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# ALOP Advance Loss of Profits



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## Object of Insurance

- The object of ALOP Insurance is to indemnify the principal or owner of a project for the actual loss sustained due to a delay in completion of the insured works.
- This delay must be caused by  direct physical loss or damage covered under the CWAR policy.

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## This cover is also known as ...

- Delayed Start-up (DSU)
- Delayed Earnings Insurance
- Delay in Start-up
- Delayed opening of business
- EAR/CAR - Loss of Profits
- • CAR - Loss of Rent/Interest

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## Insured

- Only the principal.
- Quite often the Banker's / Financier's interest has to be noted.
- Contractors, Subcontractors and Engineers, Architects, Consultants etc. cannot be accepted as Insured hereunder.

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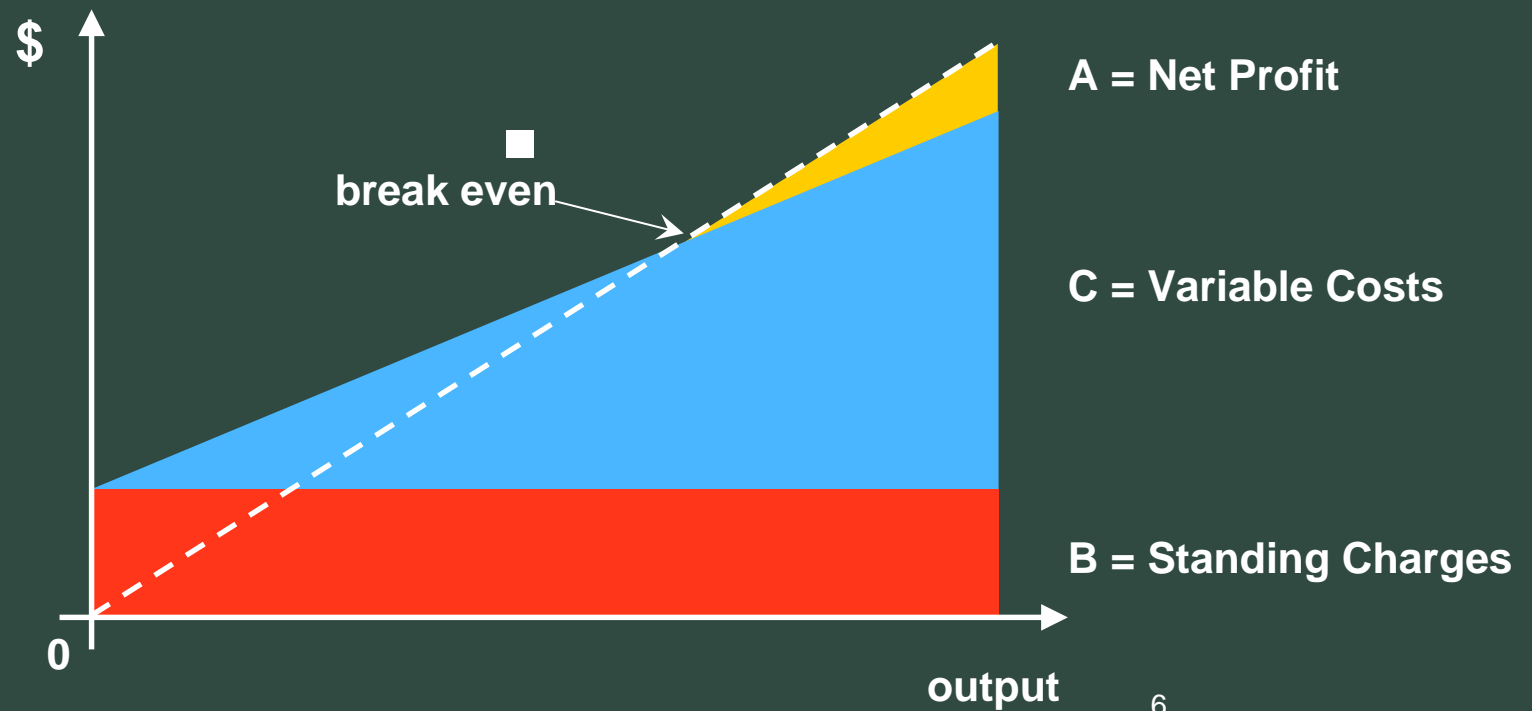
## Sum Insured

- The Sum Insured has to be defined case by case.  
Very often the "Annual Gross Profit Form" is chosen:



# Sum Insured

$A+B$  = Annual Gross Profit (or Gross Earning)



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## Sum Insured

- Formula

$$\begin{aligned} \text{Annual Gross Profit} &= \text{Net Profit} \\ &\quad \text{plus Standing Charges} \\ &= \text{Annual Turnover minus} \\ &\quad \text{Variable Costs} \end{aligned}$$

Variable Costs are not insurable.  
They do not apply in case of a delay.

