

Delay in Start-Up cover
Does it provide sufficient cover
in the 21st Century ?

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David Way

(Lockton Energy & Infrastructure Division)



Delay in Start-Up insurance – its future

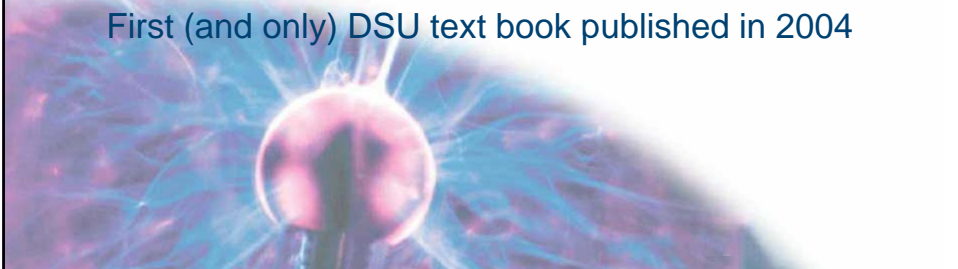
“Reports of my death are greatly exaggerated”

DSU policy only in common usage from 1990-91

Rapid growth in 1990s for Bank-financed projects
(PFI/PPP, BOT, etc)

“An asset is only as good as the revenue it produces”

First (and only) DSU text book published in 2004



Delay in Start-Up insurance

Does DSU provide sufficient cover in 21st Century ?

rather ask:

Do Underwriters and Brokers know DSU well enough
to ensure it meets clients' needs today ?



Delay in Start-Up insurance

- Principles of “Revenue” cover (DSU and BI)
- The relevance of “Gross Profit”
- What is the cover for ?
- Essentials of cover
- Increased Costs cover
- Do we need changes ? ?



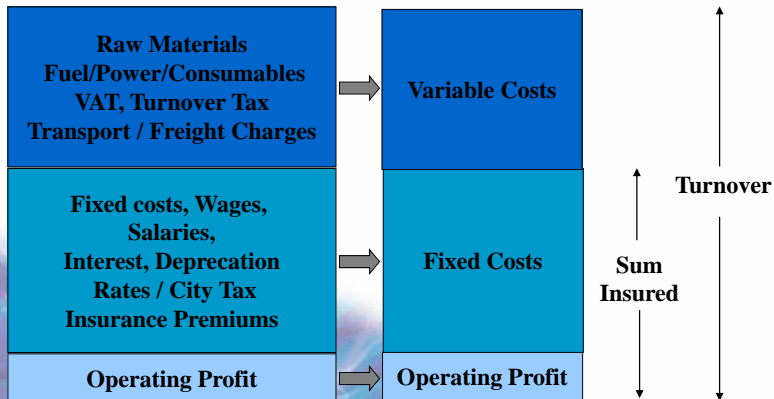
Why insure Revenue

- Covers “Profits” the business would have earned, based on financial records and budgets, had the loss/accident not occurred
- Plus “Fixed operating expenses” (such as wages) which will continue even if the main business is temporarily stopped (in part or whole)
- Most policies also cover “extra expenses” to minimise the impact of loss/accident (reducing the time or cost of the outage or delay)

Insurance of “Profit” (DSU and BI)

- Typical insurance covers “Gross Profit” or “Net Revenue”
“*Turnover (Sales) less Variable Costs (fuel, materials)*”
Sometimes:
“*Fixed Costs plus Net Profit*”
or (rarely for DSU)
“*Revenue less savings*”

Calculating BI/DSU Sums Insured



Fundamental BI / DSU policy terms



- Interruption / Loss or Delay of Revenue caused by loss or damage due to an insured peril at the Premises / Site (or - by extension - at premises of suppliers/customers)
- A claim must be payable under Property/CAR cover (brings in all exclusions / conditions)

The role of the DSU/BI Insurance

A claim payment to reinstate the company's pre-tax profit
to what it would have been had the accident not occurred

To reinstate the company's bottom line (and provide funds
to meet wage bills and to pay dividends of shareholders)

Most BI claims, and all DSU claims
require assumptions and (usually) compromises

Some result in disagreements or disputes



The BIG ISSUE in DSU Insurance

The “but for ...” principle is the key issue
(the same as on BI cover)

(Orient Express Hotels v Generali 2010)

What would the revenue/profit have been
but for the incident of insured loss or damage ?

