee Rights on Warehouse Receipts [7].

The provisions in the SRG state that the Warehouse Receipt must contain at least [8]:

- a. Warehouse Receipt Title;
- b. Type of Warehouse Receipt;
- c. Name and address of the Owner of the Goods;
- d. Location of Warehouse where goods are stored;
- e. Publication date;
- f. Issue number;
- g. The due time for storing goods;
- h. Item description;
- i. Storage costs; and
- j. Signature of the Owner of the goods and warehouse manager.

The maturity period for storing goods is the maturity period for storing goods. The expiration of the maturity period cannot be considered as the end of the right to the Warehouse Receipt by the Warehouse Receipt Holder to claim the rights to the goods.

Warehouse receipts are known in 2 (two) forms, namely: First, a negotiable warehouse receipt, which is a warehouse receipt that contains an order for delivery of goods to anyone who holds the warehouse receipt or on order from a particular party. Second, non-negotiable warehouse receipts, namely warehouse receipts that contain a provision that the goods in question can only be delivered to the party whose name has been determined [9].

Trading of Warehouse Receipts in Indonesia is regulated by the Commodity Futures Trading Supervisory Agency (Bappebti), an agency under the Minister of Trade authorized to conduct guidance, regulation, and supervision of the implementation of the Warehouse Receipt System. Warehouse receipts traded in Indonesia are required to go through an assessment process carried out by an accredited institution called the Conformity Assessment Agency, which is obliged to

carry out a series of activities to assess or prove that specific requirements relating to products, processes, systems, and/or personnel are met [10].

Judging from the subjects involved in the initial transaction of Warehouse Receipts, there were at least two parties. First, the Owner of the Goods is the person (individual or corporation) who stores the goods for a certain period (at least three months) in the Warehouse. He is also the first person to become the holder of the document called the Warehouse Receipt. Second, Warehouse Managers (individuals or corporations), only warehouse managers who have received permission (approval) from the Commodity Futures Trading Supervisory Agency (Bappebti), may issue Warehouse Receipts [11]. In addition, the Warehouse Manager must be a legal entity and may not issue more than one Warehouse Receipt for the same goods stored in the Warehouse.



Figure 1: Warehouse Receipt Issuance Process Flow: Warehouse Receipt System Implementation: Bappebti

In addition to implementation in Indonesia, WRS has long been known in foreign countries as an agricultural financing scheme. India, Uganda, Poland, Nigeria, Tanzania, and Ghana are some countries that have already implemented this program. In these countries, the WRS program has significantly impacted the agricultural and banking sectors. Based on data from the Warehouse Receipt System (WRS) Conference in Amsterdam in 2001, developing countries that were recorded to be quite successful in implementing the Warehouse Receipt System were Romania, Hungary, South Africa, Zambia, Ghana, Russia, Slovakia, Bulgaria, Cnesia, Poland, Kazakhstan, Turkey, and Mexico.

WRS itself in Indonesia was first introduced in 2007 with pilot projects in four regions, namely in Indramayu, Banyumas, Jombang for grain commodities, and Gowa for corn commodities [12]. From the pilot project, only 305 tons of commodities were issued as securities/warehouse receipts which included 15 receipts [13].

Later in its development, WRS began to be widely implemented by various parties, although on a limited pilot scale. Until 2015 there were 2,173 warehouse receipts issued with a total value of receipt financing of around Rp. 45 billion. If we look at the growth of Warehouse Receipts from 2008 to 2014, since 2010, the value of WRS transactions has always shown an increase, and the highest increase occurred in 2011, which was three times that of 2010, namely issuing 344 Warehouse Receipts with a total value of Rp. 48.7 billion. However, since 2015, the issuance of receipts and financing has decreased.

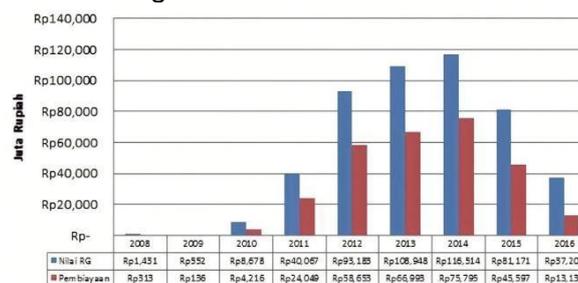


Figure 2: Warehouse Receipt Growth Graph Period 2008-2016: Bappebti (2016)

