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*ERC Frankona*

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*EML determination for LoP  
losses*

*Loss of Profit Seminar*

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# ***EML determination***

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The EML determination is the main tool to identify Risk and control Risk in Property Insurance

A pure BI - EML loss does not exist

# *EML determination*

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- Estimated Maximum Loss
  - Event causing the largest combined Property damage and Business interruption loss for the insured
  - Event occurs under adverse conditions
    - All Fire protection features out of service
    - Delay of public fire department
    - Only passive protection (fire walls & detachment) is effective
  - Event must be due to a covered cause of loss
    - Fire
    - Explosion
    - Natural Catastrophe
    - Allied peril

# *EML determination*

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- Insurance data required
  - Terms and conditions
    - Scope of coverage
    - Exclusions
    - Deductible
  - Sum Insured / Limit of Liability
  - Value insured
  - Period of indemnity
  - Endorsements
    - Which endorsements
    - deductible
    - sublimit of liability

# ***EML determination***

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- Technical data required
  - Data needed for all locations
  - Survey report
    - Process flow chart
    - Interdependency flow chart
    - Plan or diagram of facility
    - Special hazards
    - Machines with long delivery time (Prototypes or foreign)
    - Fire protection / prevention measures
  - Technical data non specific to the insured
    - Repair / reconstruction time for buildings and machinery
    - Price of finished products

# ***EML determination***

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- Choosing the location
  - main bottle neck of process flow (interdependencies)
  - Plant making intermediate parts for a large amount of products
  - Single line processes
  - Dependence on suppliers and customers
  - Distracting factors :
    - Large Property values
    - Large surface area of buildings
    - Plants with large turnover and/or big production rates
    - Concentration of Property values (warehouse)
    - Value insured placed on wrong location

# *EML determination*

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- Choosing the scenario
  - The event must be realistic
  - Locate the event in the building containing the bottle neck production machinery
  - Pay attention to separation (fire walls) between duplicated equipment
  - Account for time to repair or purchase new equipment
  - Distracting factors :
    - buildings with big production rates
    - building with big surface area
    - Concentration of values in a building (warehouse)
    - Value insured placed on wrong location or building

# *EML determination*

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- Aggravating factors
  - Casualties
  - Presence of contaminants (PCB, Asbestos, Toxic products of combustion)
  - Obsolete machinery
  - Old buildings
  - Public Authority
  - Operation permit and Exploitation permit



# ***EML determination***

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- Mitigating factors (reducing loss)
  - Selling warehouse stocks
  - Duplication of process lines
  - Transfer of undamaged equipment from the damaged plant to another one
  - Transfer of production from one plant to another
  - Spare equipment of equivalent or lesser capacity

# *EML determination*

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- Factors not to consider
  - Transfer of production to competitors
  - Nonformalized business relocation plans
  - Delay in delivery / catch up of production
  - Deductibles
  - Sublimits on endorsements
  - Other efforts to reduce loss unless formalized and tested prior to the loss

# *EML determination*

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A loss that exceeds the EML for the location and/or the account is a catastrophe that affects :

- the insured
- the insurer
- the reinsurer

Therefore stay conservative in your estimations