

CILA examples for the Technical Briefing Note ' Potential Double Indemnity arising between Business Interruption and Material Damage Policies  
**Manufacturing company - normal operations and position if a fire occurs on 31 March and wipes out all stock**

<b>(A) Normal - no fire</b>							
Monthly manufacturing statement							
	Stock b/f	Stock c/f	Sales	Purchases	Gross Profit	Wages/O'heads	Net profit
	£	£	£	£	£	£	£
January	15000	15000	20000	10000	10000	5000	5000
February	15000	15000	20000	10000	10000	5000	5000
March	15000	15000	20000	10000	10000	5000	5000
April	15000	15000	20000	10000	10000	5000	5000
May	15000	15000	20000	10000	10000	5000	5000
June	15000	15000	20000	10000	10000	5000	5000
July	15000	15000	20000	10000	10000	5000	5000
August	15000	15000	20000	10000	10000	5000	5000
September	15000	15000	20000	10000	10000	5000	5000
October	15000	15000	20000	10000	10000	5000	5000
November	15000	15000	20000	10000	10000	5000	5000
December	15000	15000	20000	10000	10000	5000	5000
			<u>240000</u>	<u>120000</u>	<u>120000</u>	<u>60000</u>	<u>60000</u>

<b>(C) Fire 31 March - Insured doubles production in April</b>							
Monthly manufacturing statement							
	Stock b/f	Stock c/f	Sales	Purchases	Gross Profit	Wages / overheads	Net profit
	£	£	£	£	£	£	£
January	15000	15000	20000	10000	10000	5000	5000
February	15000	15000	20000	10000	10000	5000	5000
March	15000	0	20000	10000	-5000	5000	-10000
April	0	15000	20000	20000	15000	10000	5000
May	15000	15000	20000	10000	10000	5000	5000
June	15000	15000	20000	10000	10000	5000	5000
July	15000	15000	20000	10000	10000	5000	5000
August	15000	15000	20000	10000	10000	5000	5000
September	15000	15000	20000	10000	10000	5000	5000
October	15000	15000	20000	10000	10000	5000	5000
November	15000	15000	20000	10000	10000	5000	5000
December	15000	15000	20000	10000	10000	5000	5000
			<u>240000</u>	<u>130000</u>	<u>110000</u>	<u>65000</u>	<u>45000</u>
Increased Wage Costs			0	-10000	-10000	-5000	-15000

<b>(B) Fire 31 March Insured unable to change production</b>							
Monthly manufacturing statement							
	Stock b/f	Stock c/f	Sales	Purchases	Gross Profit	Wages/O'heads	Net profit
	£	£	£	£	£	£	£
January	15000	15000	20000	10000	10000	5000	5000
February	15000	15000	20000	10000	10000	5000	5000
March	15000	0	20000	10000	-5000	5000	-10000
April	0	15000	0	10000	5000	5000	0
May	15000	15000	20000	10000	10000	5000	5000
June	15000	15000	20000	10000	10000	5000	5000
July	15000	15000	20000	10000	10000	5000	5000
August	15000	15000	20000	10000	10000	5000	5000
September	15000	15000	20000	10000	10000	5000	5000
October	15000	15000	20000	10000	10000	5000	5000
November	15000	15000	20000	10000	10000	5000	5000
December	15000	15000	20000	10000	10000	5000	5000
			<u>220000</u>	<u>120000</u>	<u>100000</u>	<u>60000</u>	<u>40000</u>
Variance			-20000	0	-20000		-20000

<b>(D) Fire 31 March - Insured increases production - no extra overheads</b>							
Monthly manufacturing statement							
	Stock b/f	Stock c/f	Sales	Purchases	Gross Profit	Wages/ overheads	Net profit
	£	£	£	£	£	£	£
January	15000	15000	20000	10000	10000	5000	5000
February	15000	15000	20000	10000	10000	5000	5000
March	15000	0	20000	10000	-5000	5000	5000
April	0	15000	20000	20000	15000	5000	-5000
May	15000	15000	20000	10000	10000	5000	5000
June	15000	15000	20000	10000	10000	5000	5000
July	15000	15000	20000	10000	10000	5000	5000
August	15000	15000	20000	10000	10000	5000	5000
September	15000	15000	20000	10000	10000	5000	5000
October	15000	15000	20000	10000	10000	5000	5000
November	15000	15000	20000	10000	10000	5000	5000
December	15000	15000	20000	10000	10000	5000	5000
			<u>240000</u>	<u>130000</u>	<u>110000</u>	<u>60000</u>	<u>50000</u>
Variance			0	-10000	-10000	0	-10000

<b>Summary</b>				
		(B) £	(C) £	(D) £
Material damage pays full cost		15000	15000	15000
BI	ICW	0	5000	0
	Sales Loss at 50% Gross Profit	10000	0	0
Total paid		25000	20000	15000
Total loss (difference to scenario A)		20000	15000	10000
<b>Profit on duplication</b>		<b>5000</b>	<b>5000</b>	<b>5000</b>

Scenario	Note
<b>A Unaffected performance.</b>	The Total loss in the summary represents the difference between the net profit for A with B,C, and D. The Rate of Gross Profit is 50% (£120K as a percentage of £240K)
<b>B Sales Loss</b>	Sales in April are £Nil as there is no stock. Purchases have not fallen in line with turnover - they have continued to allow the stock to be rebuilt.
<b>C Increased Cost Only</b>	Wage costs have increased - overtime working to avoid revenue losses.
<b>D Stock Rebuilt at no extra cost</b>	Purchases have increased, but these are an uninsured Working expense - no BI impact. Wages have not increased.

**CONCLUSION**  
The Insured may receive an over indemnity unless the duplication between the BI and MD adjustments is addressed prior to settlement.