No.	Komoditi	Penerbitan			Pembiayaan
		Jumlah Resi Gudang	Volume Komoditi (Ton)	Nilai Barang (Rp)	Nilai (Rp)
1	Gabah	2,093	72,544.83	369,848,929,736	223,923,512,230
2	Beras	130	7,636.72	57,719,229,000	32,371,580,300
3	Jagung	106	5,645.07	19,031,609,194	11,136,883,100
4	Kopi	36	631.57	36,565,089,187	20,805,801,063
5	Rumput Laut	16	555.57	4,250,940,000	1,090,600,000
6	Kakao	1	3.14	78,500,000	-
7	Rotan	3	31.16	264,548,000	-
Jumlah		2,385	87,048.07	487,758,845,117	289,328,376,693

Figure 3: Development of SRG Transactions According to Komiditi Period 2008-2016: Bappebti (2016)

Although the development of WRS is quite positive, which is reflected in the increase in the volume and value of Warehouse Receipts, compared to the total number of existing agricultural commodities and the participation of farmers/other stakeholders, WRS is still minimal [14].

To cover the occurrence of losses in the WRS, the Warehouse Manager must insure all goods managed in the Warehouse and submit information regarding the type and value of insurance to the Registration Center [15].

This can lead to losses due to damage to goods caused by the risk and negligence of the Warehouse Manager, for example, fires caused by carelessness or errors of the Warehouse Manager, damage/degradation in the quality of goods due to poor storage, and loss of goods due to the Warehouse Manager's fault. Accordingly, it is clear that the Warehouse Manager is responsible for his negligence in managing the goods and is obliged to pay compensation to the Owner of the Goods if there is a loss to the Owner of the Goods as a result of such negligence [16]. The possibility of loss to the Warehouse Manager due to such negligence is a risk that the Warehouse Manager always has. However, this risk can be transferred to the insurance company by making an Insurance Agreement. This is also emphasized in the Goods Management Agreement that "Insurance for warehouse buildings and loss and/or damage to goods caused by errors and/or negligence of Warehouse Management officers is covered by the Warehouse Manager [17]."

Goods stored in the Warehouse are also at risk for things that are not caused by the negligence of the Warehouse Manager, such as fires caused by the spread of fire, theft, and flooding. The risks owned by the Warehouse Manager can also be transferred to the insurance company by making an Insurance Agreement.

In its development, based on the WRS Law, it has been required that there be insurance guarantees to anticipate losses on goods stored in the WRS Warehouse. It must be accompanied by insurance coverage. The types of risks covered by insurance include [18]:

a. Loss Insurance

The risk of loss due to fire, natural disasters, theft, and other losses can be covered by loss insurance. The insured value must not be lower than the value stated in the Warehouse Receipt. The Owner of the Goods bears the cost of insurance coverage.

b. Fidelity Insurance

Cover Fidelity Insurance or Professional Indemnity Insurance is insurance against fraud or theft committed by the warehouse employee concerned.

c. Professional Insurance

Cover Professional insurance or professional insurance is insurance coverage against losses due to errors in carrying out the profession.

In addition, some institutions have the function of protecting the rights of warehouse receipt holders and/or recipients of collateral rights in the event of failure, inability, and/or bankruptcy of the Warehouse Manager in carrying out their

obligations, namely the Receipt Guarantee Institution.

The Warehouse Receipt issued by the Warehouse Manager is used as collateral to obtain financing from Financial Institutions (Bank/Non-Bank) because the Receipt is guaranteed by commodities which are always maintained and managed by an accredited Warehouse Manager (having a permit from the Commodity Futures Trading Supervisory Agency/Bappebti). Two types of credit can be accessed by Warehouse Receipt owners, namely commercial credit and subsidized credit.

Commercial credit with Warehouse Receipt as collateral is the granting of credit to the Warehouse Receipt holder who is the Owner of the Goods or the party receiving the transfer from the Owner of the Goods or another party receiving a further transfer. Meanwhile, Working Capital Loans for the Warehouse Receipt Subsidy Scheme (S-WRS) are loans that receive interest subsidies from the Government with guaranteed Warehouse Receipts provided by banks to farmers, farmer groups, farmers associations, and cooperatives [7].

