

Business Interruption Training Series

Webinar – Module 5

Insuring Payroll – What are the Options?

31 August 2017

Introduction

- ❖ Welcome
- ❖ The Presenters
- ❖ The Steadfast / MSM Webinar Series
- ❖ The Webinar Tools
- ❖ The Agenda

Presenters



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MSM Loss Management



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The Steadfast / MSM Webinar Series

- ❖ **April 19** Introduction to Business Interruption
- ❖ **May 8** Business Interruption – The Fundamentals
- ❖ **June 13** Declared Values/Sum Insured – How to do the Calculation
- ❖ **July 19** Indemnity Period and Common Steadfast Endorsements
- ❖ **August 31** Insuring Payroll – What are the Options?
- ❖ **September** Traps and Pitfalls
- ❖ **October** The Claim Process
- ❖ **November** The Year in Review

CPD Points

1. The name you enter when registering will appear on certificate;
Please use your full name when registering
2. If you are joining in groups, you still need to register everyone attending and please advise Carol Gobrial via email:

carolg@steadfast.com.au

Access to Previous Presentations

1. www.msmlm.com
2. 'Our Services'
3. 'Training and Risk Workshops'
4. 'MSM and Steadfast Webinars'

www.msmlm.com home page

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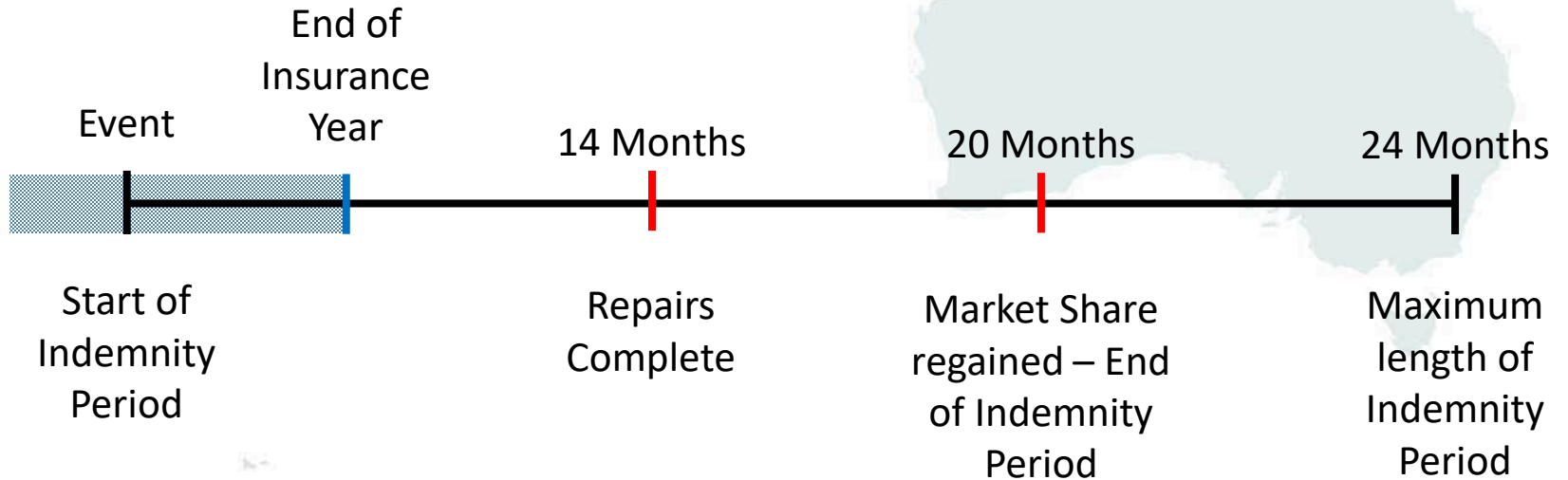
Australia and Asia Pacific's preferred provider of business interruption, economic loss consulting, litigation support, claims management, forensic accounting and related support services

