

# DSU: Client Briefing Paper

Project owners and lenders are fundamentally interested in any future income streams derived from construction projects. These can be severely impacted by damage to the contract works causing a delay in project completion.

## Introduction

Delay in start up (DSU) insurance (also known as advance business interruption or advance loss of profits) insures project owners for the financial consequences of a delay in project completion resulting from insured physical damage.

## Principle of Indemnity

DSU policies are designed to restore the insured to the financial position they would have enjoyed but for the delay, i.e. the actual loss sustained. Claim payments will therefore consider seasonal and market factors, such as movements of commodity prices, energy costs, and rentals.

## Lender Requirement

Project lenders increasingly require the purchase of DSU as a condition of offering limited recourse finance.

## Material Damage and DSU

Cover should be placed with the underlying material

damage policy to reduce the risk of claims disputes and enable insurers to pay material damage claims promptly, therefore mitigating their DSU exposure. In the event of an indemnifiable loss falling below the material damage deductible, DSU cover still applies.

## Insured Parties

The project owner, sponsors and lenders. Contractors may also be insured under concession contracts

## DSU and Business Interruption (BI)

There are two key differences:

1. DSU considers **future** rather than **current** income streams, which are the subject matter of business interruption (BI).
2. DSU relates to the delay between the originally anticipated commercial operation date and the achieved date of commercial operation resulting from the insured physical loss; BI relates to interruption of operations from the date of loss.

## Interest Insured

The interest insured under a DSU policy may fall within the following categories:

- Gross profit (equivalent to loss of anticipated revenue, comprising debt service costs, fixed operating costs and anticipated net profit less variable costs (for example, fuel, labour, and consumables).
- Debt service.
- Fixed costs. Additional costs are also insured to the extent that they reduce the amount of insured loss (increased cost of working).

## Sum Insured

This reflects the interest insured during the indemnity period.

## Indemnity Period

This is the period, beginning from the anticipated date of commercial operations (or “trigger date”), for which the revenue to be generated by the business is insured, tailored to each project.

## Waiting Period or Time Excess

This is the first part of the insured delay for which insurers are not liable. By default it is part of the indemnity period (although by special arrangement the indemnity period may apply in excess of the waiting period). It generally applies in the aggregate for all indemnifiable claims during the initial policy period. It may be subject to the average daily value provision, i.e. the corresponding amount shall be calculated by multiplying the average daily value of the loss of interest

insured, sustained during the indemnity period by the number of days agreed upon as the waiting period.

## Coverage Extensions

These may include insured delay arising from:

- Damage to insured property at named/unnamed supplier’s (and potentially customer’s) premises.
- Denial of access to/egress from the site.
- Damage to utility supply (electricity, gas, water).
- Damage to key items of a contractor’s plant and equipment.
- Intervention by civil or military authority. These extensions generally carry individual sub limits of indemnity. Marsh structures these to individual client requirements and market availability.

## Typical Exclusions

Exclusions under DSU include but are not limited to:

- Communicable disease/COVID-19
- Cyber
- Fines and penalties.
- Slow performance, inaccurate scheduling, late delivery of materials, etc.
- Improvement.
- Inadequate funding to complete the project.
- Suspension.
- Public authority restriction.