BRI explained that the S-WRS scheme includes credit for farmers, farmer groups, farmers associations, and cooperatives. The executing credit pattern is sourced from funding 100% (one hundred percent) of public funds, and participants are not currently receiving program credit facilities from the Government. Guaranteed Warehouse Receipts must be recorded at the Registration Center, including grain types, rice, corn, coffee, cocoa, pepper, rubber, and seaweed commodities. The credit ceiling given is 70% (seventy percent) of the value of the Warehouse Receipt, a maximum of IDR 75 million per farmer. As for the maximum credit period of 6 (six) months and cannot be extended, the loan interest rate of 6% (six percent) with the difference between the S-

WRS interest rate and the interest expense of S-WRS participants is a government subsidy, and fees and commitment fees are not charged [19].

The legal basis for the S-SRG scheme is Law no. 9/2006, PP No. 36/2007, Minister of Finance Regulation No. 171/PMK.05/2009 and its implementation refers to the Minister of Trade Regulation No. 66/M-DAG/PER/12/2009.

As distributors of subsidized loans (S-SRG), state banks, private banks, the LPDB of the Ministry of Cooperatives and SMEs, and PKBL PT Clearing Futures Indonesia are also involved. The legal basis for the S-SRG scheme is Law no. 9/2006, PP No. 36/2007, Minister of Finance Regulation No. 171/PMK.05/2009 and its implementation refers to the Minister of Trade Regulation No. 66/M-DAG/PER/12/2009.

Banks/Non-Banks as recipients of collateral rights for Warehouse Receipts must notify the Warehouse Receipt binding agreement as collateral to the Registration Center and Warehouse Management. This notification also contains data on the principal loan agreement that underlies the emergence of the guarantee. This guarantee will facilitate the Registration Center and Warehouse Management to prevent double guarantees and monitor the circulation of Warehouse Receipts.

Warehouse Receipts used as collateral must be submitted to the bank as the recipient of the Guarantee Rights on Warehouse Receipts. The debtor's obligation to provide Warehouse Receipts is also found in the Agreement for the Imposition of Guarantee Rights on Warehouse Receipts.

With the Guarantee Rights on Warehouse Receipts, farmers do not have to hurry to sell their harvests because farmers can still store their crops in the Warehouse. In the Warehouse Receipt pattern, farmers save their harvested commodities to the Warehouse Manager, and then farmers receive proof of storage in the form of Warehouse Receipts.

The Warehouse Receipt can be used as collateral to a financial institution to obtain a bailout. After running for some time, namely during times of shortage or the price in the market is relatively high, the farmers' commodities can be sold. From the sale proceeds, farmers can redeem and repay loans to financial institutions. Furthermore, there will be a price difference or profit after deducting the selling price

(market price at the time of the warehouse receipt agreement). The profits are then divided among all parties bound by the warehouse receipt pattern contract in proportion to the agreement [19].

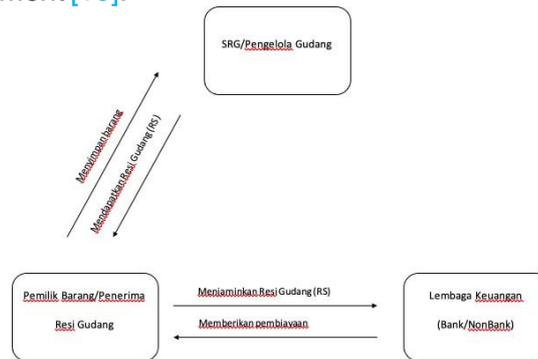


Figure 4: Warehouse Receipt System Flow (WRS)

In addition, the imposition of Guarantee Rights on Warehouse Receipts is made with a Deed of Guarantee Rights Agreement. The Guarantee Rights Agreement shall at least contain:

- 1) Identity of the party giving and receiving the Guarantee Rights;
- 2) Data on the main agreement guaranteed by the Security Rights;
- 3) Specification of Warehouse Receipts as collateral;
- 4) Value of debt guarantee; and

5) The value of the goods is based on the market price when the goods are entered into the Warehouse.

The Guarantee Rights Agreement is an additional agreement from the main agreement, namely the loan agreement. The Guarantee Rights Agreement has the purpose of providing guarantees or collateral for loans provided by the Bank/Non-Bank so that the creditor feels safe. If the debtor defaults, the Bank/Non-Bank can take over the ownership of the Warehouse Receipt for the goods stored in the Warehouse to be used as credit repayment [20].

