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A Guide to Declaring Consequential Loss

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This factsheet has been created to provide guidance to Agencies i.e. what to factor in, when considering and declaring the Consequential Loss value as part of the Asset Register in the Property Declaration Form.

What is consequential loss?

Consequential Loss cover can mean the difference between resuming operations following a major loss or suffering financial collapse. It covers the loss suffered by an Agency resulting from an interruption to the Agency as a consequence of material damage to the Agencies property that it owns or operates. In large loss situations sometimes, the consequential loss can amount to be more than the actual physical property loss itself. Let us explain why is so important.

Consequential loss is effectively financial loss or impact to an agency <u>following a direct property loss/damage</u> of an asset, examples include:

1. Loss of, or drop in revenue resulting from the loss of, damage to or prevention of access to the agency asset.
2. Increased expenditure in operations due to the loss of, damage to or prevention of access to an asset. (i.e. rent and utility costs).
3. Increase in the cost of working or additional expenditure to run the business, such as temporary venue hire, temporary workforce, temporary equipment hire/purchase and additional measures (i.e. modifications in temporary venues).

What's the difference between consequential loss and property damage?

- **Property Damage** cover:
  - relates <u>directly to the physical asset</u>, both the building and the contents.
  - provides "new for old" cover on rebuilding or replacing assets to conform to the current National Construction Code. In the case of a total loss and the intention is to rebuild on the same location, the cover will settle for the value of the asset as declared in the most recent declaration.
  - provides the costs of site clean-up and making the site safe.
- **Consequential Loss** cover relates to the financial impacts to an agency following loss of, damage to or prevention of access to an asset.

What are increased costs?

These can vary considerably from one agency to another. A few prominent examples include:

- Costs to lease and set up a temporary site
- Overtime, travel, and accommodation expenses of employees
- Contract / temporary labour
- Hire of temporary operational assets such as office equipment etc.

Tips of how consequential loss can be calculated

Any consequential loss estimate should start with a review of your Agency's Business Continuity Plan (BCP) to identify the costings involved in operating your business temporarily due to a loss/damage to the asset. This can include, but is not limited to:

- Temporary office lease and/or fit-out/refurbishments costs
- Temporary equipment hire costs
- Temporary workforce costs
- Upstream/downstream costs not excluded
- Reputational risk, the adequate cover has a much better chance of coming through a reputational crisis with the lowest possible financial damage
- Cyber costs, consequential loss and misuse of corporate data following a physical damage
- Review the expected total annual income/revenue generated from this asset if a loss/damage has occurred
- If the asset is leased out by your Agency, the expected annual rental income for the asset.

What to consider when calculating a consequential loss figure

Things to consider when declaring your Consequential Loss to an Asset when a loss or damage has occurred:

1. Expected Revenue/Profits that would have been earned during the period of impact/ interruption/ interference to the asset (maximum 12 months[1]).
2. Operating costs and other costs still being incurred at the asset (like maintenance costs/fees, building caretaking costs, licensing costs, easements or right of way costs, standing charges for utilities, increased wages, and salaries following the physical damage).
3. Increased cost incurred to maintain revenue/business operation during period of impact to the asset.
4. Costs to lease and set up a temporary site, including additional transportation costs to/from this site.
5. Additional overtime, travel, and accommodation and associated expenses.
6. Contract / temporary labour hire and their wages.
7. Hire of temporary operational assets such as office equipment etc.
8. When considering the length of the indemnity period for your agency, you need to factor in your BCP for total loss situations. If your agency decides to rebuild the rebuilding of an asset could take 6-12months before the soil is even turned especially if the asset contained hazardous materials. You may need to look at a longer indemnity period than 12 months. Common practice with the Commercial Market is a 24 x month to 36 month indemnity period or longer for more complicated risks.

If you have any questions, please contact your icare Client Engagement Manager or email declarations@icare.nsw.gov.au.

[1] The indemnity period for which consequential loss is payable is a maximum of 12 months from the occurrence date giving rise to the damage and/or loss. This is a default amount unless your Agency has an agreed indemnity period with TMF. This agreed period would be specified in the Agency Coverage Schedule. There is no financial limit for this 12-month period of cover.