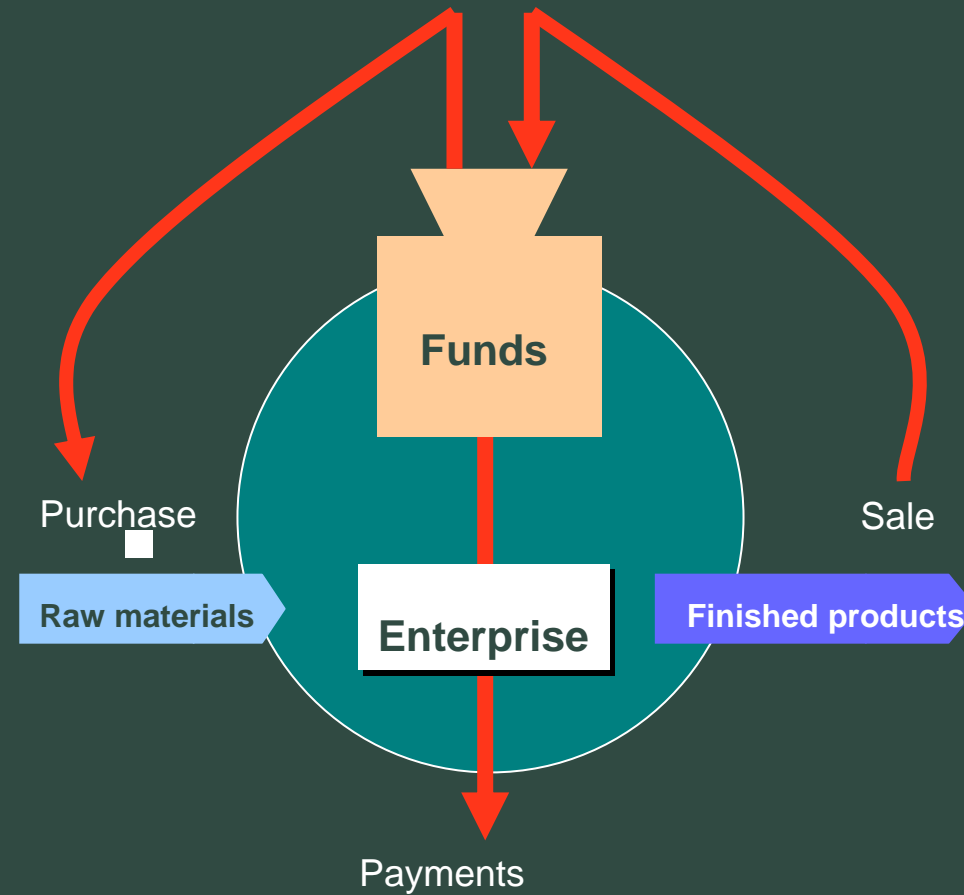


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# Machinery Loss of Profits

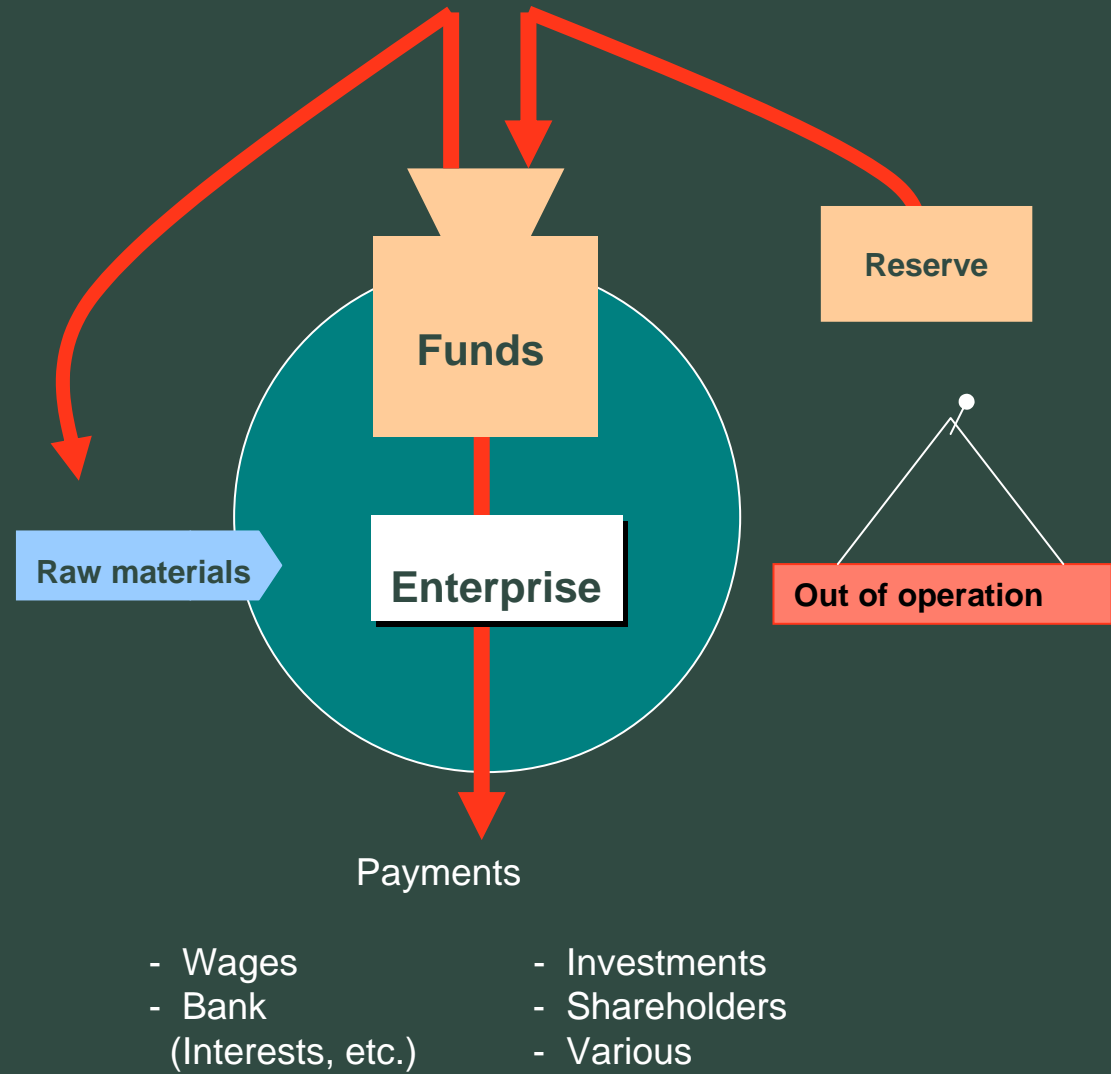


## A simple business



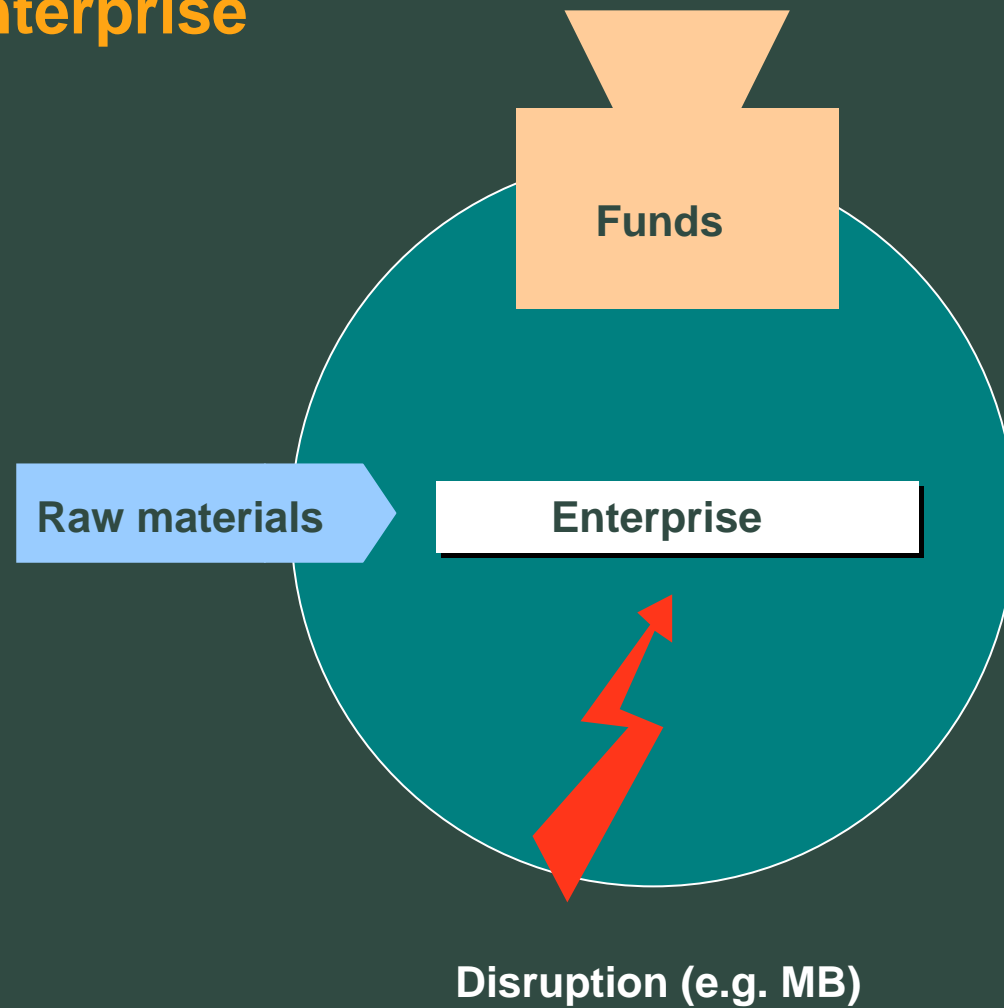
- Wages
- Bank (Interests, etc.)
- Investments
- Shareholders
- Various

# A planned shutdown



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## A disruption in an enterprise



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## What is Business Interruption ?