Warehouse receipts as credit guarantees can only be burdened with one debt guarantee. According to legal theory, the guarantee is included in material guarantees so that it has the right to take precedence. It means that the creditor as the holder of the Warehouse Receipt has the right to take precedence in paying off his debts on the proceeds of the sale of goods in the Warehouse. According to their needs, sales of goods in the Warehouse can be made by public auction or direct sales. Of course, the sale of goods in the Warehouse must be known to the Owner of the Goods as the debtor, namely the giver of the Guarantee Rights, and the proceeds from the sale for settlement must be deducted from the cost of selling and the cost of managing the goods in the Warehouse .

If the debtor has paid off the main agreement in the form of debts, then the additional agreement, namely the Guarantee Rights Agreement with Warehouse Receipts as collateral, has ended. The creditor must return the warehouse receipt to the debtor, and of course, the goods stored in the Warehouse by the manager must be returned to the owner by redemption. Thus, the end of the warehouse receipt system activity after delivering goods in whole or in part is reduced for storage costs, or the goods are damaged. There may also be a sale of goods in the Warehouse by the creditor due to a breach of contract in the loan agreement with the guarantee of the Warehouse Receipt [21].

WRS Perspective in India

India is the third-largest agricultural commodity producer globally, with a total production of around 600 million tons, of which 40% of the total production is grain. The Central Warehousing Corporation (CWC) was formed to provide warehousing

services, and WRS development began in India. The construction of this Warehouse is based on the availability of infrastructure constraints to store agricultural products. Until recently, most warehouses in India were owned by the public sector.

WRS financing in India has also begun to be developed along with the development of WRS implementation. In the last five years, the National Bulk Handling Corporation (NBHC) has financed more than 100,000 farmers with funds ranging from USD 500 - USD 20,000. WRS financing in India is assisted by a guarantor agency whose job is to manage credit risks that may occur. The WRS mechanism in India is identical to the application of WRS in Indonesia, where farmers store their commodities in the Warehouse and get receipt documents in the form of warehouse receipts. The Warehouse Receipt is then used as an instrument for submitting financing to the bank, where the collateral manager serves as a mediator between the farmer and the bank. Some of the characteristics of WRS in India that are different from Indonesia are that the guarantee aspect is not required in India. Then the types of warehouse receipts are categorized into negotiable receipts and non-negotiable receipts [10].

WRS Perspective in Bulgaria

The Warehouse Receipt System in Bulgaria has been in operation since 2000 by Agricultural Cooperative Development International (ACDI) with support from the USAID project. Starting from the 1997 crisis, which caused many banks to go bankrupt, depositors lost their money, and inflation occurred. Small and medium-scale farmers and cereal processing industries require short-term capital for their operations. However, it cannot meet the bank's credit requirements. The main program of WRS in Bulgaria is to develop and implement a Warehouse Receipt System; develop the market for beet commodities; provide price information services; assist grain merchant associations and consolidating products; provide input to the Government in making policies and making trade regulations; as well as providing assistance and training for small grain processing industries and warehousing companies [3].

The WRS system in Bulgaria is able to overcome the problems faced by farmers regarding the supply of production inputs and the sale of the cereals they produce. Problems such as lack of regulation and infrastructure for domestic cereal trade, lack of access to international markets and high prices for quality products, high prices for quality seeds and production input prices; limited quality warehouses for storage of cereal products; absence of quality standards for cereals, as well as commodity market information; limited access and sources of short-term financing, can also be overcome through WRS [22].

In Bulgaria, WRS Warehouse Managers are entrepreneurs with legal entities (traders), with the main business being the storage of goods (grain), providing guarantees, and issuing warehouse receipts. The warehouse manager must meet the requirements that are, have assets equivalent to 55,000 USD (100 million Lev); minimum warehouse capacity of 1,500 tons; have a deposit in a bank equivalent to 6.5 USD (equivalent to 10 Lev) per ton of warehouse capacity with a maturity date of disbursement of 2 (two) months after the management permit period expires; does not act as a third party credit provider or credit guarantor; insuring goods against disasters (fires, floods, and earthquakes); storage costs socialized to the public; and reporting WRS activities to the National Grain Service [22].

WRS Perspective in the Philippines

The Warehouse Receipt System in the Philippines was first introduced in The Bonded Warehouse Act of 1932 and The Warehouse Receipts Act of 1912, which covers all goods. While sugar is regulated by the Sugar Regulatory Administration or *Quedans/Quedancor*, rice and corn are regulated by the National Grains Authority Act of 1972, which was later expanded and developed through the revision of the

rules and regulations of the National Food Authority (NFA) regarding the grain business in 2006 [23].

