

# Suggested Practice for the Conduct of Material Damage and Business Interruption Insurance in Great Britain and Northern Ireland

## Competition Law Compliance:

This document has been produced by the ABI to assist members in their handling of a particular matter. Adoption by members of any terms, standards, guidance, recommendations or similar statement contained in this document is voluntary and entirely at the discretion of each individual member.

The following Guidance was introduced by the ABI and has not been updated to reflect the Competition Law Compliance statement above. It is entirely voluntary in nature and should be construed as such.

In this document –

- (a) application shall not extend to insurances relating to
  - (i) buildings occupied solely as private dwellings including domestic outbuildings belonging thereto,
  - (ii) household goods and personal effects not used or held by the Insured for trade purposes;
- (b) the term business interruption insurance relates to insurances covering Loss of Profits or Earnings in any form interruption of or interference with business resulting from destruction of damage;
- (c) “Great Britain” means England, Wales and Scotland, including the Isle of Man and the Channel Islands

## 1. Standard Exclusions

- (i) **War and kindred risks**
- (ii) **Radioactive Contamination and Explosive Nuclear Assemblies**
- (iii) **Terrorism in Northern Ireland**

1.1 It is suggested that the above risks be excluded from the cover given under Material Damage and Business Interruption policies. Appropriate exclusion clauses have been included in the Standard Policy Wordings set out in Section 2.

### (iv) **Sonic Bangs**

1.2 In policies covering Aircraft and/or Explosion, it is suggested that such cover excludes damage (or loss resulting there from) caused by aircraft and other aerial devices travelling at sonic or supersonic speeds (see Section 2).

## 2 Standard Wordings

- 2.1 The use of the under mentioned wordings contained in Section 2 is suggested.

ABI wishes to reinforce the fact that the Suggested Wordings in the Appendices are recommendations and nothing more. However, the exclusions relating to war and kindred risks, radio active contamination and explosive nuclear assemblies, terrorism in Northern Ireland and sonic bangs were drafted following legal opinion and it is suggested that members should seek their own legal advice on any different wordings.

Appendices 1 to 9 Standard Policy Wordings  
Appendix 10 Material Damage – Special Perils Wordings  
Appendix 12 Material Damage - Basic Specification Wording  
Appendix 19 Business Interruption – Special Perils Wording  
Appendix 20 Business Interruption – Specification Wordings  
Appendix 21 Business Interruption – Extension Wordings

- 2.2 The EC block exemption regulation of 21 December 1992 relating to certain types of agreement in the insurance sector, recognises that the standard policy conditions and clauses have the advantage of improving the compatibility of cover for the consumer and of allowing risks to be classified more uniformly. The regulation grants exemption from standard wordings on condition that they are not binding and serve only as models.

ABI would like to draw attention to the fact that wordings are prepared solely for the assistance of members and that they are not in any way binding.

## **MATERIAL DAMAGE INSURANCES**

### **3 Technical Standards**

It is suggested that Members recognise, support and use the technical standards published by the Loss Prevention Council (LPC) in –

- (a) the promotion of superior standards of risk and

- (b) underwriting

so that adverse features of risk measured against such standards are penalised and that in allowing any premium concessions to reflect good features, the requirements of the technical standards are observed.

A list of the suggested LPC technical standards is available from the LPC.

### **4 Average (Underinsurance) Conditions**

It is suggested that insurances covering property on a full value basis incorporate the principle of Average. See suggested wordings in Section 2 Appendix 11.

### **5 First Loss Covers (Declared Value Clause)**

It is suggested that First Loss covers be provided only for:-

- (a) Storm, Flood, Escape of Water and Sprinkler Leakage
- (b) Impact
- (c) Architects', Surveyors', Legal and Consultants' Fees
- (d) Debris Removal

(e) EC and Public Authorities' Requirements; Early Funding of Existing Commitments

N.B Where cover is given for any of the perils listed in (a) above, the principle of Average should be maintained by the use of the Declared Value Clause. See suggested wording in Section 2 Appendix 10. (General Note 1).

**6 Temporary Removal**

Where an insurance in respect of any specified premises is extended to cover the insured property, other than stock in trade or merchandise, whilst temporary removed for cleaning, renovation, repair or other similar purposes in Great Britain and Northern Ireland, the wording in Section 2 Appendix 14 is suggested.

Where cover is given for property temporarily removed, it is suggested that an appropriate limit be applied – see Section 2 Appendix 14.

