



# Delay in Start Up Insurance

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## An overview

### Introduction

Delay in Start Up [DSU] is also referred to as Advanced Loss of Profits [ALOP].

DSU insures project owners for the financial consequences (as described in the policy) of a delay to project completion arising from an insured physical damage event. The cover is best purchased with the Contractors All Risks/Erection All Risks (CAR/EAR) policy covering physical loss or damage to the project.

### Key Facts

#### **1. Insured Parties for DSU Insurance.**

Typically, DSU is purchased for the project owner. Any project financiers / lenders to the project are likely to require purchase of DSU cover, where finance is on a limited recourse basis. For concession contracts however contractors (as concessionaires) may also be insured.

#### **2. Claimants under DSU Insurance.**

The project owner, and where applicable the project financiers / lenders and contractors under concession contracts will be entitled to claim.

#### **3. Contract of indemnity.**

The indemnity granted under a DSU policy will reimburse the owner only to the extent that they have actually suffered a loss. Any claim settlement will take into account seasonal and market fluctuations in the actual business performance, and crucially the effect of any uninsured events (such as poor contractor performance, late delivery of equipment etc) which have delayed project completion.

#### **4. Material damage proviso.**

The DSU cover is triggered only by a delay to project completion due to physical damage events insured under the CAR/EAR cover.

#### **5. Scope of cover.**

There are generally three levels of cover:

- Gross profit. Loss of anticipated revenue, including debt service costs, fixed operating costs as well as anticipated net profit, less variable costs.
- Debt service and fixed costs.
- Debt service only.

Increased cost of working is also insured under DSU to the extent that the increased expenditure reduces the insured loss.

Any indemnity will be limited to the Insured's actual loss sustained within the policy parameters.

#### **6. Triggering a DSU claim.**

The policy will contain a DSU trigger date. It is the agreed date the project was anticipated to be complete and the commercial operations would begin. Such date may be linked to a contractually defined term. There are 3 key criteria for payment of a DSU claim:

- An event indemnifiable under the physical damage policy.
- The resultant delay exceeds the DSU deductible.
- A resultant loss of the interest insured (e.g. Gross Profit).

Variants to address specific operating regimes such as phased handover and interim operations are also available.

## 7. DSU Sum Insured.

The amount payable under the policy will be expressed as both a monetary and a time limit - a sum insured and a maximum indemnity period. It may be further defined by a maximum daily indemnity amount. Insurers will pay up to the amount stated as either the sum insured or the indemnity period, whichever is exhausted first.

The maximum indemnity period purchased should ideally not be less than the maximum rebuild period envisaged. The sum insured should be sufficient to reflect the financial exposure for the level of coverage purchased, during the indemnity period.

## 8. Deductible.

Also referred to as a "waiting period" or "time excess", this is the period of the loss during which the delay is self insured. The deductible is usually expressed as a number of days and will be applied to the aggregated delay.

## 9. Aggregate delay (insured and uninsured).

The delays suffered by a project potentially from multiple physical damage events will be aggregated, leading to one overall delay period beyond the trigger date. Delays can also occur to a project from events that are not covered by the physical damage insurance, such as slow progress or late supply of materials. Indemnity under the DSU policy will discount time lost to such circumstances.

## 10. Reinstatement of cover.

The DSU sum insured is invariably an aggregate limit. If DSU is triggered, it may be necessary to reinstate the sum insured, indemnity period and deductible. The policy may contain provisions relating to the reinstatement of the DSU section. It should be noted that there is generally no obligation on insurers to extend the period of insurance, to advance the trigger date, or to reinstate the sum insured.

## 11. Key exclusions.

DSU typically does not cover:

- Fines and penalties.
- Non damage delays (non performance, late delivery of materials etc.)
- Periods of insured delay concurrent with those from uninsured events.
- Delays due to redesigning, adding or improving the insured property.
- Inadequate funding to complete the project.

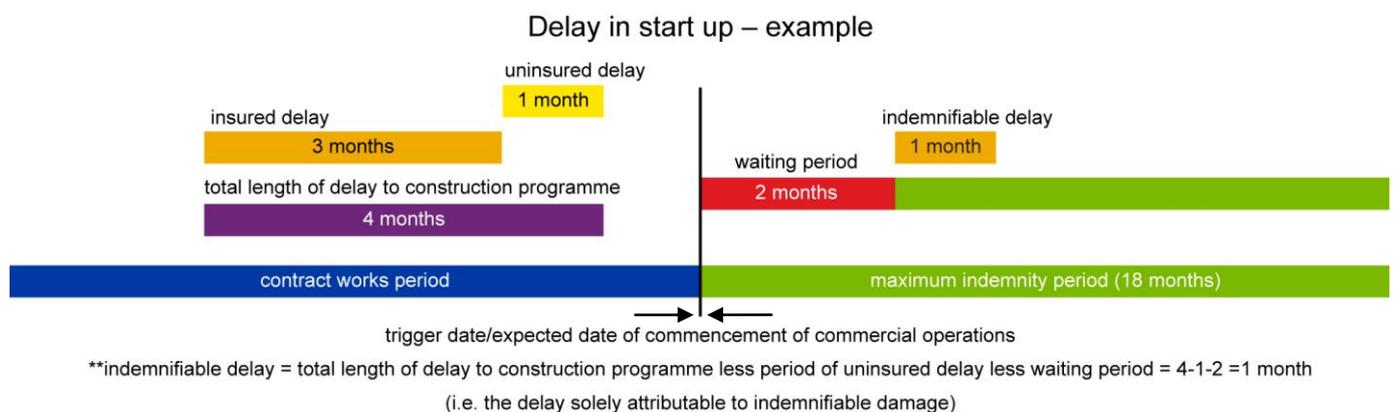
## 12. The claims process.

In the event of a claim under the DSU policy, insurers will usually seek to establish:

- The actual status of the project progress at the time of the physical damage occurrence. Generally, the more transparent the project progress, the simpler the claims process will be. Providing insurers with regular progress reports and schedule updates during the life of the project is strongly recommended.
- The as-if revenue situation of the insured business had the loss not occurred.

Forensic accountants may be used to assess the actual loss sustained.

Claim settlements will be subject to deduction of concurrent uninsured delays and the application of the policy deductible.



Your insurance adviser should be able to assist with the following:

- A detailed explanation of principles and the scope of cover.
- Insurance programme design, assessment of needs, selection of interest. insured, sum insured, maximum indemnity period, reinstatement needs.
- Identification of potential loss scenarios with indemnity examples.
- Establishing a statement of intent from Insurers on advancing the trigger date/extending the period of insurance.
- Periodic reviews of project schedule.