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## Sum Insured

- $SI = \{\text{Turnover-Variable Costs (both during MPI)}\} \times \frac{12}{\text{MPI}}$

MPI=Max. Period of Indemnity in months





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## Sum Insured

- Fixed Daily Values

They can be accepted if the planned operation will produce a steady and constant output, e.g. a power plant or a chemical plant with continuous production.



In any case the loss settlement will be on an Actual Loss Sustained Basis.

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## Sum Insured

- Interest Charges

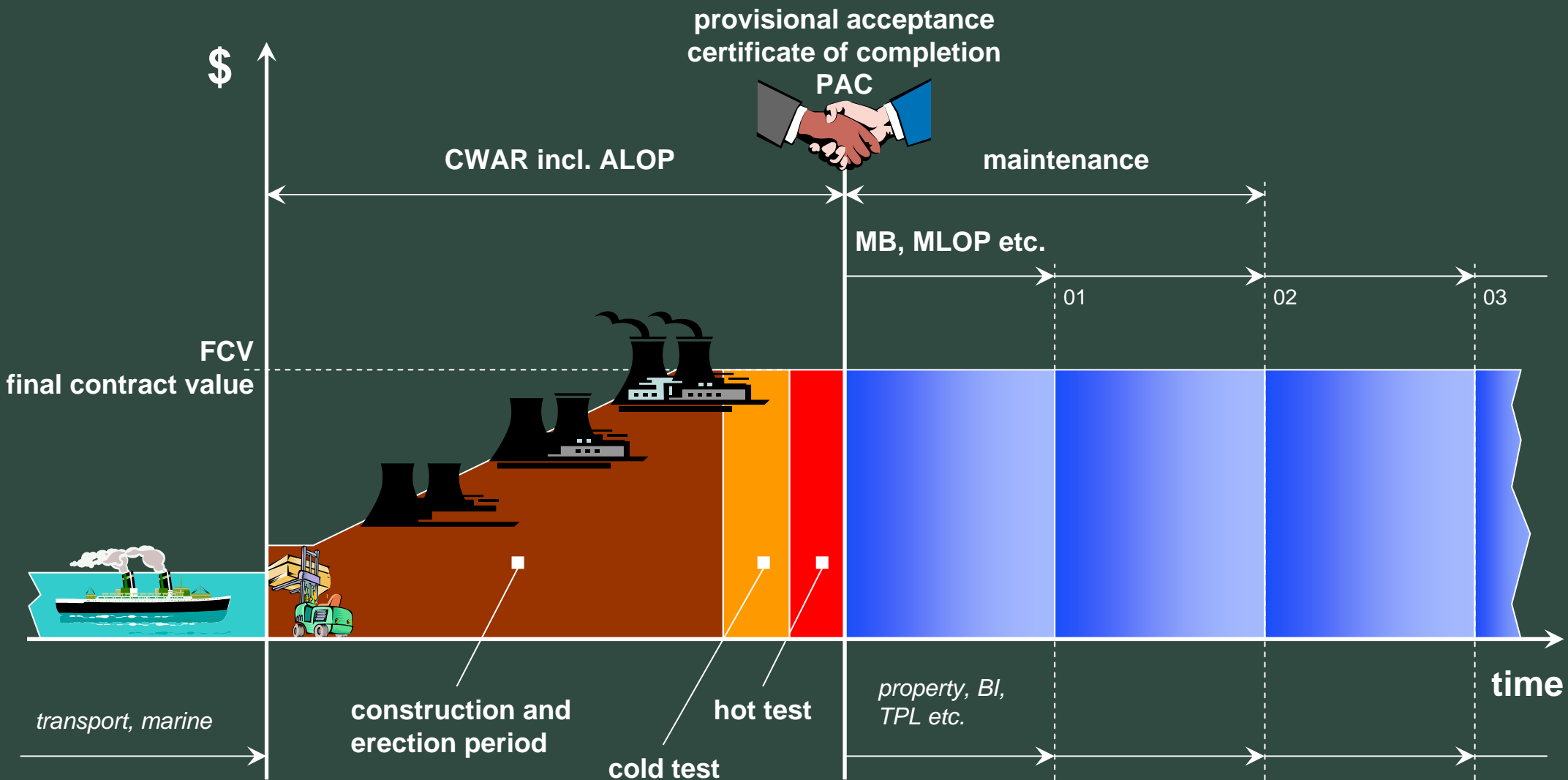
Sometimes only cover for Interest Charges, i.e. fixed costs, is requested.