**7 Debris Removal**

When specific reference is made to cover in respect of costs incurred in debris removal and/or dismantling, demolishing, shoring up or propping in respect of any property, the use of the wording contained in Section 2 Appendix 13 is suggested.

**8 Foundations**

In arriving at the sum insured for a building, the whole of the building or the whole of the building or the whole of any portion thereof constituting a separate risk should be included, although the part below the level of the lowest floor can be omitted where appropriate. A similar omission may be made for concrete foundations for machinery which extend above the level of the lowest floor. For suggested wording – see Section 2 Appendix 12 (Note iii)

**9 Contract price**

Insurances on the basis of contract price may be granted in the case of goods sold but not delivered and the use of the clause detailed in Section 2 Appendix 14 is suggested.

**10 Automatic Fire Alarm Installations  
Fire Break Doors and Shutters  
Automatic Sprinkler Installations  
Fire Extinguishing Appliances**

For all insurances where one or other of the above is installed in accordance with the LPC Rules referred to in Appendix A and this is reflected in the premium charged, the appropriate warranties detailed in Section 2 Appendix 15 should be included in the Policy.

**11 Insurances on a Floating or a Stock Declaration Basis**

See Appendix B

**12 Reinstatement Basis of Insurance, Inflation Provision Schemes and EC and Public Authorities' Requirements**

See Appendix C

**13 Building Construction and Fire Extinguishments and Protection**

13.1 For the purpose of risk description. Grade 1 (1994) and Grade 2 (1994) of the LPC Code of Practice for the Construction of Buildings, including the definition of terms contained on pages 13 and 14 thereof, should be adopted (See Appendix A hereof).

13.2 Buildings, ranges of buildings or parts of buildings not separated by Fire Break Walls and/or Fire Break Floors as defined in Grade 1 (1994) and Grade 2 (1994), should be treated as one risk.

#### **14 Space Heating**

The Classification of Heaters detailed in Appendix D has been devised for the assistance of underwriters; heaters are classified according to fire hazard with those classified as A constituting the lowest hazard – heaters classified as F require special consideration.

#### **15 Fibres**

15.1 The generic classification of Fibres detailed in Appendix E has been devised for the assistance of underwriters; fibres classified as Class I represent the lowest fire hazard

15.2 Arrangement can be made for any fibre not included in the classification to be tested with a view to its inclusion as detailed in Appendix E.

#### **16 Theft/Impact Claims Agreement**

This Agreement is intended to assist in the payment of claims for buildings damage where there is duplication of cover, under a Theft insurance and also a Material Damage insurance which includes Impact cover (Fire and Perils or “All Risks”) e.g. if vehicles are used to achieve forcible entry into industrial or commercial premises.

A list of signatories to the Agreement will be provided to all participants, on application to the ABI.

#### **17 Malicious Damage/Theft Cover**

Malicious Damage cover is regarded as excluding loss or destruction of or damage to property actually stolen and any incidental damage directly attributable to the theft. It does, however, include any other malicious damage caused by intruders whether or not any element of this is involved.

Theft cover, where affected, may also include incidental damage to other property of the Insured if it can be reasonably attributed to, or is in furtherance of theft or attempted theft.

#### **18 Stock Throughput Policies**

Stock Throughput policies are regarded as Marine policies for the purpose of the application of the Marine clause e.g., General Exclusion 5 in Appendix 1 of Section 2.

#### **19 Estimated Maximum Loss – Non-Sprinklered Risks**

See Appendix F.

### **BUSINESS INTERRUPTION INSURANCE**

**20 Contract of Indemnity**

Every policy should, so far as may be possible, constitute a contract of indemnity

**21 Bases of Cover**

Insurance on gross profit or other earnings in any form or part thereof should be on one of the following basis: -

**21.1 Sum Insured Basis**

The Insurer's liability is limited to a sum insured representing gross profit or other earnings in any form or part thereof. The first and annual premiums are chargeable on the sum insured with subsequent adjustment on the basis of actual gross profit or earnings.

**21.2.1 Declaration-Linked Basis**

The insurer's liability is normally limited to not more than [133.3%] of the Insured's estimated gross profit or other earnings in any form or part thereof for the financial year most concurrent with a period of insurance (proportionately increased for maximum indemnity periods in excess of 12 months) and thereafter referred to as the Estimated Gross Profit, Earnings or Wages. The first and annual premium is chargeable on the Estimated Gross Profit, Earnings or Wages with subsequent adjustment on the basis of actual gross profit, earnings or wages.