Much more difficult on DSU than on BI

Projections only (no historic record)

Impact of cover restrictions (eg partial “design” cover)

Other (non-insured) delays during insurance period



Sum Insured calculations



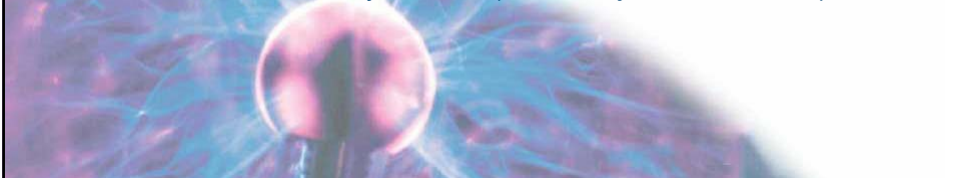
- Still a big area of difficulty (and dispute)
- Client and Broker mistakes are common
- A big issue for DSU is the impact on contracts (contractual commitments and penalties) (raw material/fuel supply, and output/sales)



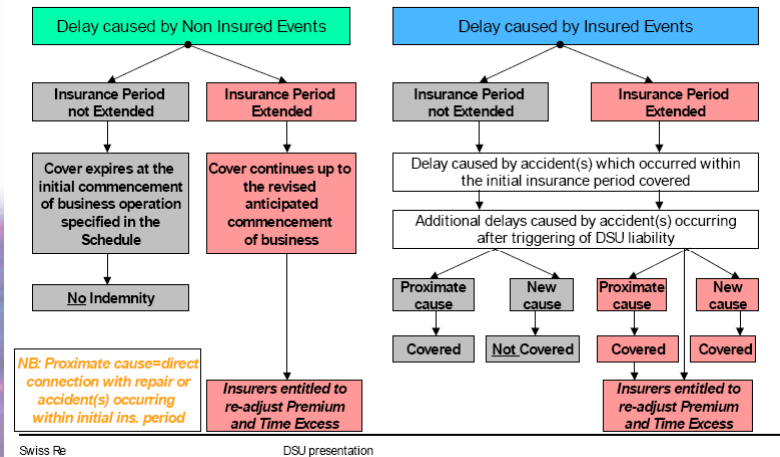
Maximum Indemnity Period notes



- Big concern of a second loss (or more) especially towards the end of construction (or even during the indemnity period)
- DSU MIP likely to be longer than BI MIP (the latter is strictly “one occurrence” only)
- Time-critical business needs special attention (lost contracts, tax-breaks, etc)
- Look at all the delay issues (after major loss/losses)



Delay in Works Progress and its Influence in DSU Insurance

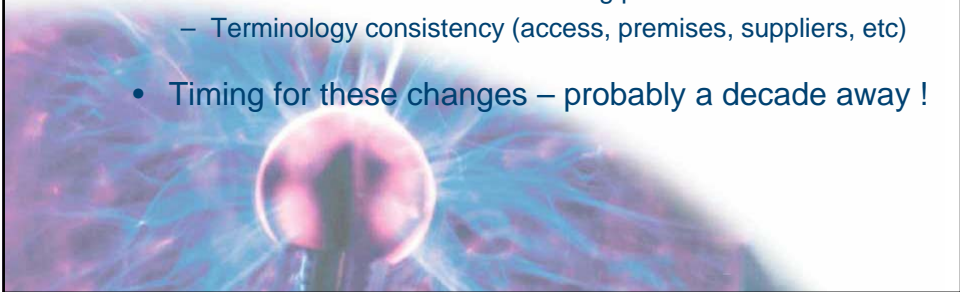


Increased Costs cover

- Needs even greater care than on a BI policy
any expenditure (or course of action) will need prior agreement of insurers/adjustors (especially difficult if also non-insured delays)
- Expenses incurred to minimise a loss:
 “expenditure reasonably incurred for the sole purpose of diminishing the reduction in turnover”
 “not exceeding the amount of claim thereby avoided”
 (“economic limit” or “dollar for dollar” principle)

DSU – do we need changes?

- Lots of policy wordings, often manuscript (good idea ? probably not !)
- Some shortcomings, similar to BI observations
 - Use of “Gross Profit” words
 - Clarity on “working expenses”, “variable charges”
 - Clarification of deductible / waiting period
 - Terminology consistency (access, premises, suppliers, etc)
- Timing for these changes – probably a decade away !



Why insure Revenue ?

- An asset is only as good as the Revenue it produces
- DSU (and BI) insurance is important to managers, investors and shareholders and especially to Bankers (on non-recourse deals)

