

Delay in Start Up Cover

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Heavy lift project cargo often consists of machinery or equipment that are critical components needed for the construction and subsequent operation of various industrial and infrastructure projects. Despite intricate planning to deliver the goods safely and within project timelines, an unexpected or unavoidable event can severely interrupt these plans. Should these events cause physical loss or damage to the cargo or conveyance, significant consequential financial losses could ensue.

Mitigating Risk

As we have addressed in previous articles, it is vital to secure comprehensive marine cargo insurance to protect against financial losses from damaged or lost cargo. In the event of such a loss, cargo insurance alone will not provide a remedy for the financial consequences of a project delay while the critical items are being replaced or repaired. DSU is another type of marine insurance that can be packaged with cargo insurance to mitigate this risk.

DSU insurance provides coverage for the actual loss sustained to the insured's business generated at the project site. Such actual loss sustained may include the loss of gross profit, any increased cost of working incurred for the purposes of avoiding or diminishing a reduction in turnover, and any fixed costs and debt servicing which are not affected by any change in production. A claim under this coverage is triggered by a physical loss or damage event involving the cargo or the carrying conveyance

that causes a delay to the scheduled commercial operation date.

DSU may be more relevant now because of the current worldwide economic and financial environment. For example, obtaining project financing has become more difficult and terms are stricter. Lenders may be looking to borrowers to provide evidence that they can sustain the debt payments in the event of a delay in production start up. Evidence of a DSU policy may assist the principal in securing financing and help improve terms from lenders.

Lead times for replacing critical equipment have increased as well as the cost of raw materials resulting in extended delays and rising costs. Essentially, all principals who stand to experience a financial loss in the event that a start up date is delayed should consider the value of DSU coverage.

As with marine cargo insurance, it is important for insureds to understand the terms and conditions of their DSU marine policy including exclusions, insured limits and deductibles.

Some exclusions include delays resulting from events that are not covered under the policy, such as those imposed by governments or public authorities including embargoes and cancellation of licenses. The potential gap in coverage posed by these events, and others

such as earthquakes, hurricanes and rail or port closures, may be addressed in a separate trade disruption policy.

Determining the proper insured amount is another important consideration of the DSU policy. The onus is on the insured to supply details of its anticipated loss. The insured would be expected to produce a financial statement to support this calculation.

Deductibles for DSU are more complex than a marine cargo deductible and are normally calculated as a period rather than a fixed amount. For example, insurers may impose a deductible equivalent to 15 days of identifiable delay. The actual deductible amount would be calculated by dividing the indemnity amount agreed in the policy by the number of days in the agreed identifiable period and then multiplying this figure by 15.

Calculation

The following illustration depicts a deductible derived from an identifiable amount equalling USD1 million, an identifiable period of 180 days, and a 15-day deductible.

USD 1 million	÷ 180 days	= 5,555
5,555	x 15 Days	= USD 83,333 Deductible

When seeking DSU coverage, assureds will need to provide much of the same information that is standard when seeking marine cargo coverage, but with added details. These items include:

- Full schedule of items to be shipped including values, shipping dates, origins and method of transport
- Scheduled commercial operations start up date
- Details of all critical items and their anticipated shipping dates
- Details of maximum replacement period in event of a total loss of any one critical item calculated from date of re-order to date of delivery
- Maximum installation, testing and commissioning period for critical items
- Period of indemnity required from date of expected start up

Pricing for DSU varies massively due to the unique nature of each project. However, proper risk management practices can assist the insured in securing best pricing. Insurers normally appoint a surveyor to supervise all loading and unloading operations in respect of the critical items (normally at the insured's cost). It is imperative that insured liaises with the designated surveyor to ensure that they are aware of all movements of critical items and that they do all they can to ensure that all of the surveyor's recommendations are complied with.

Delivery of the critical items to the site as soon as possible is imperative. Delays in shipping reduce the window from arrival at site until scheduled start up, thus increasing the likelihood of a delay in the event of loss or damage to a critical item.

For major projects, such as power generating plants and mining operations, DSU coverage is generally considered an essential part of the total insurance package. However, for more modest operations (for example, a new production line to expand existing facilities) perhaps a less experienced insured would not be aware that DSU coverage is available to them. In practice, it is equally important as a company's future plans may hinge on production coming online at an agreed date, and contracts to supply clients may be signed on that basis. DSU cover provides the safety net to ensure profits are protected and additional expenditure is covered.