21.2.2 The following provisions should apply: -

21.2.2.1 The Insured should prior to the inception of the insurance and prior to each subsequent renewal advise Insurers of the Estimated Gross Profit etc. (as defined in the policy) for the period of insurance and that figure should be stated in the policy. The policy should incorporate a provision to this effect.

21.2.2.2 The Insured should apply prior to each renewal (and when significant changes are anticipated) adequate underwriting information including details of current levels of earnings and future plans and projections, including projections beyond the policy year having regard to the maximum indemnity period.

21.2.2.3 The insured should supply, not later than 6 months after the expiry date of each period of insurance, a declaration of actual Gross Profit etc. for the relative financial year, confirmed by the Insured's Auditors and/or Accountants in respect of companies exempt from audit requirements.

21.2.3 Failure to comply with any of the provisions of paragraph 21.2.2 shall render a case ineligible for the declaration-linked basis of cover.

21.2.4 This basis should only be adopted for an insurance at its inception or at its annual renewal.

## 22 Principles for Policy Wordings

### 22.1 The Insured

The Insured should be so defined that all insured companies are named.

### 22.2 Commencement of Indemnity Period

It is suggested that a policy should not normally be issued with the maximum term of the indemnity period commencing at a later date than the date of the damage, except in the case of: -

- a) a business which is silent, when the commencing date may be made to coincide with the date on which the business should have started i.e. Advance Profits:
- b) an insurance on rent, when the commencement date may be deferred for a specific period not longer than that period immediately after the damage in respect of which the rent is either insured by a fire policy or payable in full in accordance with the terms of a lease or tenancy agreement.

### 22.3 Material Damage Proviso (See Standard Policy Wordings – Section 2)

Where a deductible or excess applies to the corresponding material damage insurance, the material damage proviso may be omitted but only as regards losses for which no liability is admitted under the material damage insurance solely because of the operation of the deductible or excess. The use of wording detailed in Section 2 Appendix 20 is suggested for use in these circumstances.

## MATERIAL DAMAGE AND BUSINESS INTERRUPTION INSURANCES

### 23 Long Term Undertakings

See Appendix G

### 24 Deductibles

The use of the wordings detailed in Section 2 Appendix 23 is suggested

### 25 CRESTA/Zoning – Non-Domestic Storm / Flood Exposures

See Appendix H

### 26 Market Fire Statistics Scheme

It is suggested that all members should participate in the above scheme, the purpose of which is to provide statistics on commercial and industrial material damage and business interruption insurance on a trade by trade or business by business basis.

Copies of the following can be obtained from the Statistical Department of ABI: -

- A. Instructions for Supply of data
- B. Material Damage – Trade Classification List
- C. Business Interruption – Business Classification List

**27 Flue Gas Explosion**

Insurers do not regard the "Steam Pressure" Plant exclusion appearing in the Standard Material Damage policy or extension wordings as being applicable where destruction or damage is directly caused by the explosion of unburnt gases in any part of any such steam pressure plant or in the flues thereof. However, destruction or damage by any consequent bursting by steam pressure of such plant would remain excluded.

APPENDIX A

**APPROVED: -**

Components, constructions, installations and materials that are specially considered and “Approved” or are the subject of specialised Rules or Lists.

**APPROVED AUTOMATIC FIRE ALARM INSTALLATIONS: -**

An installation conforming to the Rules for Automatic Fire Alarm Installations for the protection of property.

**APPROVED AUTOMATIC SPRINKLER INSTALLATIONS: -**

An installation conforming to the Rules of Automatic Sprinkler Installations.

**APPROVED BREAK DOORS AND SHUTTERS: -**

A door or shutter conforming to the Rules for the Construction and Installation of Fire Break Doors and Shutters. Where Double Fire Break Doors are called for, these are defined as two approved doors, one fitted on each side of a wall opening.

**APPROVED FIRE EXTINGUISHING APPLIANCES: -**

Hydrants, hydraulic hose reels, portable fire extinguishers etc., installed and distributed in accordance with the Rules for the Provision of Fire Extinguishing Appliances.

**CEILINGS: -**

Any non structural material applied or attached to roofs or the underside of floors, with or without an intervening air space. An internal coating of bitumen, tar, pitch or similar material applied to metal sheeting in the course of its fabrication is to be regarded as structural.

