

Gross Profit under declarations
Declaration requirements and causes of under Declaration
CILA BI SIG: Gross Profit Fairly under declared 4 July 2014

Declaration Issue

- Unexpected industry upturn results in Declaration being low
- Policyholder has inadvertently failed to appreciate that the policy definition differs from the meaning in their accounts
- Policyholder understands that there is a different definition of Gross Profit in the accounts compared to the policy, but deducts costs beyond the Specified Working expenses listed in the policy, anticipating that many costs will reduce (but leaving the policy definition unaltered)
- Annual GP has not been proportionately increased for longer Maximum Indemnity Periods
- Policyholder fills out returns required by their broker without appreciating the importance or relevance of them
- Broker, as the policyholder's agent passes on a calculation deducting costs significantly beyond the Specified Expenses in the policy (policyholder oblivious)
- Policyholder has assessed the BI exposure (as they see it) and insured that amount, without reference to the policy wording (the 'secret' EML)
- Policyholder insures an amount based on the premium they can afford, without reference to the policy wording
- Policyholder decides to declare only 75% of the amount they know should be declared, on the basis that there is an uplift of 133.33% on the happening of a claim

Policy Declaration Requirement

	FACT	ESTIMATE
	12 months pre renewal/inception	GP anticipated in policy period
	Last set of Statutory Accounts	Accounts most nearly coterminous with policy period

GRAVITY