As the client has to prove that he is in a position to earn them, they should be expressed in the schedule as a percentage of the anticipated annual gross profit.

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## Insurance Period

- The Insurance Period coincides with the works and testing period (if testing is covered in respect of ALOP) and terminates with the commencement of operation (Provisional Acceptance Certificate).
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- It never includes the Maintenance Period for which a FLOP- or MLOP- cover would apply.



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## Period of Indemnity

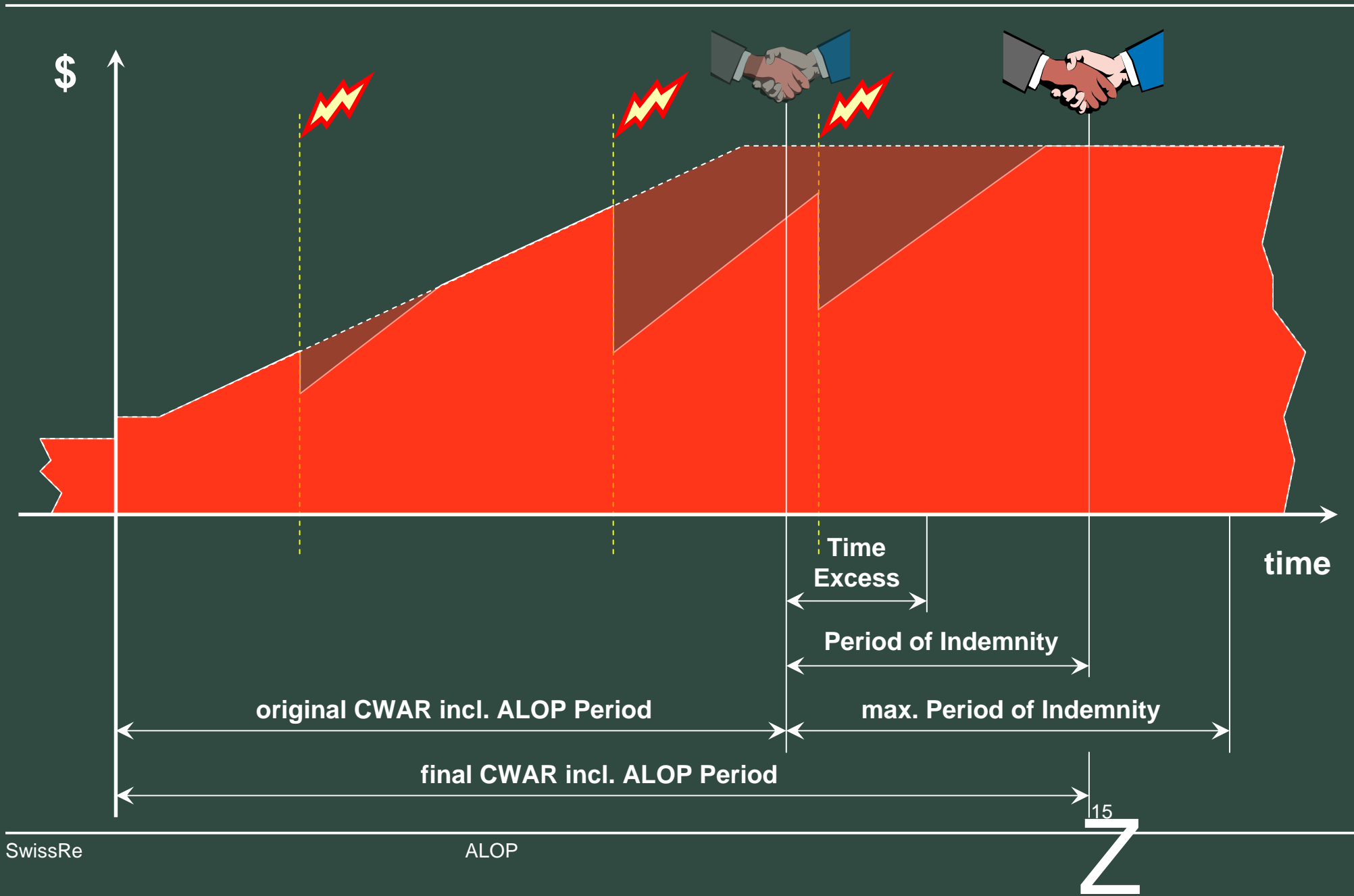
- The Period of Indemnity commences on the day the handing over would have taken place had the accident not occurred and ends on the day that commercial operation starts; but latest at the end of the max. Period of Indemnity stipulated in the policy.