**FIRE RESISTANCE: -**

The period for which an element of structure satisfies the relevant requirements for the test for fire resistance specified in B.S.476 : Parts 20-23 : 1989 – Fire Tests on Building Materials and Structures.

**LININGS: -**

Any non structural material applied or attached to walls, roofs or the underside of floors, with or without an intervening air space. An internal coating of bitument, tar, pitch or similar material applied to metal sheeting in the course of its fabrication is to be regarded as structural.

**NON COMBUSTIBLE: -**

The property of a material which satisfies the requirements for non combustibility when tested in accordance with B.S.476: Part 4 : 1970 – Fire Tests on Building Materials and Structures – Non Combustibility Tests for Materials.

**PROPRIETARY PACKING BLOCK ASSEMBLIES: -**

Proprietary assemblies consisting of a frame and insert blocks through which electrical cables and conduits containing electrical conductors pass which have been tested in accordance with the heating conditions prescribed in B.S. 476:

Parts 2—23: 1989 – Fire Tests on Building Materials and Structures, for a period of two hours and have prevented any direct opening being formed through which flames could pass.

**ROOF: -**

A roof comprises any framework, decking, insulation and external covering to such decking, but excludes any lining as defined.

**SINGLE STOREY BUILDINGS: -**

A building consisting only of a ground storey, with or without a basement, the ceiling of which is not more than 1.0m above the lowest point of the land level or ground line of the site on which the building stands. Where the ceiling of the basement is more than 1.0m above the lowest point, the floor area of the basement must not exceed 10% of the area of the ground storey.

Where no basement exists, mezzanine and / or gallery floors having an aggregate area not exceeding 10% of the area of the ground storey are allowed, provided that the space above and below a mezzanine floor and / or gallery is used mainly for the purpose of storage and / or office space.

**WIRED GLASS: -**

Glass having a minimum thickness of not less than 6mm, a mesh of not greater than 25mm embedded in it and the squares not exceeding 0.25m squared.

## INSURANCES ON A FLOATING BASIS

### 1 General

An insurance on a floating basis is one covering buildings or contents or stock each in one amount over more than one premises or over more than one building or group of buildings forming a separate exposure.

### 2 Premises

It is suggested that a list of all situations covered by the insurance should (except as regards Outside Locations – see Section 2 Appendix 16) be either

- i) incorporated within the policy, or
- ii) detailed in a separate list held by the Insurers.

### 3 Declaration

It is suggested that prior to the issue of any floating insurance declarations should be made to the Insurers of the current values of each of: -

- a)
  - i) Buildings
  - ii) Machinery, Plant and all other Contents (excluding Stock),

Giving separate values in respect of each building or group of buildings forming a separately rateable range;

- b) Stock -
  - i) in each building or group of buildings forming a separately rateable range,
  - ii) in the open (if insured),

as at the stocktaking on which the last preceding annual statement of the Insured's accounts was based or where this is not possible, a reasonable estimate based on normal distribution.

### 4 Triennial Declarations

It is suggested that similar declarations to those mentioned under 3 above should be furnished triennially.

### 5 Limits

It is suggested that limits be imposed in respect of the liability of the Insurer(s) at any one location.

### 6 Wordings

For suggested wordings, see Section 2 Appendix 16.

## INSURANCES ON A STOCK DECLARATION BASIS

For suggested wordings, see Section 2 Appendix 17

INFLATION PROVISION SCHEMES  
AND  
PUBLIC AUHTORITIES' REQUIREMENTS

It is intended that these provisions should apply only to insurances covering buildings and contents other than stock in trade.

REINSTATEMENT INSURANCE

Where a basis of loss settlement under a policy provides for reinstatement in a new condition (on the same or another site) of the property damaged or destroyed the Reinstatement Memorandum A or B (as appropriate) in Section 2 Appendix 18 is suggested.