An **unplanned** temporary non utilization of production facilities that leads to a reduction in output which, in turn, deprives the business of funds for meeting its continuous costs and profits.

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## The exposure of a company

- a) No negative aspects e.g. parallel performance
- b) Only increased cost of working e.g. substitution
- c) Pure financial compensation

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## Object of Insurance:

- To indemnify the Insured against actual loss sustained due to an interruption or interference as a consequence of an “Accident” occurring during any year of Insurance.
- The indemnity will not exceed the amounts specified in the schedule

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## What is an Accident ?

An event which is covered under a standard Machinery Breakdown policy; example SR policy.

**Sudden, unforeseen, physical loss or damage** to machinery specified in the schedule.

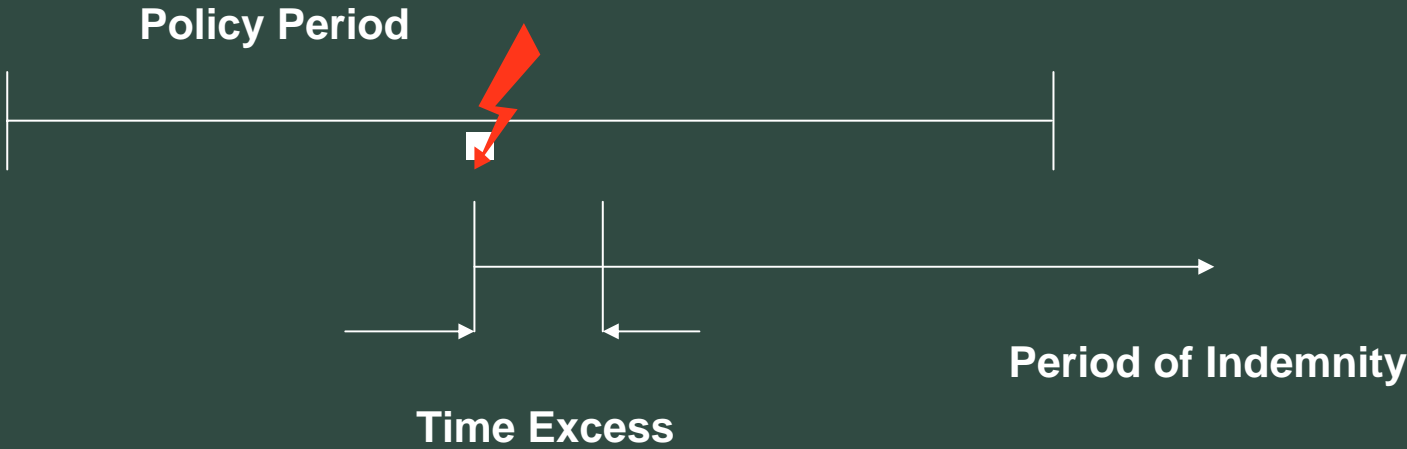
This can occur while the machinery is on the premises specified and

