PROSPECTUS & PROPOSAL FORM FOR THE LOSS OF PROFITS FOLLOWING FIRE (BUSINESS INTERRUPTION).

A normal Fire Policy provides protection against Material Damage to property such as Buildings, Plant and Stock. A loss by Fire cannot be measured solely in terms of Material Damage. It takes time to erect new buildings and/or Plant or Machinery immediately after a loss. It may take months or even years to replace/repair the damaged items and return to Pre-Fire production and turnover levels and earn expected profits.
Moreover, in order to meet orders goods may have to be produced elsewhere at a much higher cost.

The reduced production/turnover levels and/or higher production costs to maintain turnover will result in reduced profits for the business enterprise.

During the period of interruption when there may be no profits or reduced profits certain fixed items of expenditure like Rent, Interest continue to be incurred. The purpose of any business activity is to earn profits and a loss by Fire could well involve substantial if not disastrous LOSS OF PROFITS.

Such a loss is not covered by a Fire Policy

THE LOSS OF PROFITS Policy covers:

1. Loss of Gross Profits due to the partial or total stoppage of business as a consequence of Fire, Lightning, or the Explosion of Gas used or domestic purposes.
2. Increase in cost of Working Expenses necessarily incurred to overcome or to minimize the effects of the Fire, such as Rental of Temporary Premises, Hire of Machinery, extra Labor Costs, etc.
3. Wages of Employees retained for whole or part of the Period of Interruption and Wages in Lieu of Notice to Employees who are not required.
4. Continuing Overhead Expenses which have to be met out of reduced earnings during the Period of Interruption.

Some of these overhead expenses which could be payable during the Interruption Period are: -

- Rent
- Rates
- Taxes (excluding taxation chargeable on profit)
- Interest on Debentures, Mortgages, Loans & Bank Overdrafts.
- Salaries to Permanent Employees & Wages payable to Skilled Employees.
- Companies contribution to the provident Fund
- Contribution to the Gratuity Fund
- Labour Welfare Charges
- Directors fees
- Legal Expenses.
- Travelling Expenses.
- Motor Car Expenses.
- Insurance Premium.
- Advertising Expenses.
- Printing and Stationery Expenses
- Electricity and Water Charges
- Maintenance of Building, Plant and Machinery
- Depreciation of Buildings and Plant
- Auditors fees.

The continuing Overhead Expenses and the Net Profit constitute the Gross Profit which forms THE BASIC SUM INSURED.

Provided that the Fire Policy is similarly extended, the loss of profits policy can be extended to include loss resulting from the following additional perils on payment of an extra premium charge: -

- Explosion other than damage to Boilers, Economizers, or other Machinery Apparatus in which pressure is used.
- Earthquake (Fire & Shock).
- Riot and Strike Damage (and Malicious Damage connected therewith).
- Bush Fire.
- Special Perils (A to H).

INDEMNITY PERIOD

The rate of premium varies with the Indemnity Period, that is with the period after any Fire during which compensation is desired, e.g. Twelve, Eighteen or Twenty-Four Months

The Indemnity Period is the maximum period following the damage during which compensation will be payable.

When estimating the Indemnity Period required the proposer should take into account the length of time likely to elapse before the earnings of the business are restored to their normal levels.

SUM INSURED

The sum insured on Gross Profits is based on the amount of Turnover less the sum of those working expenses which vary proportionately with the turnover and should be calculated from the accounts of the business for the last financial year.

The following points must be kept in mind:

1. Adjustment must be made to take into account the trend of the business bearing in mind the figure that would apply at the end of the Indemnity Period
2. The sum insured should be reviewed at regular intervals to keep it in line with current and projected levels of earnings

The method of calculating the loss recoverable under the policy is quite simple and is based primarily upon a comparison between the turnover achieved following the damage and that in the corresponding period of the preceding year, provision being made or appropriate adjustments to allow for the current trend of the business.

Note 1.

This cover is not available unless there is a Fire Material Damage policy in force covering the insureds interest in the property at the premises for which this proposal is being made.

Note 2.