INFLATION PROVISION – DAY ONE BASIS

- i) Sum Insured – The sum insured should be determined as follows:-
  - a) Declared Value – This shall represent the cost of reinstatement of the property insured arrived at in accordance with paragraph A(a) of Reinstatement Memorandum B at the level of costs applying at the inception of the period of insurance (without provision for inflation which may operate subsequently), together with, in so far as the insurance by the item provides, due allowance for -
    - i) the additional cost of reinstatement to comply with Public Authority requirements,
    - ii) professional fees,
    - iii) debris removal costs.The Declared Value shall be notified to the Insurers at the commencement of each period of insurance to which should be added
  - b) Inflation provision – an amount expressed as a percentage of the Declared Value.
- ii) Bases of Premium
- iii) Escalator Clause  
It is suggested that any insurance granted under the provision of this Scheme should not be subject to an escalator clause
- iv) Capital Additions  
Where required it is suggested this be provided as follows:-
  - a) adjustable basis – the wording detailed in paragraph 8 of Memorandum B in Section 2 Appendix 18 is suggested,
  - b) non adjustable basis – an appropriate clause incorporating provision for declarations and adjustment should be applied.
- v) Wording  
The wording of Memorandum B (non adjustable or adjustable, as appropriate), in Section 2 Appendix 18 is suggested.

Notes 1: The Declared Value should be shown in the Specification in brackets below the sum insured.

2: This scheme should only be applied to an insurance at its inception or at its annual renewal.

**INFLATION PROVISION – APPRECIATION IN VALUE CAUSE (ESCALATOR)**

This provision may be applied regardless of whether the insurance is written on a reinstatement basis. Memorandum C in Section 2 Appendix 18 is suggested.

**PUBLIC AUTHORITIES' REQUIREMENTS**

Provision may be made in an insurance on a reinstatement basis for:

- i) the additional cost of reinstatement of property incurred solely to comply with the requirements of EC Bye-Laws legislation or Public Authorities, and
- ii) the interest charges necessarily and reasonably incurred by the insured following DAMAGE solely to provide the balance of any pre-existing funds set aside for the purpose of financing the full cost of compliance with any stipulations of EC Legislation or Building or other Regulation under or framed in pursuance of any Act of Parliament or with Bye-Laws of any Public Authority.

The use of memorandum D1, D2 or E (as appropriate) in Section 2 Appendix 18 is suggested and as between Offices in the settlement of losses, policies containing this Memorandum or any other Memorandum providing indemnity of a similar nature shall be deemed to be concurrent.

## CLASSIFICATION OF HEATERS

### 1 General

- 1.1 Any electrical equipment for use in flammable and/or explosive atmospheres shall be of flameproof design or otherwise in accordance with BS5501: Electrical apparatus for potentially explosive atmospheres, with all wiring either in screwed steel conduit or otherwise in accordance with BS5345: Code of Practice for the selection, installation and maintenance of electrical apparatus for use in potentially explosive atmospheres.
- 1.2 Any chimney or flue pipe shall be constructed of non-combustible materials
- 1.3 All ducts and lagging shall be non combustible
- 1.4 Combustible material shall not be situated within-
  - 1.4.1 a distance of three times the external diameter of a chimney or flue serving a solid fuel or oil burning appliance unless the walls of the chimney or flue consist of solid non-combustible materials not less than 200mm thick; where there is combustible material above the chimney or flue the thickness of non combustible material shall not be less than 300mm.
  - 1.4.2 50mm of a chimney or flue serving a gas appliance and where the chimney or flue passes through a roof, floor, ceiling, wall or partition containing combustible material the flue pipe shall pass through a non-combustible sleeve separated from the chimney or flue by an air space of not less than 25mm.
  - 1.4.3 1m of a space heating appliance.
- 1.5 Appliances shall use only the type(s) of fuel for which they are designed.
- 1.6 Where the system or appliance burns fuel of an unconventional nature e.g. waste oil, trade waste, etc...,the system or appliance shall be classed F.
- 1.7 Where the following Recommendations are applicable to the system or appliance, failure to comply with the Recommendations may cause the system or appliance to be down-graded:
  - 1.7.1 "Recommendations for Liquefied Petroleum Gas".
  - 1.7.2 "Recommendations for Oil Fired Installations"
  - 1.7.3 "Recommendations for Portable and Transportable Space Heaters".

### 2 Central Heating Systems

Where the heated medium is delivered to the space or spaces to be heated via pipes or ducts, usually from a single heating source, the heater shall incorporate, where applicable, both:-

- (i) a remote fuel source and
- (iii) a flame failure device, an overheat cut-out device, a fan failure cut-out device and a fire valve.

Relevant systems incorporating only (i) and (ii) shall be downgraded by one class.

Relevant systems incorporating neither (i) nor (ii) shall be downgraded by two classes.

