

Summary of Engineering Insurance Classes of Business^{*})

Non-renewable (one off) covers

Principal's advance loss of profits (ALOP) insurance

Principal's advance loss of profits insurance, also known as advance loss of profits (ALOP) or delay in start-up (DSU) insurance, indemnifies the actual loss of gross profit sustained as a result of delayed commencement of business operation caused by an accident covered under the contractors' all risks policy or the erection all risks policy.

ALOP insurance compensates for

- standing charges (continuing business expenses) including the salaries and wages paid to employees plus the net profit,
- the increase in cost of working, i.e. the additional expenditure necessarily and reasonably incurred for avoiding or diminishing a reduction in turnover, revenue or rentals.

The sum insured is for all normal cases the gross profit obtained from the turnover of goods produced or handled, services rendered or revenue or rentals achieved in the course of the insured's business for a period of 12 months (i.e. normally for the business year). The period for which the insurance will indemnify losses is defined as the indemnity period which is determined by the insured depending upon the replacement period for the contract works, building or plant insured.

Instead of a monetary deductible this type of insurance is usually subject to a time excess of approx. 4 weeks per year of construction/erection period. The equivalent of the number of average daily values of the loss corresponding to the time excess is borne by the insured. The ALOP cover for CAR risks is of interest for all kinds of buildings and civil works where rentals or other revenue is achieved. This cover is advisable for EAR risks, i.e. all types of industrial plants being newly erected, extended or modernized. Also, single machines can be covered.

The premium is calculated in consideration of the following data:

- The amount of the sum insured
- The time excess and the maximum indemnity period limit
- The kind/type and size of building, plant or machinery to be insured
- The general and the special risk involved, like geological and climatic conditions
- The fire-fighting and prevention measures during construction/ erection and pre-storage
- The effect that physical damage would have on the gross profit (relative importance)
- The reserve facilities and major spare parts available
- The flexibility of the time schedule as well as buffer periods
- The effect of local conditions
- The possibilities of loss minimization including the chances to make up time

- The prevailing economic and political conditions
- The moral and technical hazards relating to each individual contractor and principal and their employees.

^{*}) This summary is taken from Munich Re's booklet Technical Insurance References and is based on the examples of Engineering Insurance wordings of Munich Re, but broadly applies in general to the class of Engineering Insurance referred to herein.