

What is Profits Insurance?

Profits Insurance is a simple but businesslike idea. It provides protection against loss of earnings while your business is slowed down or shut down by fire or other insured peril.

Your ordinary Fire Insurance on buildings, equipment and stock will recompense you for the loss of physical assets. But what about the continuing drain on capital?

Fixed Expenses, for example salaries of key personnel and rents payable do not decrease in proportion to reduction in Turnover. This relative increase in Fixed Expenses reduces Net Profit and there is a further reduction in Net Profit because of reduction in Turnover.

Even if you can maintain Turnover by incurring extra expense, this increase in cost of working itself reduces Net Profit. You need Profits Insurance.

The protection you need will come from a **Sum Insured** covering "**Gross Profit**" which comprises **Net Trading Profit** plus **Insured Standing Charges** (Fixed Expenses)

Net Trading Profit includes taxes payable on profit, and is based on your annual trading results. Income from other sources, such as investments or other capital receipts, will not be affected by an insured peril, and should not be insured.

Insured Standing Charges should include all expenses which do not vary in direct proportion to variations in Turnover. Note that most Profits Insurance claims arise out of interferences with business operations rather than total interruptions, and Fixed Expenses usually must continue to be paid in full although not fully earned by the reduced level of Turnover.

Salaries and Wages of executives, key personnel and other important employees, whose services would not be dispensed with in the event of interference or interruption, should be included in your computation of Insured Standing Charges.

Ordinary Payroll Expense (i.e. other than Salaries and Wages above). The loss due to Ordinary Payroll Expense not being fully earned by a reduced level of Turnover may be insured by endorsement (see Worksheet and Application on reverse side).

Sum Insured ("Gross Profit") does *not* include

- (a) Depreciation of Stock,
- (b) Bad Debts,
- (c) Wages of ordinary employees whose services may be dispensed with. (See "Ordinary Payroll Expense", above.)

Policy Term. The policy term is one year. Do not confuse this with Period of Indemnity.

Period of Indemnity

This is the time you estimate it will take to restore the physical assets of your business after a fire, plus the time needed to regain a normal level of Turnover.

If you need a Period of Indemnity longer than a year, the *Sum Insured* must be proportionately increased.

Premium Adjustment

Profits Insurance provides protection during a *future* Period of Indemnity. Your *Sum Insured* must be enough to pay losses at least two years from now. Royal & Sun Alliance Insurance Company of Canada recommends that you make a liberal estimate of your future "Gross Profit".

At each anniversary date of your Profits Insurance policy you report the actual "Gross Profit" earned in your latest financial year and receive a return premium (up to 50%) if your estimate exceeded actual earnings. RSA also recommends that you adjust *Sum Insured when applying* for premium adjustment – or whenever there is any change in your operations.

Caution

1. This worksheet and the explanation given should help you in calculating Sum Insured and in applying for Premium Adjustment. It is not an interpretation of the Profits Policy, however, and policy conditions will govern.
2. Your Sum Insured must not be less than the future "Gross Profit" (Net Trading Profit plus the Fixed Expenses you designate as Insured Standing Charges) that would have been earned had there been no fire or other insured peril – otherwise you will become a co-insurer.
3. For detailed information consult your insurance Broker who represents RSA.

Options

Auditor's Fees. This reimburses for the extra fees incurred when an auditor assists you with your Profits Insurance claim.

Fines or Damages for breach of contract for late or non-completion of orders may also be insured against.

Additional Increase in Cost of Working. Following damage by fire or other insured peril, extra expense is often incurred in order to maintain a normal level of Turnover. This increase in cost of working is covered by Profits Insurance – but the amount recoverable cannot exceed the loss of "Gross Profit" which otherwise would have been paid.

Some businesses must be kept going at almost any cost. Protection against the extraordinary expense involved can be provided by a specific item of insurance on *Additional Increase in Cost of Working*.

You may also use this form as a **Boiler & Machinery** Profits Worksheet. Please indicate annual number of working days at the premises.