## 2.1 Segregated Systems

Where the heater is segregated from the rest of the building by separating elements providing not less than two hours' fire resistance (including self closing doors) in accordance with "Code of Practice for the Construction of Buildings, Grade 1 (1994) and Grade 2 (1994)" or by being in the open.

2.1.1 Indirect fired systems that incorporated a heat exchanger, where any products of combustion are exhausted to the open air and do not enter the heated space.

2.1.1.1 Where hot water or steam enters a system of pipes at a temperature not exceeding 120 degrees centigrade..... **A**

2.1.1.2 Where hot water or steam enters a system of pipes at a temperature which exceeds 120 degrees centigrade..... **B**

2.1.1.3 Where heated air reaches the space(s) to be heated via a system of ducts .....**C**

2.1.2 Direct fired systems that do not incorporate a heat exchanger, where any products of combustion enter the heated space.

2.1.2.1 Heated by electricity .....**B**

2.1.2.2 Fired by gas or oil.....**C**

## 2.2 Non-Segregated Systems

Where the heater is sited other than in 2.1

2.2.1 Indirect fired systems as described in 2.1.1

2.2.1.1 Heated by electricity .....**B**

2.2.1.2 Fired by gas, oil or solid fuel..... **C**

2.2.2 Direct fired systems as described in 2.1.2 shall be classified under Sections 3 to 6.

		Fixed	APPENDIX D Portable or Transportable
<b>3</b>	<b>ELECTRICAL APPLIANCES</b> (Excluding those covered by 2)		
3.1	Electric under floor or ceiling heating with heating elements totally embedded in cement or concrete...	<b>A</b>	-
3.2	Heaters with enclosed elements, e.g. fluid filled Radiators and tubular heaters		
3.2.1	Incorporating an overheat cut-out device...	<b>B</b>	<b>C</b>
3.2.2	Other than in 3.2.1	<b>C</b>	<b>D</b>
3.3	Forced convection heaters, e.g. fan heaters		
3.3.1	Incorporating a fan failure cut-out device And/or an overheat cut-out device	<b>B</b>	<b>C</b>
3.3.2	Other than 3.2.1	<b>C</b>	<b>D</b>
3.4	Thermal storage heaters		
3.4.1	Incorporating an overheat cut-out device	<b>C</b>	-
3.4.2	Other than in 3.4.1	<b>D</b>	-
3.5	Heaters with exposed elements or elements sheathed In ceramic, silica or metal	<b>D</b>	<b>E</b>
<b>4</b>	<b>GAS APPLIANCES and OIL APPLIANCES</b> (Including catalytic heaters but excluding heaters covered by 2)		
4.1	Appliances having both		
4.1.1	A remote fuel source and		
4.1.2	A flame failure device, an overheat cut-out Device, a fire valve, and where relevant, a Fan failure cut-out device	<b>C</b>	<b>D</b>
4.2	Appliances complying with either 4.1.1 or 4.1.2	<b>D</b>	<b>E</b>
4.3	Other than in 4.1 or 4.2	<b>E</b>	<b>F</b>
<b>5</b>	<b>SOLID FUEL APPLIANCES</b> (Excluding those covered by 2)		
5.1	Fireplaces and heaters (other than braziers) on a Floor or base of concrete or brick not less than 125mm thick and of adequate area	<b>D</b>	-
5.2	Other than in 5.1	<b>F</b>	<b>F</b>
<b>6</b>	<b>MISCELLANEOUS</b>		
6.1	Any form of heating not specified above and any Form of heating not conforming to paragraphs 1.1, 1.2, 1.3, 1.4 and 1.5	<b>F</b>	<b>F</b>

**CLASSIFICATION OF FIBRES****CLASS I****Natural Fibres**

Hair

Natural silk (white or cultivated)

Wool

**Man-made Fibres**

Acetate

Acrylic

Alginate

Chlorofibre

Fluorofibre

Glassfibre

Modacrylic

Nylon (Polyamide)

Polyester

Polyethylene

Polypropylene

Protein (regenerated)

Triacetate

**CLASS II****Natural Fibres**

Cotton and all vegetable fibre (other than in Class I)

Natural silk (brown or tussah)

**Man-made Fibres**

Cupro

Modal Viscoe

**NOTE 1:**

The classification of each fibre is understood to include tops or noils derived therefrom.