All Grain Warehouse Managers or Operators are required to obtain a license. In addition, to issue a Warehouse Receipt, the Warehouse Manager must carry out additional processes to obtain a Franchise Certificate. The Franchise Certificate is issued by the National Food Authority (NFA). This certificate specifies the allowable volume to be supplied to the Warehouse, ranging from 500 bags to 20,000 bags [22].

However, the WRS in the Philippines did not run smoothly due to chaos caused by general, special regulations, and overlapping sub-sectors. In addition, there is no clarity as to who can issue Warehouse Receipts for grain between the NFA and *Quedancor*³⁶.

Quedancor itself is experiencing institutional problems that have damaged the bank's confidence. As a result, it is reported that banks limit lending among their most trusted customers. The Report of The Commission on Audit (COA) has suggested the

rehabilitation of corporations or their abolition so that they no longer cause unnecessary harm to the Government.

Fidelity Insurance Implementation in Indonesia

Insurance is an agreement between two parties, namely the insurance company and the policyholder [24], which is the basis for receiving premiums by the insurance company in return for:

a. Provide compensation to the insured or policyholder due to loss, damage, costs incurred, loss of profit, or legal liability to third parties that may be suffered by the insured or policyholder due to the occurrence of an uncertain event; or

b. Provide payments based on the death of the insured or payments based on the life of the insured with benefits whose amount has been determined and/or based on the results of fund management.

Insurance is also commonly referred to as coverage; the original term in Dutch is "*Verzekering*" or "*Assurantie*".

Coverage is an agreement whereby the insurer binds himself to the insured by receiving a premium to provide compensation to him due to loss, damage, or loss of expected profits that he may suffer as a result of an *evenemen*⁴⁰.

These coverages can include, among other things, fire hazards, only those that threaten unharvested agricultural products, lives (one or several people), sea hazards and slavery, dangers that threaten transportation on land, rivers, and in inland waters.

According to Munir Fuady, the juridical elements of insurance are [25]:

a. The existence of the Insured Party, namely the party whose interests are insured to another party, usually an insurance company, by paying a premium and obtaining a contra premium from the insurer;

b. The existence of the insurer, namely the party who bears the insured party based on the insurance agreement, because the insurer has bound himself to the insured party by receiving premiums and is obliged to provide counter premiums following the agreed insurance agreement;

c. The existence of an Insurance Contract or Agreement between the insurer and the Insured, in which the form is written and is called a premium;

d. There is an obligation of the insurer to provide compensation to the insured;

e. Certain events may occur;

f. The insurer pays a premium to the insured (facultative).

Premium is an amount of money determined by the insurance company or reinsurance company and approved by the policyholder to be paid based on the insurance agreement or reinsurance agreement, or an amount of money determined based on the provisions of the legislation underlies the mandatory insurance

program to obtain benefits Premium is one of the crucial elements in insurance because it is an obligation that must be fulfilled by the insured to the insurer. Coverage as a reciprocal agreement is consensual in nature. Since the agreement, the rights and obligations of the parties arise but only run if the rights and obligations are implemented. It means that since the premium is paid by the insured, the insurance agreement runs⁴⁴.

Insurance that develops in insurance business practice is divided into money insurance (life insurance), loss insurance, and social insurance. Classification of insurance depends based on the review. As an institution that guarantees people's interests in the integrity of objects, property, or human trust, in Indonesia, insurance is classified into three, namely loss insurance, life insurance, and social insurance.

Loss insurance is an insurance agreement that contains provisions that the insurer binds himself to perform achievements in the form of compensation to the insured in balance with the losses he suffers. Some characteristics of loss insurance include the importance of being able to be valued in money (material striped) in determining compensation, the principle of indemnity applies, and provisions concerning subrogation apply⁴⁶. Included in the category of loss insurance are all types of insurance whose interests can be valued in money, for example:

- a. Theft Insurance (theft Insurance);
- b. Burglary insurance;
- c. Robbery insurance (robbery insurance);
- d. Fire insurance (fire insurance); and
- e. Insurance against hazards that threaten agricultural products (crop insurance).

Social insurance is insurance organized by the Government, where all provisions in this insurance must be based on the provisions of the law that has been stipulated. The implementation of social insurance is intended for the welfare and interests of the wider community. All provisions relating to social rights, determined by the parties as well as procedures regarding social insurance, are determined and regulated in laws and government regulations. So, it is not left to the free will of the interested parties.