No claims will be payable under the Loss of Profits policy unless there is in force at the time of the loss of Material Damage Policy covering the Insured interest in the property and payment shall have been made or liability admitted under such Insurance.

Note 3

The Buildings, Plant & Machinery under the Fire Materials Damage Policy must be insured on a Replacement value basis.

THIS PAGE IS TO ASSIST IN COMPLETING THE PROPOSAL FORM

Calculation of the Sum Insured

Extract from the accounts of the business for the last financial year

Item 1	**Gross Profit**	**Kshs**
	Turnover for the last financial year.	Kshs.
	Add: Closing stock at end of the year	Kshs.
	Sub Total	Kshs.
	Deduct: Opening stock at beginning of year	Kshs.
	Sub Total	Kshs.
	Deduct: Uninsured working expenses which vary directly with turnover	Kshs.
	i) Purchases (less discounts received)	Kshs.
	ii) Discounts allowed	Kshs.
	iii) Wages (**if insured under item 2**	Kshs.
	iv)	Kshs.
	v)	Kshs.
	vi)	Kshs.
	Total	Kshs.
	Total. (Annual Gross Profit for the last financial year)	Kshs.
	Add Allowance for future trend of business	Kshs.
	Total Sum Insured under Item 1	Kshs.
Item 2	**Wages**	**Kshs**
	Total Annual Wages roll for last financial year	Kshs.
	Add: Allowance for future increase	Kshs.
	Total sum insured under Item 2	**Kshs.**

- Where an Indemnity Period in excess of Twelve months is required the respective sums insured under item 1 and 2 should represent the estimated gross profit and wages for the full period of indemnity.
- The intention of the policy is to pay for loss of Gross profit which would have been earned or wages which would have been paid during the period of interruption following the damage.
- The sum insured should therefore be fixed at a figure higher enough to allow for any possible upward trend of the business.

- An auditor's certificate should be submitted annually to the Company and should this disclose that there has been over-insurance a return of premium will be made to the insured under each item of the insurance up to a maximum return of 50% of the actual premium paid during the relative period of insurance.
- If any damage shall have occurred giving rise to a claim under this policy, such return shall be made in respect to only so much of the said difference as is not due to such damage.
- It is therefore understood and agreed that if a claim is paid under this policy, the amount paid by insurer will be added back to the actual Gross Profit before calculating the return premium.
- The actual gross profit should be declared at the latest nine months after expiry of the policy.

Note 1.

Turnover is the money paid or payable to the proposer for goods sold and delivered and for services rendered in the course of the business at the premises to which the insurance applies.

Note 2.

Specified working expenses are those which are likely to reduce approximately in proportion to turnover whatever the extent of the interruption might be following any damage.

Note that the specified working expenses are uninsured working expenses.

The issuing of this form is not to be taken as an admission of liability by the Insurers.
NB: All questions must be answered in full. Dashes are not acceptable. Please use **BLOCK LETTERS** and tick where appropriate.

1. PARTICULARS OF PROPOSER

1. Name of proposer (in full)			
Postal Address:	P.O Box:	Code:	Town:
Profession or Occupation (Nature of Business)			
Telephone Contact			
Email Address			
PIN Number			(Attach copy of the certificate)
Certificate of Incorporation Number			(Attach copy of the certificate)
Period of Insurance	From:		To:

2. PARTICULARS OF INSURANCE

1. Have you ever been Insured before for this type of risk?	☐ **YES**	☐ **NO**
If Yes, please give name of Insurers		
2. Are you currently Insured for the type of Cover Proposed?	☐ **YES**	☐ **NO**
If Yes, please give name of Insurers		
3. Has any Insurance Company or Underwriter ever:		
(a) Cancelled your policy?	☐ **YES**	☐ **NO**
(b) Declined to Insure you?	☐ **YES**	☐ **NO**
(c) Declined to renew your Policy?	☐ **YES**	☐ **NO**
(d) Imposed any special terms?	☐ **YES**	☐ **NO**
(e) Repudiate any claim?	☐ **YES**	☐ **NO**
If the answer to any of the above questions is yes please give details.		