Contingent Profits Insurance

The normal operation of your business may be contingent upon uninterrupted operations at locations owned by others.

If so, your business can be just as severely affected by damage or destruction at the premises of:

- your customers
- your suppliers of materials, parts or services
- your suppliers of electricity, gas, water, heat or power
- those who store or transport your goods.

You can be protected against this kind of interference or interruption by **Contingent Profits** Insurance. Consult your Broker who represents RSA.

PROFITS INSURANCE WORKSHEET

Item No.	Insured Standing Charges	Last Financial Year
1.	Rents Payable	\$ _____
2.	Taxes (other than those chargeable on Net Trading Profit)	\$ _____
3.	Interest on Debentures, Bonds, Mortgages, Loans, Bank Overdrafts and other borrowed capital	\$ _____
4.	Directors' Fees	\$ _____
5.	Audit and/or legal fees (excluding those incurred in preparing any claim under the policy)	\$ _____
6.	Travelling Expenses	\$ _____
7.	Advertising	\$ _____
8.	Insurance Premiums (other than Unemployment Insurance, Workman's Compensation and C.P.P. or Q.P.P.)	\$ _____
9.	Depreciation of Buildings, Plant Machinery, Motor Vehicles and General Equipment	\$ _____
10.	Lighting, Heating, and Power	\$ _____
11.	Printing, Stationery and Postage	\$ _____
12.	Telephone, Facsimile and Internet	\$ _____
13.	Agency Contracts and Expenses	\$ _____
14.	Expenses of Branch or Local Offices	\$ _____
15.	Royalties (not based on sales)	\$ _____
16.	Service Under Contract	\$ _____
17.	Donations and Subscriptions	\$ _____
18.	Salaries and Wages of Executives, Permanent and Key Personnel	\$ _____
19.	Workman's Compensation, Unemployment Insurance and C.P.P. or Q.P.P. on above Salaries	\$ _____
20.	Travellers' Salaries and/or Commissions	\$ _____
	Other continuing charges or expenses	
21.	_____	\$ _____
22.	_____	\$ _____
23.	_____	\$ _____
24.	_____	\$ _____
25.	Miscellaneous Standing Charges (not exceeding 5% of the above listed Standing Charges)	\$ _____
Total Insured Standing Charges		\$ _____
Net Profit		\$ _____
Total Net Profit plus Insured Standing Charges (for last financial year)		\$ _____

Add or deduct anticipated increases or decreases for probable trend of your business operations during the next two years. Be liberal in your estimate. \$ _____

The Premium Adjustment Clause will compensate you up to 50% of the premium for any overestimate, (see explanation).

Sum Insured ("Gross Profit") \$

Does this include all your Fixed Expenses? Yes No
If No, please attach a list for those Fixed Expenses which you have included as Insured Standing Charges.

Period of Indemnity required-i.e. the number of consecutive months following damage by fire or other insured peril.

12mo. 18mo. 24mo. 36mo. or _____

Sum Insured Required \$

Ordinary Payroll Endorsement

If you wish to add, by endorsement, an amount of insurance on Ordinary Payroll Expense (excluding Salaries and Wages described in items 18 & 19 above), indicate the number of days coverage required and enter not less than 80% of the Expense which would have been earned in that period had no loss occurred.

Ordinary Payroll Expense \$
(including W.C., U.I.C. and C.P.P. or Q.P.P. assessments thereon) 90 or 180 days

Auditor's Fees \$

Additional Increase in Cost of Working \$

APPLICATION FOR PROFITS INSURANCE

The liability of the Insurer does not commence until this Application has been accepted.

Name of Applicant _____

Address _____

Nature of Business _____

Location(s) of premises in respect of which application is being made _____

How long have you carried on the above described business? _____

Do you carry on business at any other location? If so, please give brief details _____

Are your books regularly audited? _____

By Whom? _____

Date _____

Applicant's Signature _____

Broker _____