- ready for commercial operation
- at work or at rest



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# Indemnity Period & Time Excess

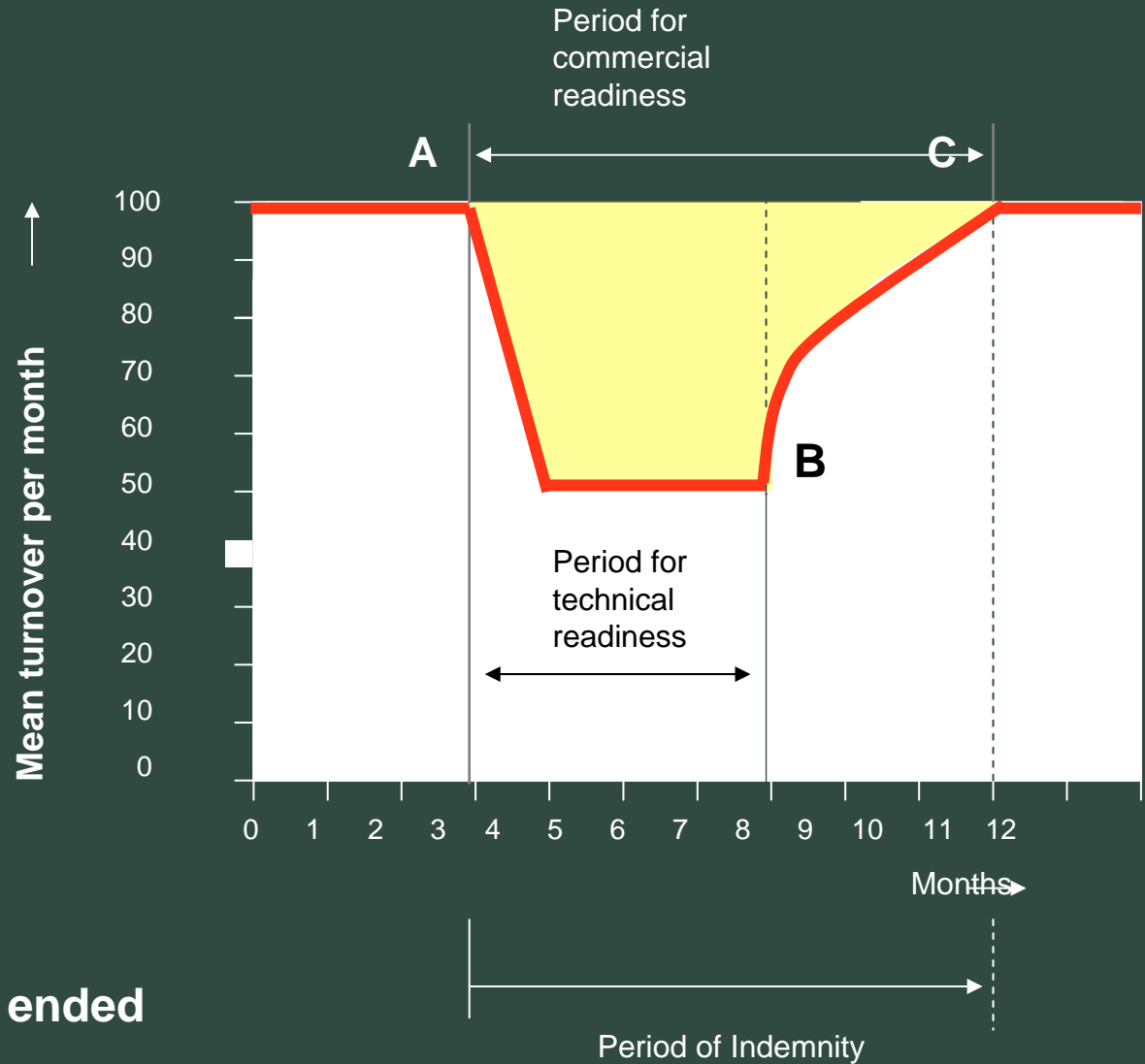


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## Indemnity Period

The indemnity period commences with the date of the accident. Its duration is defined in the policy. The period should reflect the estimated repair period during which the consequences of an accident affect the production output. This period does not exceed the indemnity period limit stated in the schedule. The indemnity period has to be reduced by a time excess.

# Technical and commercial readiness



- A** Start of loss of income
- B** Resumption of production
- C** Effects on operating income ended

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## Time Excess

- **Begins to run with the occurrence of the accident.**
- **When an interruption exceeds the time excess, the indemnity is reduced in the same proportion as the time deductible bears to the indemnifiable period during the period of interruption.**
- **Time excess should be reasonable depending on the type of machinery.**

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## Sums Insured

The sum insured is the gross profit of the previous financial year adjusted for the trends.

## Gross Profit



It is the amount by which the aggregate value of the turnover and closing stock exceeds the aggregate value of the opening stock and the specified working expenses. Additional sums can be “Wages” and “Spoilage” provided a limit is specified in the schedule.

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### **Turnover**

The money paid or payable to the Insured for goods sold and services rendered in course of business carried out at the premises

### **Annual Turnover**

The turnover during the twelve months immediately before the accident

### **Standard Turnover**

The turnover during that period in the 12 months immediately before the date of the accident which corresponds with the indemnity period.