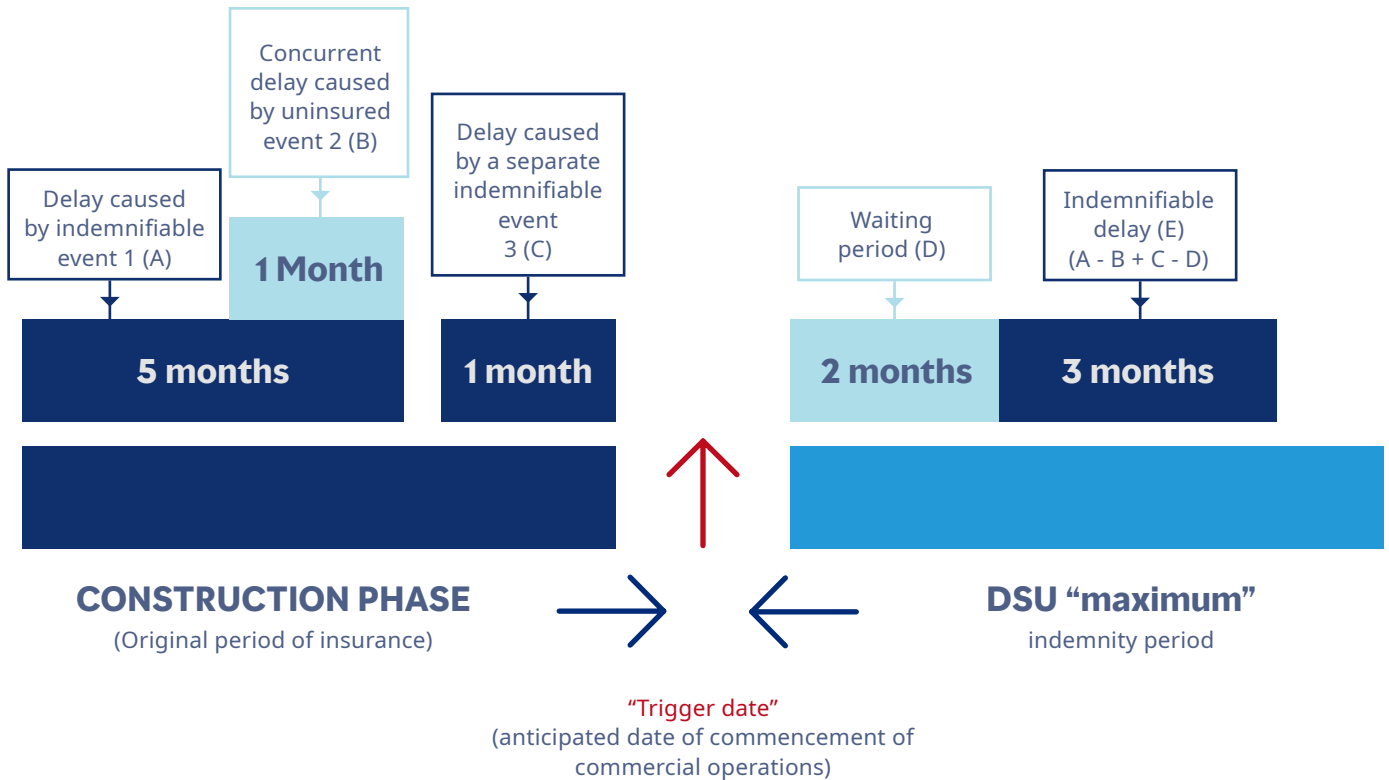


# SAMPLE CLAIM



## Insured and Uninsured Delay

Uninsured delays will be taken into account for indemnification and will reduce insured delays to the extent they are concurrent. (See chart below.)



## Extensions of Period/ Reinstatement of Sum Insured

The DSU sum insured is normally an aggregate limit. If a DSU policy is triggered, it may be necessary to reinstate the sum insured, indemnity period, and deductible. Some insurers may not provide continuous coverage for further extended delay arising from additional damage that occurs during the indemnity period. The general absence of any obligation on insurers to extend the period of insurance, or to advance the trigger date, or to reinstate the sum insured means careful planning/expert advice is required.

## Extensions of Period/ Reinstatement of Sum Insured

It is vital to report potential DSU claims promptly and in accordance with the applicable insurance