Agenda

- ❖ Recap
- ❖ The key Payroll definitions and what do they mean
- ❖ Steadfast Commercial Packs Payroll insured 100% under Gross Profit
- ❖ Options for insuring Payroll
 - 100% included in Gross Profit – Steadfast Commercial Pack or Steadfast ISR
 - Dual Basis Payroll – Steadfast ISR
- ❖ How do the online calculators help me?
- ❖ Questions and feedback

Recap

Indemnity Period



Recap

Indemnity Period

- ❖ Set based on a catastrophic loss scenario
- ❖ Consider the time to:
 - Rebuild buildings
 - Purchase and Commission new equipment
 - Regain lost market share (sales) to pre loss position
- ❖ Does the client own the building? Is the client a tenant?
- ❖ Overall – best to be conservative and select longer period

Recap

Sales – Uninsured Working Expenses = Insurable Gross Profit



THE KEY PAYROLL DEFINITIONS AND WHAT DO THEY MEAN?

Payroll

The remuneration paid to all employees of the insured including but not limited to

Holiday pay

Sick pay

Long service leave

Bonuses



PLUS

Payroll tax

FBT

Superannua-
tion

Workers
Comp
premiums

Accident
Compensation
Levies

Payroll

Definition (2017 Steadfast ISR)

“The remuneration (including but not limited to payroll tax, fringe benefits tax, bonuses, holiday pay, sick pay, long service leave, workers’ compensation insurance premiums and/or accident compensation levies, superannuation and pension fund contributions and the like) paid to all employees of the Insured.”

Key Points

- Includes all salaries as well as wages plus direct wage on-costs such as those mentioned in the definition.

Severance Pay

“(Not operative unless the Schedule contains a sub-limit for Severance Pay)

The insurance under this item is limited to such further additional expenditure beyond that recoverable under Clause (a) of Item no. 3 as the Insured is obligated or has agreed to pay under industrial awards, determinations, decisions or agreements for severance pay and/or in lieu of notice to employees whose services are terminated during the Indemnity Period in consequence of the Damage.”

Definition

(2017 Steadfast
ISR)

- Cost incurred to terminate employees
- Termination must be in consequence of Damage
- Endorsement with a sublimit

Key Points



STEADFAST COMMERCIAL PACKS AND STEADFAST INDUSTRIAL SPECIAL RISKS (ISR)

What Coverage is Available?

❖ Steadfast Commercial Packs

- Payroll cannot be insured separately and must be insured fully under Gross Profit.

❖ Steadfast Industrial Special Risks (ISR)

- Payroll can be insured separately under a **Dual Basis** methodology.
- Severance Pay

- ❖ Alternatively, other policies may include an option to insure Payroll on a First Loss Basis – We do not address non-Steadfast Wordings