While an insurance amount is an insurance agreement that contains provisions that the insurer is bound to perform achievements in the form of payment of a predetermined amount of money, which is included in this amount, insurance is life insurance. Life insurance is driven by accident insurance, health insurance, and credit life insurance.

Currently, the development of insurance shows a significant development, so that currently insurance forms a differentiation of types of insurance into conventional insurance and sharia insurance. As previously explained, conventional insurance is

Regulated conventionally based on the Commercial Code (KUHD) and the Insurance Law. Meanwhile, sharia insurance is insurance that removes the element of uncertainty (*gharar*), the element of speculation/gambling (*maisir*), and the element of money interest (*riba*).

Cover Fidelity Insurance or Professional Indemnity Insurance is insurance against fraud or theft committed by the warehouse employee concerned.

Fidelity insurance is a part of the risk management practice of a business. There are 4 (four) types of fidelity insurance, namely^[26]:

- a. Individual Policy, based on individual policies, coverage is limited to losses due to fraud or dishonesty of individual employees.
- b. Collective Policy, based on collective policy, protection is provided against losses caused due to fraudulent actions by a group of employees. Coverage in this type of insurance will be determined based on the responsibilities and positions of each employee.
- c. Blanket Policy, based on blanket policy, covers a group of employees without

mentioning names and titles.

d. Floater Policy, guarantees a group of employees with one amount of guarantee provided across the group. A minimum of five employees must be present to take advantage of this policy.

This Fidelity Insurance provides coverage in the form of compensation for several risks of loss caused by⁵⁰:

- a. Employee dishonesty committed for personal gain.
- b. Fraud by employees.
- c. Loss of property, in the form of money or property and assets.
- d. Costs incurred for audits of losses.
- e. Cost of rewriting or amending computer programs related to losses.

In addition to coverage, there are also coverage exceptions from fidelity insurance. Exceptions mean things or conditions that are not covered or do not get compensation, namely⁵¹:

- a. Losses due to war, riots, acts of terrorism, and other similar events.
- b. Losses suffered by the company due to dishonesty or fraud committed by the directors/management of the insurance policyholder.
- c. Losses occur due to loss of stock of goods due to physical counting errors.
- d. Losses due to the difference in calculations at the cashier.
- e. Costs incurred by the insured to prevent more significant losses.
- f. Other things that are excluded from the policy.

This fidelity insurance is an internal problem of the company concerned. Therefore, to claim fidelity insurance, it is unnecessary to involve the police/authorities; the company

needs to conduct an internal audit to find evidence of negligence or fraud. This evidence will later become the basis for insurance companies to make decisions regarding reports in submitting insurance claims.

SRG itself admits that there is insurance in the Warehouse Receipt System, which is charged to the Owner of the Goods and the warehouse manager. One of them is fidelity insurance or cover fidelity insurance, namely insurance against fraud or theft committed by the warehouse employee concerned, who is obliged to ensure the warehouse manager.

Usually, a company that uses fidelity insurance does not expose its case because an image must be maintained. Sometimes, the company does not do something if the fraud is not covered by fidelity insurance.

Development of Warehouse Receipt System (WRS) in Indonesia

At first, WRS development was slow even though the WRS Law had been introduced since 2007. At least this can be seen from the pilot warehouse receipt system in four regions, namely Indramayu, Banyumas, Jombang for grain commodities, and Gowa for maize commodities. From the project, only 305 tons of commodities were issued as securities (Warehouse Receipts), including 15 Warehouse Receipts with a value of approximately Rp 1 billion.

Furthermore, the WRS was implemented in 2008-2010, which has been carried out in

10 districts, including Banyumas, Karanganyar, Jombang, Indramayu, Banyuwangi, Sidrap, Pinrang, Subang, Gowa, and Barito Kuala. The result of the pilot is that 86 warehouse receipts have been issued with a total volume of 3,022.88 tons of commodities (consisting of 2,896.63 tons of grain and 126.25 tons of corn) worth Rp. 10,663,331,940 [27].

In 2011, WRS experienced an increase, indicated by the issuance of Warehouse Receipts which reached 57 Warehouse Receipts for grain commodities in six districts (Indramayu, Banyuwangi, Sidrap, Pinrang, Subang, and Barito Kuala) with a volume

of 2,299.94 tons with a total value of Rp. 8.7 billion. Utilization of Warehouse Receipts for financing collateral as many as 36 Warehouse Receipts with a value of Rp. 4.2 billion[28].

In addition, the warehouse infrastructure also continues to be improved. From 2009 to 2016, Bappebti has built warehouses that meet the requirements to become WRS Warehouses[29].

