Consequential Loss or Business Interruption Policy

This is a specially designed policy (also known as business income insurance) is a type of insurance that covers the loss of income that a business suffers after a disaster. The income loss covered may be due to disaster-related closing of the business facility or due to the rebuilding process after a disaster which covers accidental loss or damage to electronic equipment.

Highlights

Generally insurance policies cover only physical damage to property by insured perils. This, at best , covers the expenses incurred for repairing or replacing the damaged property . But what about the financial loss suffered due to interruption of business operations whilst the damaged property is being repaired or replaced ?
This policy offers a solution by covering profit lost due to reduction in turnover arising from interruption of business following damage to the property insured.

This policy can be taken only in conjunction with Fire Policy or Machinery Breakdown policy.
This policy is also known as Business Interruption Policy or Loss of Profit Policy.

Scope

The policy covers:

- Loss of gross profit
- Increased cost of working

Add on covers

The Fire Consequential Loss Policy can be extended to cover loss of profit to the insured due to :

1. Accidental failure of public electricity/gas/water supply
2. Damage to customer's premises due to perils covered under Fire Policy
3. Damage to Supplier's premises due to perils covered under Fire Policy

How to select the sum insured?

The sum insured under CL Policy (Consequential Loss) should represent the gross profit of the indemnity period selected.

The indemnity period is the maximum period required to put the business back into normal operation after damage to insured property by an insured peril. The indemnity period could vary from 6 months to 3 years. Upto an indemnity period of one year , the annual gross profit should be selected as sum insured. Thereafter the GP should be in proportion to the indemnity period selected i.e. for 18 months - 1 1/2 times the annual gross profit for 24 months - 2 times the annual gross profit for 36 months - 3 times the annual gross profit

The gross profit should represent the net trading profit plus insured standing charges (fixed charges). The standing charges which are to be insured have to be specified. Gross profit can be insured on one of the following basis :

1. Turnover basis
2. Output basis
3. Difference basis
4. Revenue basis

How to claim?

The policy operates once there is a valid claim under the Fire Policy or Machinery Breakdown Policy.
The loss of profit is measured by comparing the turnover/output /revenue during the indemnity period with the turnover during the corresponding period in the previous year (known as the standard turnover).
Hence loss of gross profit = Rate of gross profit X Reduction in turnover

= (Gross Profit / Annual turnover) X Reduction in turnover

The documents establishing reduction in turnover have to be submitted to the surveyor appointed by the insurance company.

In addition if any extra expenses have been incurred to minimize reduction in turnover the same are also payable subject to the overall sum insured.

Note: Policy details given are indicative, not exhaustive. Please contact your Gulf Union office for further details.

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You are in Safe Hands

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