OPTIONS FOR INSURING PAYROLL

Options for Insuring Payroll

- ❖ 100% included in Gross Profit
- ❖ Dual Basis Payroll
- ❖ Severance Pay

Payroll 100% included in Gross Profit

❖ Advantages

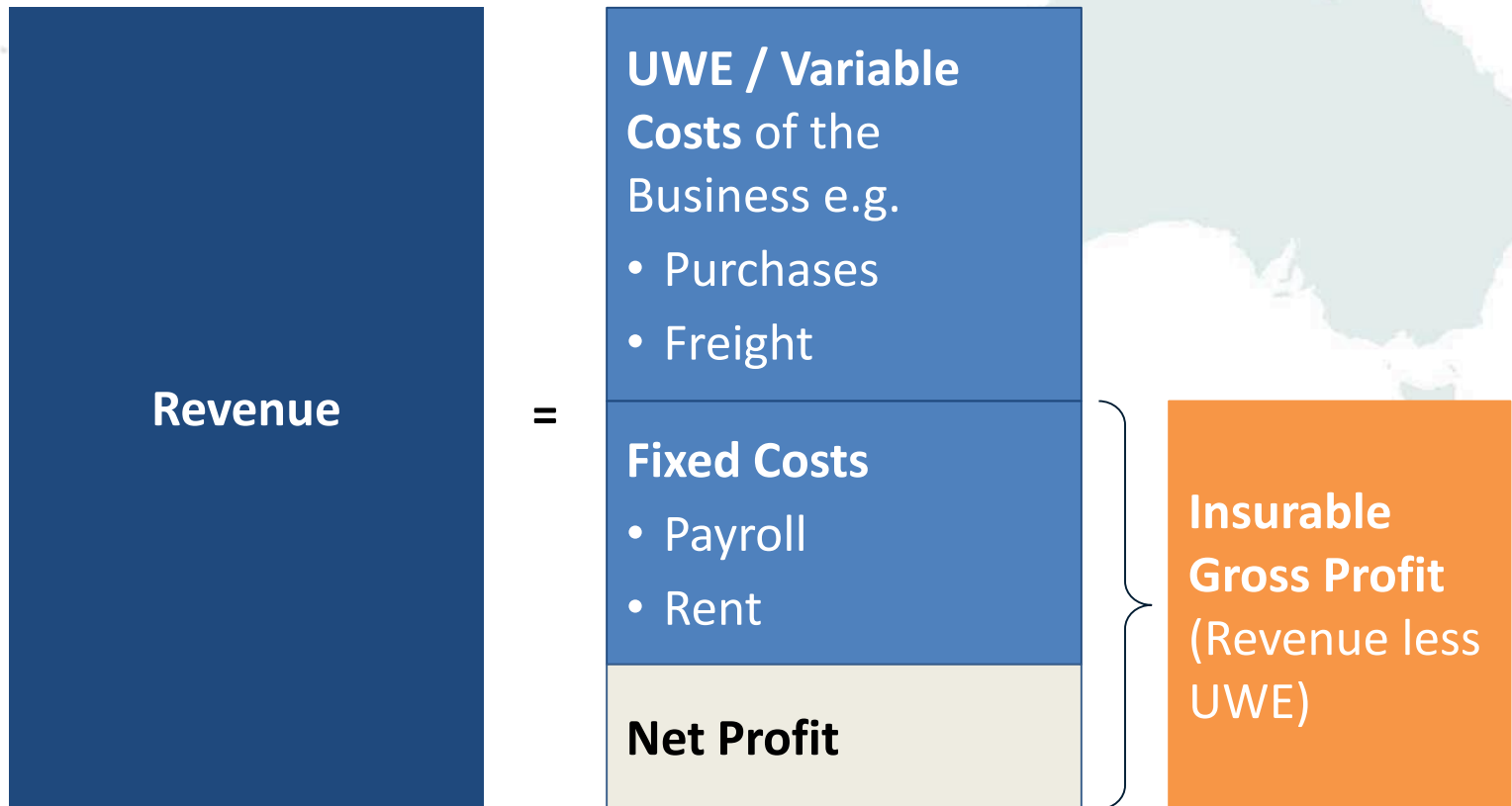
- Simplicity
- Maximum Payroll cover = Greater protection for the client.
- Minimise exposure for the Broker

❖ Disadvantages

- Premium Cost

Payroll 100% included in Gross Profit

Sales – Uninsured Working Expenses = Insurable Gross Profit



Dual Basis Payroll

Features

- ❖ Payroll is Declared and insured separately
- ❖ Payroll is listed as an Uninsured Working Expense
- ❖ Consists of two periods of cover usually with a minimum of 12 months
 - Initial Period
 - Remainder Period