Based on Bappebti, of the 10 (ten) commodities under the WRS scheme, Warehouse Receipts have been issued for 7 (seven) commodities, namely Grain, Corn, Rice, Coffee, Seaweed, Cocoa, and Rattan. The cumulative number of Warehouse Receipts issued from 2008 to 2016 are Grain (75.8%), Rice (11.3%), Corn (3.9%), Coffee (7.5%), Grass Marine (0.9%), Cocoa (0.01%) and Rattan (0.05%). Meanwhile, the highest

Warehouse receipt financing value is Grain (77.4%), Rice (11.2%), Corn (3.8%), Seaweed (0.4%), and Coffee (7.2%) [30].

Whereas the main factor that takes into consideration in implementing WRS for corn farmers in Tuban Regency in particular and in East Java Province, in general, is the availability of supporting warehouse facilities and infrastructure and relatively good warehouse management, which is managed by PT Pertani. In addition, there is a direct appeal from the Regent of Tuban Regency for potential corn farmers to utilize storage warehouses (supported by the local Government), making the implementation of WRS more efficient[31].

Meanwhile, the implementation of the WRS for pepper commodities, especially in the provinces of Lampung and Bangka, is not yet ready, both in terms of business actors, institutions, and the facilities and infrastructure used. Several critical factors so that the implementation of the WRS for pepper commodity can be realized, namely the commitment of the head of the local Government, the integration of institutions in one place, education and socialization, increased production and quality as well as the presence of a buyer/auction market[32].

However, the implementation of the WRS still encounters several obstacles found in the field. Based on Bappebti, there are several obstacles in implementing WRS, including [33, 34]:

a. There is still a lack of understanding and commitment from the community, business actors (farmers, traders, manufacturers), and the banking world to the mechanism of the Warehouse Receipt System;

b. Not yet optimal utilization of the WRS Warehouse that has been built;

c. Limited warehouse infrastructure in areas that meet the requirements;

d. The quality of the harvest has not fully met the required quality standards;

e. Limited commodity price reference;

f. Not yet optimal policy synergy between relevant agencies, local governments, and the private sector as well as WRS actors;

g. The lack of local government commitment to the sustainability of the WRS development policy after the warehouse construction is completed and the rapid turnover/transfer of regional officials in charge of trade;

h. Limited Warehouse Managers in regions that have sufficient capital and are able to manage and market commodities (business integration);

Lack of human resources for the WRS Supervisory Agency.

Some WRS warehouse locations are far from the Commodity Quality Testing Agency.

METHOD

The approach method used is normative juridical. The data were obtained from library research and the study of laws and regulations related to the object of this writing. The normative juridical method approach is literature writing, which uses secondary data, both in the form of primary legal materials, secondary legal

materials, and tertiary legal materials.

The specifications used in this research are descriptive-analytical means that this research aims to describe the state or symptoms of the object studied thoroughly and systematically.

The data analysis in this writing was carried out in a qualitative normative juridical manner, namely by reviewing and analyzing data based on legal aspects and without diagrams or statistical data.

RESULTS AND DISCUSSION

The Existence of Cover Fidelity Insurance in Overcoming the Loss of the Parties in the Warehouse Receipt System in Indonesia

Fidelity is a faithful or loyal performance of a duty. Fidelity Insurance is specifically designed to provide compensation resulting from dishonesty or fraud committed by employees, whether carried out individually or in a conspiracy.

The Warehouse Receipt System (WRS) itself recognizes the existence of insurance in the Warehouse Receipt System (WRS), which is charged to the Goods Owner and Warehouse Manager. One of them is Fidelity Insurance or Cover Fidelity Insurance, namely insurance against fraud or theft committed by the warehouse employee concerned, who is obliged to ensure it is the Warehouse Manager.

Warehouse Manager is a party that carries out warehousing business, both own Warehouse and Warehouse owned by others, which carries out storage, maintenance, and supervision of goods stored by the Owner of the Goods and has the right to issue Warehouse Receipts. In addition, the Warehouse Manager is responsible for his negligence in managing the goods and is obliged to pay compensation to the Owner of the Goods if there is a loss due to such negligence.

However, it is also necessary to know if there is a fraud committed by the Warehouse Management employee, which gives a loss to both the Owner of the Goods as the owner and the Bank/Non-Bank as the recipient of the guarantee rights for the Warehouse Receipt.

