

Summary of Engineering Insurance Classes of Business *)

Renewable (annual) covers

Machinery loss of profits (MLOP) insurance

MLOP insurance indemnifies the actual loss of gross profit sustained as a result of a business interruption caused by an accident covered under machinery insurance.

MLOP insurance compensates for:

- The continuing business expenses (standing charges) including the salaries and wages paid to employees
- 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.

The sum insured is, for normal cases, the gross profit obtained from the turnover of goods produced or handled in the course of the insured's business for a period of twelve successive calendar months (i.e. normally for the business year).

Increase in costs of working may also be covered under MLOP insurance, for instance the additional expenditure incurred for the use of external power if the insured's own power supply breaks down (additional cost of consumption of kilowatt hours and maximum demand charges for kilowatts in excess of normal requirements).

The period for which the insurance will indemnify losses is defined as the indemnity period. This period – normally 3 to 12 months – is determined by the insured depending upon the replacement period for the machinery to be insured.

Instead of a monetary deductible, this type of insurance is usually subject to a time excess of normally 2 to 14 days. Losses made during the period corresponding to the time excess are not indemnified under this insurance.

MLOP insurance is of special interest for all "bottleneck" equipment on which the business operation depends such as boilers, steam turbines, generators, transformers, and important process machinery such as paper machines, printing machines, presses, rolling mill equipment, refiners, crushers, compressors, pumps, etc., including their drives.

The premium is calculated in consideration of the following data:

- The amount of the sum insured
- The time excess and the indemnity period
- The size, number, type and age of the machinery insured
- The general and the special technical risk of the machinery to be insured

- The moral and technical hazards relating to each individual user and his employees
- The effect that a breakdown of the insured machinery would have on the gross profit (relative importance)
- The reserve facilities and spare parts available
- The effect of local conditions
- The possibilities of loss minimization
- The prevailing general economic and political conditions.

^{*}) 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.