- ❖ Option to Consolidate

Dual Basis Payroll

❖ Advantages

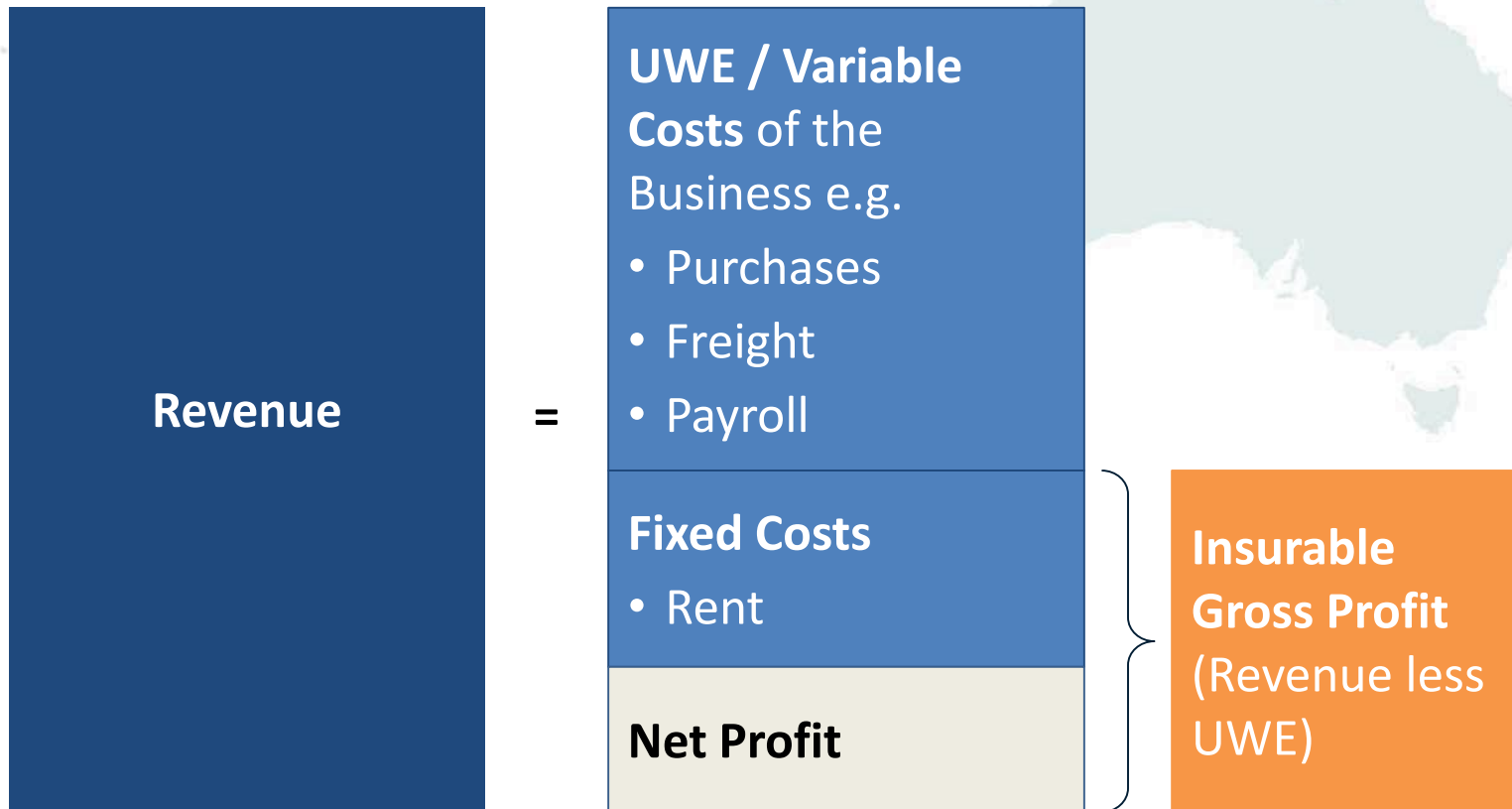
- Premium Cost
- Only insuring what needs to be insured
- Aligning the cover to the workforce

❖ Disadvantages

- Need for proper analysis of workforce categories
- Complex to get it right and in particular with multiple year Indemnity Periods