In addition, there are several essential things about Fidelity Insurance, namely [35]:

1. Fidelity Insurance is a loss in the form of money or goods;
 2. The act must be carried out by the employee and during the worker's duties;
- and
3. The damage caused must be supported by evidence of acts of dishonesty.

Based on this, it will undoubtedly result in the inability of the Warehouse Manager to maintain the trust of the Goods Owner and Financial Institutions in managing the

Warehouse, employees, and the goods in it. Of course, it will also be challenging to prove the dishonesty act due to eliminating or ignoring the police, where the police should prove the existence of a crime in the form of a letter of loss. Therefore, it will be difficult to prove the existence of fraud. In addition, to what extent does the insurance covers dishonesty or fraud, because there are some exceptions, and of course, each insurance company has a different insurance policy.

It means that it can be said that the Warehouse Manager himself does not have a sense of trust in his employees, which of course will cause the Goods Owners and Financial Institutions to feel insecure and confident in deviating their goods and providing financing, thus becoming one of the factors that hinder the sustainability of the WRS.

Suppose the Warehouse Manager ensures his Warehouse with fidelity insurance which is insurance due to employee fraud. In that case, it can be said that there will be no progress in warehouse management, leading to professionalism. The Warehouse Manager will not try to improve the system because he feels that compensation is due to the employee's fraud.

The transfer of responsibility initially in the Warehouse Manager to insurance will

undoubtedly hamper the progress of the WRS because the risks that arise are transferred to insurance, so the Warehouse Manager is not professional. This will result in the non-optimal utilization of the WRS Warehouse that has been built, limited warehouse infrastructure in areas that meet the requirements, the quality of the harvests that do not fully meet the required quality standards, limited commodity price references, and limited warehouse managers in areas that have sufficient capital and are able to afford it. Managing and marketing commodities, because both Goods Owners and Financial Institutions do not have a sense of security to store and provide financing so that it will have an impact on WRS broadly.

The Goods Owner feels distrustful of Warehouse Management because sometimes there is a reduction in the weight/volume of goods after being stored in the Warehouse, or there are no rotten commodities or a decrease in quality from the previous one, or the condition of the Warehouse is inadequate or not according to warehouse standards both in general and in particular. If the commodity stored in the Warehouse is reduced slightly or due to decay or damage or a decrease in quality, it will undoubtedly be difficult to prove it to get compensation from insurance.

Meanwhile, there are still very few Financial Institutions nationally who want to finance Warehouse Receipts due to the lack of trust caused by the difference in weight/volume in the Warehouse Receipt and the Warehouse Receipt, or the presence of corruption on the commodity will undoubtedly reduce the total weight/volume sold which will result in the difference or difficulty in getting back the amount of money that the Financial Institution should obtain.

The abolition of fidelity insurance will undoubtedly have a positive impact on the WRS itself as well as on the Goods Owners and also Financial Institutions, both Banks and Non-Banks, namely:

- 1) Provide a sense of security and confidence for the parties in the WRS; and
- 2) Promote WRS in improving integrity, system, and honesty in selecting employees in Warehouse Management.

CONCLUSION

The Warehouse Receipt System (WRS) provides credit facilities for farmers and businesses with collateral for goods stored in the Warehouse. The warehouse manager will then issue the goods stored in the Warehouse a Warehouse Receipt. In managing the Warehouse, the WRS Law requires insurance, one of which is fidelity insurance. With the WRS implementation that has been running since 2007 with the fidelity insurance, it can be said that the Warehouse Receipt System (WRS) has not been effective in its implementation. One of them is the problem of harmonization because the Warehouse Manager is not professional due to fidelity insurance, so that the Warehouse Manager is not professional/responsible and shifts responsibility to insurance. In addition, fidelity insurance cannot cover the fraud in its entirety and allows for fraud or dishonesty that is not listed. Judging from the objectives of the WRS, namely, to stabilize market prices, price control, and the availability of goods are difficult to achieve.

The solution that can be done is by harmonizing the roles contained in the WRS, in particular, the Safeguard/Owner of Goods, Warehouse Managers, and Banks, so that trust is established for the purpose of WRS, eliminating the burden of fidelity insurance in every WRS transaction for the sake of a professional Warehouse Manager by strengthening legislation, and can also adopt the success of the Bulgarian State in its WRS such as developing commodity markets; providing price information services; assisting merchant associations and consolidating products; provide input to the Government in making policies and making trade regulations; as well as providing assistance and training for small industries and for warehousing companies.

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