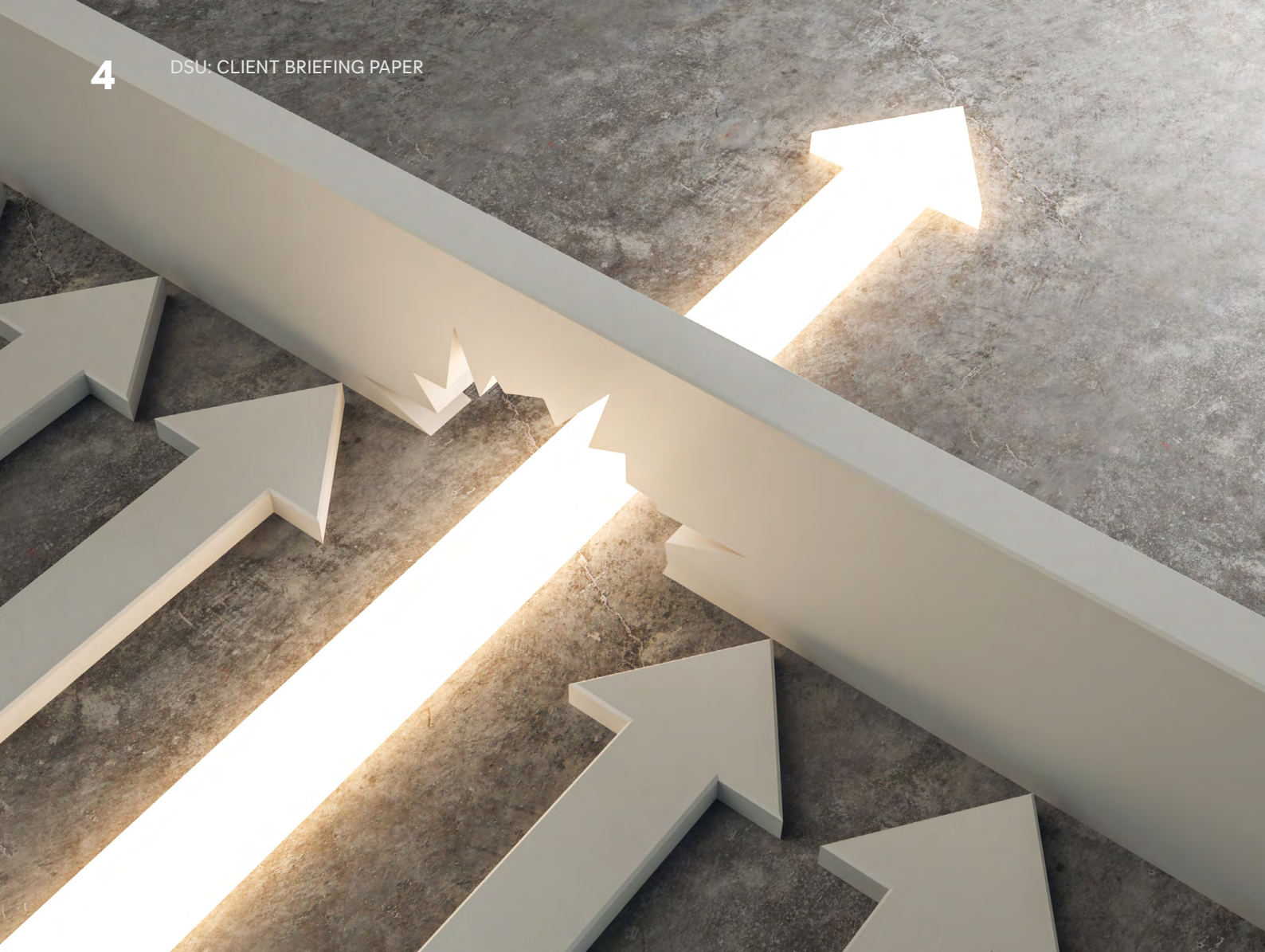
contract terms, particularly when an extension of period is required.

## Proof of Loss

Pre-agreement in principle of loss scenarios, including quantum, provision to insurers of regular progress reports and schedule updates, and consideration of the pros and cons of independent programme monitoring are all recommended.

## Marine DSU

Marine DSU options may also be explored to provide cover for a delay caused by an event insured under the marine cargo insurance. As an example, this may be due to a delay in commencement of commercial operation as a result of a lead item incurring severe damage whilst at sea or during loading/unloading on/ from the vessel.



## Marsh Approach

Marsh's Construction Practice prides itself on the delivery of innovative and cost-effective DSU solutions, tailored to the requirements of industry sectors and project stakeholders. We welcome the opportunity to discuss any of the topics covered, as well as more specific enquiries, and offer workshops for clients and project teams allowing them to reach an informed decision whether or not to purchase this cover.

Client expectations can only be met through transparency and common understanding by all parties

of the product fundamentals prior to and after binding, resulting in increased efficiency and certainty of claims recovery.

## Bespoke Product

The Marsh model DSU wording includes cover extensions as standard, offers enhanced clarity, and is adaptable to individual client and project requirements. We have a wealth of experience of customising DSU covers across global industries and markets.

For more information about DSU and other solutions from Marsh, visit [marsh.com](https://www.marsh.com), or contact your local Marsh representative.

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