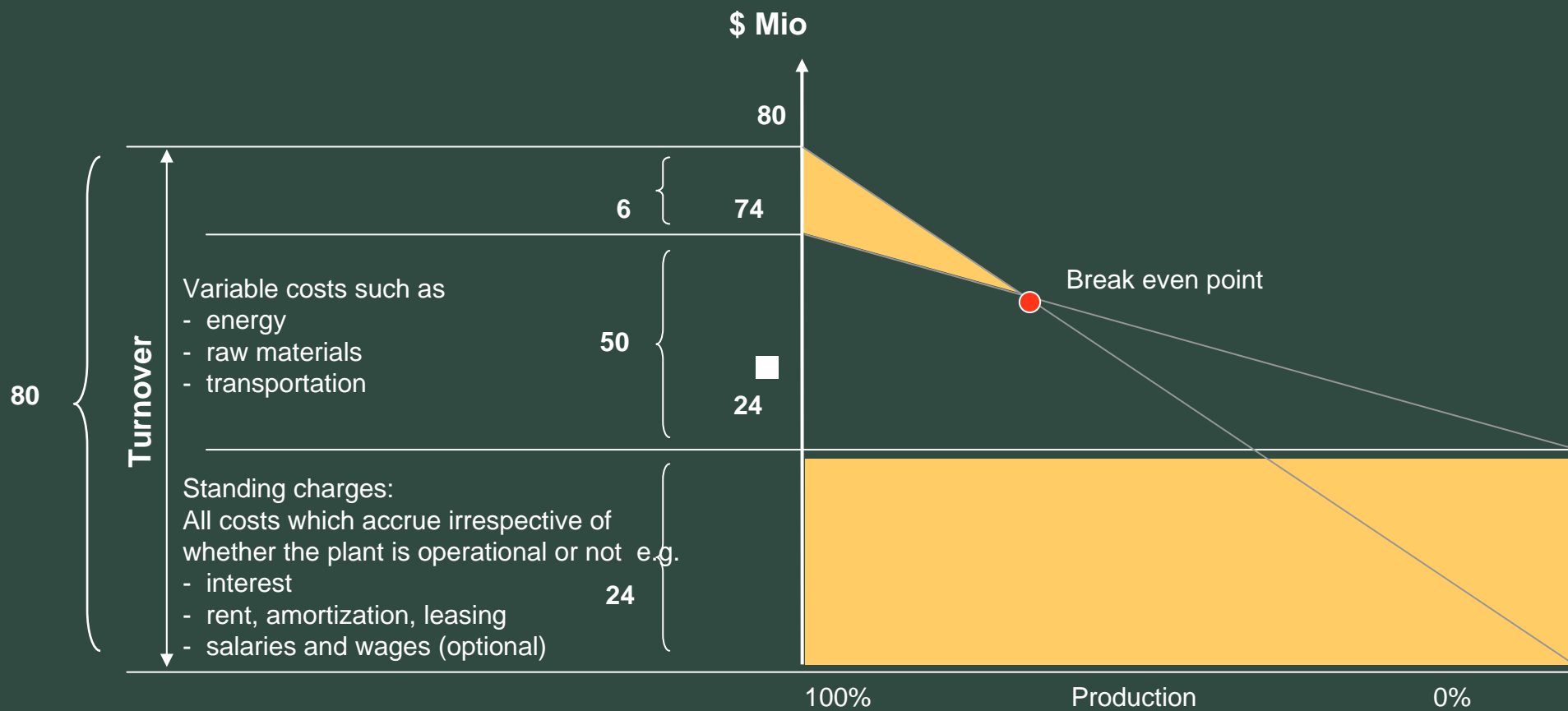
### **Specified Working Expenses**

Those costs which vary directly with the turnover e.g.purchases, packing, energy costs

### **Rate of Gross Profit**

Equals gross profit / annual turnover

## MLOP: Sum insured (gross profit)



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## Example

Say, a plant produced 1'000'000 units in a year (April 1997 to March 1998) and each unit sells USD 80

**Annual Turnover** **USD 80'000'000**

**Less Costs**

a) Fixed costs USD 24'000'000

b) Specified working expenses  
@ USD 50 per unit x 1'000'000 units USD 50'000'000