**NOTE 2:**

Any fibre not included in the list of generic classes should be regarded as a Class II fibre pending submission for testing and classification in accordance with the following:-

- (a) a 2.25 kilogram sample of the fibre must be submitted directly by the Office concerned to the Department of Textile Industries at the University of Leeds for the appropriate tests to be carried out and, at the same time, inform the Secretary of the Property Committee of the Association of British Insurers that they have done so;
- (b) the Department of Textile Industries of the University of Leeds to prepare the necessary summaries of the tests;
- (c) the summaries when received by the Secretary to be examined by the Operations Manager of the Loss Prevention Technical Centre and his recommendations regarding classification to be brought before the Fire Panel of the Property Committee. In the event of the Fire Panel having no comments thereon, the recommendations to be promulgated by the appropriate amendment to the above list.

ESTIMATED MAXIMUM LOSS  
– NON SPRINLERED  
(MATERIAL DAMAGE)

SUGGESTED DEFINITION

An estimation of the maximum loss which could reasonably be sustained from the contingencies under consideration, as a result of a single incident considered to be within the realms of probability taking into account all factors likely to increase or lessen the extent of the loss, but excluding such coincidences and catastrophes which may be possible but remain unlikely.

Commentary

Unless otherwise stated: -

- (a) The operating peril is normally fire and/or explosion.
- (b) In deciding the extent of the building(s) or area to be considered for the estimated maximum loss. Fire Break Walls containing Fire Break or other doors are to be ignored.
- (c) Multiple seat incidents are excluded.
- (d) Fire Brigade attendance and fire fighting within reasonable expectations is assumed.
- (e) An adequate and reliable supply of water is available for fire fighting.
- (f) Sprinkler protection and other fixed extinguishing systems are ignored.
- (g) Automatic fire detection systems are considered subject to effective response and maintenance.

PRESENTATION OF EML

It is suggested that when EMLs are being specified (e.g. in survey reports) they are supported or accompanied by inclusion of:-

The ABI suggested definition stated in full or reference made thereto

The operating peril

The range of buildings/property considered to represent the target risk

The EML percentage and monetary equivalent if required

Brief explanation of the methodology used clearly defining the fire spread and damage scenario(s):-

- Explanation of features which will assist fire spread, e.g. linings, fire load, flammables etc.
- Identifying features which will slow/prevent fire spread e.g. compartmentation, low fire load, non-combustible construction.

METHODOLOGY

1. Estimated Maximum Loss (EML) assessments are normally only required for the target risk, i.e. the single building or group of buildings estimated to produce the largest monetary loss.

Stock and machinery in the open and in close proximity may need to be considered.

2. The EML assessment will, in the majority of cases, be based on the fire and/or explosion risk but other contingencies should not be overlooked e.g. Storm, Flood and Subsidence.
3. The amount for consideration in assessing the EML is that represented by the Total Sums Insured (or in the case of "blanket/floating items", the estimated maximum values) on Buildings, Rent, Contents and Stock in any single building or group of communicating buildings comprising a range from which a fire would not spread to affect other insured property except in the most exceptional circumstances.

Such a building or range of buildings will be detached or separated from other buildings by an unpierced Fire Break Wall constructed as detailed in the LPC Code of Practice for the Construction of Buildings. Any such wall containing Fire Break or other doors will be ignored for this purpose.

Exposure from closely adjacent buildings or property in the open may result in more than one building or range of buildings being combined to form the target risk.

The amount for consideration will also be affected by any concentration of value.

Where Professional Fees and/or Debris Removal Costs are insured by separate first loss items, these sums insured are to be included in full.

4. The EMLs will be assessed from the amount identified for consideration taking account of the circumstances which are reasonably likely to occur.
5. EMLs will be expressed separately as a percentage of the total sum insured (or estimated maximum value) on each of the Buildings, Rent, Contents and Stock at the premises. The percentage for any first loss items will normally be 100%.

Monetary EMLs may be provided in support of the percentages.

6. In normal circumstances where an EML is judged to be in excess of 80% a total loss should be assumed.

## LONG TERM UNDERTAKINGS

It is suggested that in return for an undertaking by the Insured to offer annually for a period of not less than 3 years the insurance on the terms and conditions in force at the expiry of each period of insurance and to pay the premiums in advance a discount be allowed off the net premium.

It is suggested that a wording affirming the undertaking by the Insured is inserted in the policy (see Section 2 Appendix 22), and repeated for each succeeding long term period.