3. CLAIMS EXPERIENCE

Have you ever suffered a loss in connection with the type of insurance now proposed? ☐ **YES** ☐ **NO**

If yes give details of the last loss as under:

a) Date of loss

b) Amount of loss

c) Cause of loss

Name of Insurance Company with which the claim was made

d) If you have suffered more than one Loss, give brief particulars of each loss

GENERAL QUESTIONS

i) Do you have a Fire (Material Damage) Policy in force covering your interest in the property at the premises for which this proposal is being made? ☐ YES ☐ NO

If yes, then state:-

(a) Policy Number

(b) Name of Insurance Company

(c) The current Period of Insurance

(d) Are the buildings insured for reinstatement value? ☐ YES ☐ NO

If no, on what basis are they insured for?

(e) Is the plant and machinery insured for reinstatement value? ☐ YES ☐ NO

If no, on what basis are they insured for?

(f) State sum insured for buildings

(g) State sum insured for plant and machinery

ii) If the answer to question 4 (i) is no, state:

(a) Have you made a proposal for a Fire Materials Damage policy?	☐ YES	☐ NO
(b) Name of Insurance Company proposal made to.		
(c) Has the proposal been accepted?	☐ YES	☐ NO
(d) Will the buildings be insured for reinstatement value?	☐ YES	☐ NO
(e) Will the plant and machinery be insured for reinstatement value?	☐ YES	☐ NO
(f) State sum insured for buildings		
(g) State sum insured for plant and machinery		

NOTES RELATING TO GROSS PROFIT

Note 1.

Gross profit - Where the Indemnity Period of twelve months is selected the sum insured on Gross Profit should be calculated from the accounts of the business as follows:

Annual Turnover **Plus** Closing Stock

Less

Opening stock, Purchases and other working expenses which vary directly with turnover, due allowance being made for any anticipated increase in business.

If an Indemnity Period in excess of twelve months is required, the Sum Insured should represent the estimated gross profits for the full period selected.

Note 2.

Wages -100% wages cover is provided for as short initial period (of not less than four weeks) following a fire or damage by other perils and a smaller percentage for the remainder of the indemnity period selected for item 1. This form of cover is available only in conjunction with insurance on gross profit with an indemnity period of not less than twelve months.

If an indemnity period in excess of twelve months is required, the sum insured should present the estimated wages for the full period selected. The sum insured should include nation insurance contributions, bonuses, holiday pay and the like.

Note 3.

Auditor's fees - The insurance on auditor's fees is to provide for fees payable to your auditors for extracting and certifying information required in connection with a claims.

AMOUNTS TO BE INSURED		
Item 1.	**On Gross Profit (see Note 1.)**	**Kshs.**
	The working expenses to be excluded are:-	
	i) Purchases (less discounts received)	
	ii) Discounts allowed	
	iii) Wages (if insured under item 2)	
	Total.	
Item 2.	**On all pages (see Note 2.)** For the first_____Weeks during the initial period and _____% Of the total wages roll during the remaining portion of the Indemnity Period	
Item 3.	**On Auditor's charges (see Note 3.)**	
	Total Sum Insured	

Period for which indemnity is required_____Consecutive Months following the date of the damage.

Declaration

I/We hereby declare that the statements made by me/us in this Questionnaire and Proposal form are, to the best of my/our knowledge and belief, complete and true, and I/We hereby agree that this Questionnaire and Proposal form, forms the basis and is part of any policy issued in connection with the above risk(s). It is agreed that the Insurers are liable in accordance with the terms of policy only and that the insured will not lodge any other claims of whatever nature.

The insurers undertake to deal with this information in strict confidence.
I/we consent that the data provided can be shared with third parties outside our jurisdiction for the purpose of provision and processing of the insurance.

The liability of the company does not commence until the proposal has been accepted and the first premium paid.

Executed at this	day of	20
For and on behalf of:		
Name:		
Signature and Official Stamp		
Name and Designation of Contact Person:		
Telephone of Contact Person:		
AGENT/BROKER NAME / STAMP	**SIGNATURE**	**DATE**

Click to Submit