**Total costs** (fixed and variable costs) **USD 74'000'000** ■

**Net Profit**

Turnover minus total costs **USD 6'000'000**

**Gross Profit**

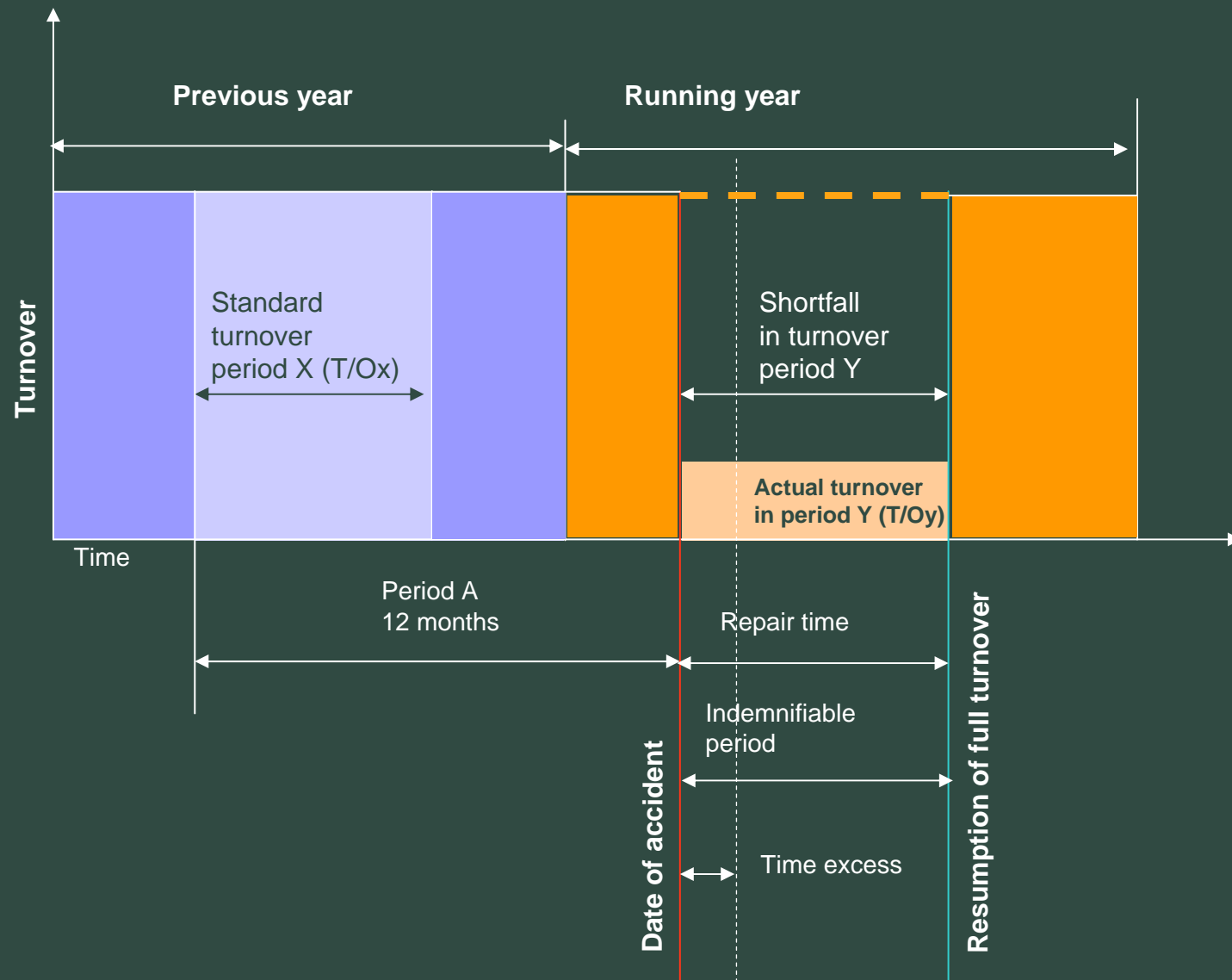
Turnover minus variable costs **USD 30'000'000**  
or net profit plus fixed costs

**Rate of Gross profit**

Gross profit / turnover  $30'000'000 / 80'000'000 = 0.375$



# MLOP: basic principles of loss settlement



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Say, for the above example the reduction in turnover can be minimized from 135'000 units to 50'000 units.

Reduction in turnover                      85'000 units                      **USD 6'800'000**

Increased cost of working  
shall be limited

$$0.375 \times 85'000 \\ = 31'875 \text{ units}$$

**USD 2'550'000**

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Say, in the above example there is an accident on 1 April 1998 leading to a delay of 4 months. The period of indemnity is 12 months and the time excess is one month.

<b>Actual turnover during the delay is</b>	120'000 units	<b>USD 9'600'000</b>
<b>Standard Turnover</b>	305'000 units	<b>USD 24'400'000</b>
<b>Deficit Turnover</b>	185'000 units	<b>USD 14'800'000</b>

Loss adjustment shall be:



$$\frac{\text{Deficit Turnover} \times \text{Rate of Gross Profit} \times (\text{Repair time} - \text{Time excess})}{(\text{Repair time})}$$

$$\frac{14'800'000 \times 0.375 \times (4 - 1)}{4}$$

4

$$= 4'162'500 \text{ USD}$$

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Should MLOP be granted without an underlying MB policy ?

**No !** ■

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## Adjustments for SI

Adjustment to be made for the trend of business for variations in figures or special circumstances affecting the business e.g. loss of market share.

If goods or services are sold elsewhere such amounts shall be reduced from the indemnity.

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## Premium adjustment

**Gross profit for the previous year to be declared four months after expiry of the policy year. If gross profit is less, premium should be refunded. If there are any claims, the amount of the claim same needs to be added to the gross profit before refund or the premium.**



Reactor of a Feed vaporizer plant

## Petrochemical plant

Amount of loss:

Material damage CHF 1'400'000

Business interruption CHF 13'000'000



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## Customer / Supplier Extension





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# Questions?