The obligations of an Insured under a current long term undertaking should not be waived, except where –

- (a) parties to the undertaking enter into a new undertaking provided all the insurances in the cancelled undertaking are included in the new undertaking,
- (b) the Insured's interest in the property and/or business insured has ceased.
- (c) The property has been removed to other premises.

Notes 1: As regards (b) above the following principles should apply where one company is taken over by another –

- (i) the purchase of a business means legally only that shares have been sold by one party to another,
- (ii) if the company continues to exist as an entity, i.e. is not wound up or liquidated, its obligations are in no way affected by change in the ownership of shares,
- (iii) it follows that it is immaterial whether the purchaser acquires a minority, majority or complete share ownership so far as concerns the validity of the long term undertaking.

2: Reductions in sums insured during the currency of the undertaking should only be allowed when they correspond to a reduction in the value of the property or in the business. Reductions in sums insured should not be off set against a new interest or an increase in existing interest in any other insurance whether Material Damage or Business Interruption.

3: Alterations in the length of the maximum term of an indemnity period are not a breach of an undertaking.

Long term undertakings are freely negotiated and legally binding contracts. An offer by an Insurer during the currency of an undertaking involving a lower premium or less onerous conditions does not constitute a valid reason

for breaking an undertaking. These views are supported by the British Insurance and Investment Brokers' Association.

**ABI/LIRMA GUIDELINES FOR THE PROVISION OF CRESTA/ZONING IN  
RESPECT OF UK NON-DOMESTIC STORM/FLOOD EXPOSURES  
(Starting by 30 September 1994)**

**1. Introduction**

1.1 In liaison with LIRMA it has been agreed that, where direct insurers have been asked to supply exposure figures for storm/flood sums insured by location (Postcode Sector), the following basis is suggested.

**2. Parameters**

2.1 The supply of information relates to insurances in respect of Storm only, or Storm/flood (without, at this stage, distinguishing between them) under Appendices 2,3,5,6,7 or 8 of Section 2 including Collective Policies (Section 3)

2.2 Data to comprise:

- (a) **Location** to be identified by postcode section (e.g. EC2V for 51 Gresham Street, London). NB There are nearly 9,000 postcode sectors.
- (b) **Exposure** amount for material damage insurance
- for Day One Insurances ) if possible an
  - the Declared Value ignoring inflation ) indication should be
  - provision % ) given of the
  - ) approximate division
  - for other Insurances ) between each basis of
  - the sum insured ) exposure

Deductibles/excesses are to be ignored

- (c) Exposure amount for business interruption insurance
- for EGP/Rev Insurances ) if possible an
  - the EGP/Rev ignoring 33.3% uplift ) indication should be
  - ) given of the
  - for other Insurance ) approximate division
  - the sum insured ) between each basis of
  - ) exposure

Deductibles/excesses are to be ignored

Note: Exposures are companies' own proportion only and will normally be net i.e. after reinsurance.

- (d) **Separate figures** to be supplied for each of
- Buildings
  - Contents
  - Combined Buildings/Contents, where cover is written on this basis only and a split is not available
  - Business Interruption

- (e) For **multi location exposures** ie material damage insurances on a floating/blanket basis or overall business interruption covers. Under each of the categories in (d) above, every exposure actually or estimated to be 5% or more of the item's sum insured/Day one Declared Value or sum insured/Estimated Gross Profit in any postcode sector. Should be identified and allocated to that sector. Lesser exposure values may be aggregated into a National total figure for each of the categories under (d) (designated as miscellaneous).

**Note:** The number of exposures under each category ((d) above) in each location should be "counted".

### 3 Data Supply to Reinsurers

- 3.1 The data should be aggregated as follows (separately for each postcode sector) and probably supplied on an ASCII disk.

Postcode Sector	Buildings	Contents	Building/Contents	Business Interruption
	Aggregate of For Day One Insurances – DV	Aggregate of For Day One Insurances – DV	Aggregate of For Day One Insurances – DV	Aggregate of For ECP/Rev insurances - EGP/REV
	£....	£....	£....	£....
	For other insurances – SI	For other insurances – SI	For other insurances – SI	For other insurances – SI
	* Count....	* Count....	* Count....	* Count....
	* Count = number of exposures			

- 3.2 It is suggested that appropriate systems provide for the annual up dating of the above.
- 3.3 An overall indication of the general level of inflation provision percentage under the Day One covers should be provided.