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## Period of Indemnity

- The Period of Indemnity is not necessarily identical with the repair period, as often a delay may be wholly or partly compensated during the works period.





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## Time Excess (Waiting Period, Deductible Period)

- The Time Excess is a global excess. It begins on the date upon which, had the accident not occurred, the insured business would have been completed and taken into use.





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## Cover

- Basis  
SwissRe ALOP endorsement to CWAR policy (or equivalent to be approved).
- Cause ■  
Physical loss or damage covered under the material damage section of the works policy and not explicitly excluded in the ALOP endorsement.

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## Exclusions

- All general and special exclusions to the CWAR policy.
- Any cover extension to the material section granted by way of an endorsement.



However, in certain cases and depending on the risk exposure some of these may be reconsidered and reincluded by the experienced underwriter.

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## Cover Extensions

- Denial of access

After a loss, Authorities may deny the continuation of activities. Resulting delay can be insured, however, the indemnifiable period of such delay shall be limited to up to four weeks.



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## Cover Extensions

- Prevention of access

Loss or damage to property in the vicinity of the site may prevent or hinder the access thereto.

Delay resulting from such an event can be insured, however, the indemnifiable period in respect of such delay shall be limited to up to four weeks.

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## Cover Extensions

- Accidental interruption of PPS can cause a delay of the works. Such delay can be insured, but any cutting-off or reduction of the PPS, whether preplanned or occasioned by any supply authority, or by insufficient supply capacity or by shortage of water due to climate reasons, fuel shortage, etc. remains excluded.

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## Cover Extensions

- Suppliers' extension

Works may be delayed due to late arrival of machinery or equipment on site. Such delay can be insured provided that the delayed arrival is a consequence of a loss or damage at the premises of the supplier. Such cover shall only be granted for:

- named suppliers
- defined premises
- named perils (e.g. fire and natural perils)

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# Underwriting

- Only with corresponding CWAR policy.
- Insured:  
the Principal only (to be a named insured under the CWAR policy). ■

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## Underwriting

- Extension of works requires additional premium for CWAR cover as well as for ALOP cover.
- Interest charges to be expressed in the schedule as a percentage of the anticipated annual gross profit.



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## Commission

- ALOP cover is highly exposed and not always easily available. Most customers will appreciate this support from Insurers.
- Therefore it is fair to say:
  - No profit sharing / premium refund for single ALOP risks.

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# Monitoring

- Obligations of the Insured (i.e. the principal):
  - Regular information on actual works progress.
  - Regular updating of bar chart. ■
  - Regular updating of scheduled date of handing over.
  - Information on material damages which might contribute to a delay.

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# Monitoring

- Measures to be taken by the Insurer:
  - Standard Projects:  
Inspection of site every 1 to 3 months and ad hoc.
  - Large or very exposed risks: ■  
Permanent presence of control engineers on site (to agree in the policy).

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# Monitoring

- Measures to be taken by the Insurer:
  - Follow-up:  
Recommendations for Loss Prevention.  
Detailed monitoring of impact which material damages may have on delays (protocol with Insured). ■
  - After a material damage loss has been advised by the insured, it will further be necessary to co-ordinate with the insured that adequate loss minimising measures are undertaken to avoid the completion date not to be met.

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# Monitoring

- Measures to be taken by the Insurer:
  - Involve experts / consultants



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## Indemnity

- Under no circumstances indemnification will exceed the:  
  
Actual Loss Sustained.



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## Indemnity

- This means the Insured has to prove that he would have produced the Net Profit and spent the Fixed Costs.
- Therefore:  
Insurer will pay a provisional amount and adjust indemnity after first year of operation.

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## Unindemnifiable portions of delay

- Generally:  
No delay which was not caused by an indemnifiable material damage.
- Specially:   
Any delay due to amendments, rectifications, betterments, modification, redesign (even after indemnifiable loss).



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## Loss Minimisation

- Reduce delay by:

Alternative solutions by providing local materials, spare parts.

Considering increased costs in order to find speedy solutions.

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## Recommendation

- Choose highly experienced Loss Adjusters.



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**Now, tell me what I have forgotten  
to tell you!**