Dual Basis Payroll

Sales – Uninsured Working Expenses = Insurable Gross Profit



Payroll Considerations – Workforce Categories

**MAJOR LOSS AND/OR LOSS OF
KEY PART OF THE BUSINESS**

ESSENTIAL

NON-ESSENTIAL

**Proportion of
Head Office Payroll**

Key Employees

Managerial

Supervisors

**Others
(Specialists)**

**Casual
Labour**

**Unskilled, Semi-skilled
and/or easily
Replaceable Labour**

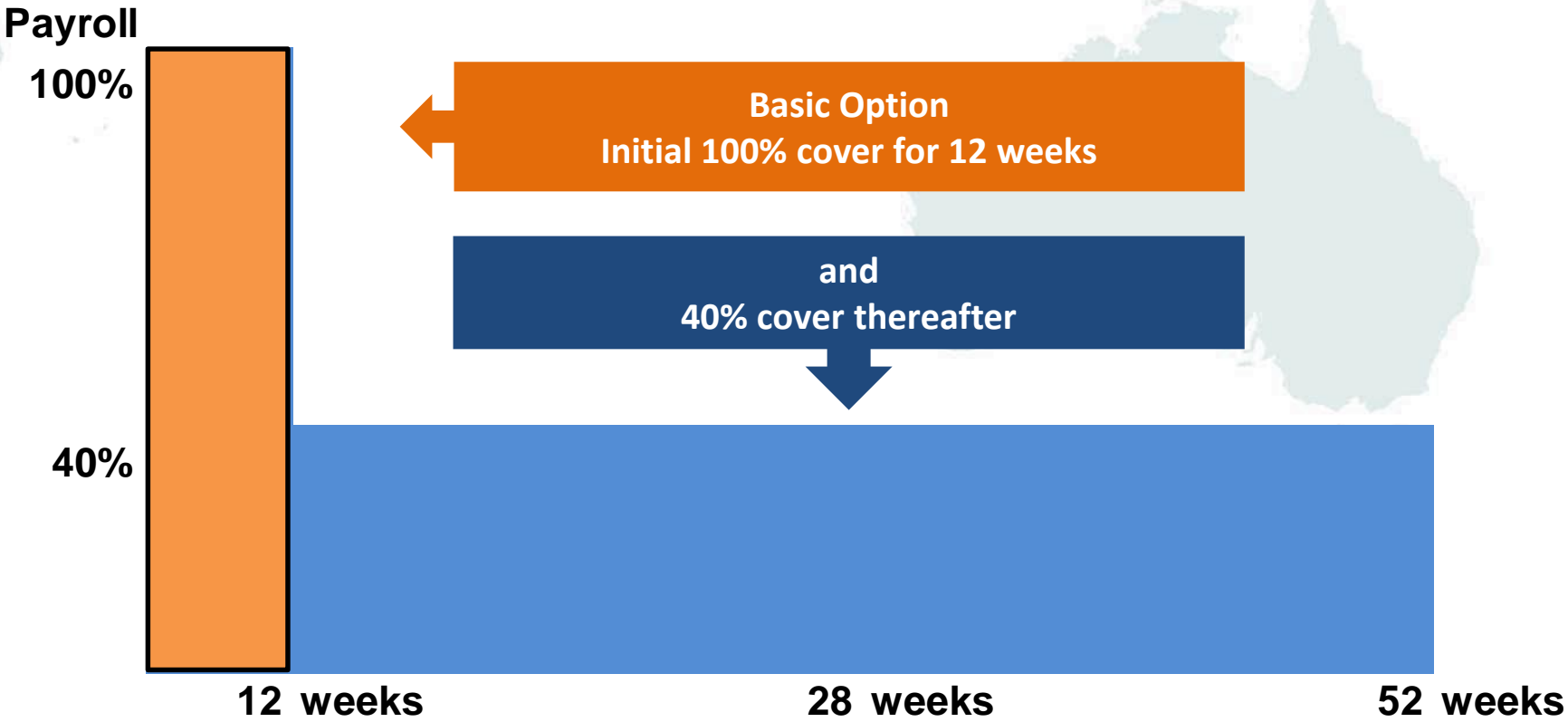
Severance Pay

Dual Basis Payroll

Parameters for the presentation

- ❖ Indemnity Period = 12 months
- ❖ Initial Period = 12 weeks at 100%
- ❖ Remainder Period = 40 weeks at 40%

Basic Option



Basic Option

Initial Period

Steadfast ISR

“during the portion of the Indemnity Period beginning with the occurrence of the Damage and ending not later than the number of weeks thereafter specified in the Schedule”

Remainder Period

Steadfast ISR

“...during the remaining portion of the Indemnity Period”

❖ Limited to the specified percentage (e.g. 40%)

Consolidated Period

- ❖ Initial Period : 12 weeks at 100% = 12 weeks
- ❖ Remainder period: 40 weeks at 40% = 16 weeks

Therefore

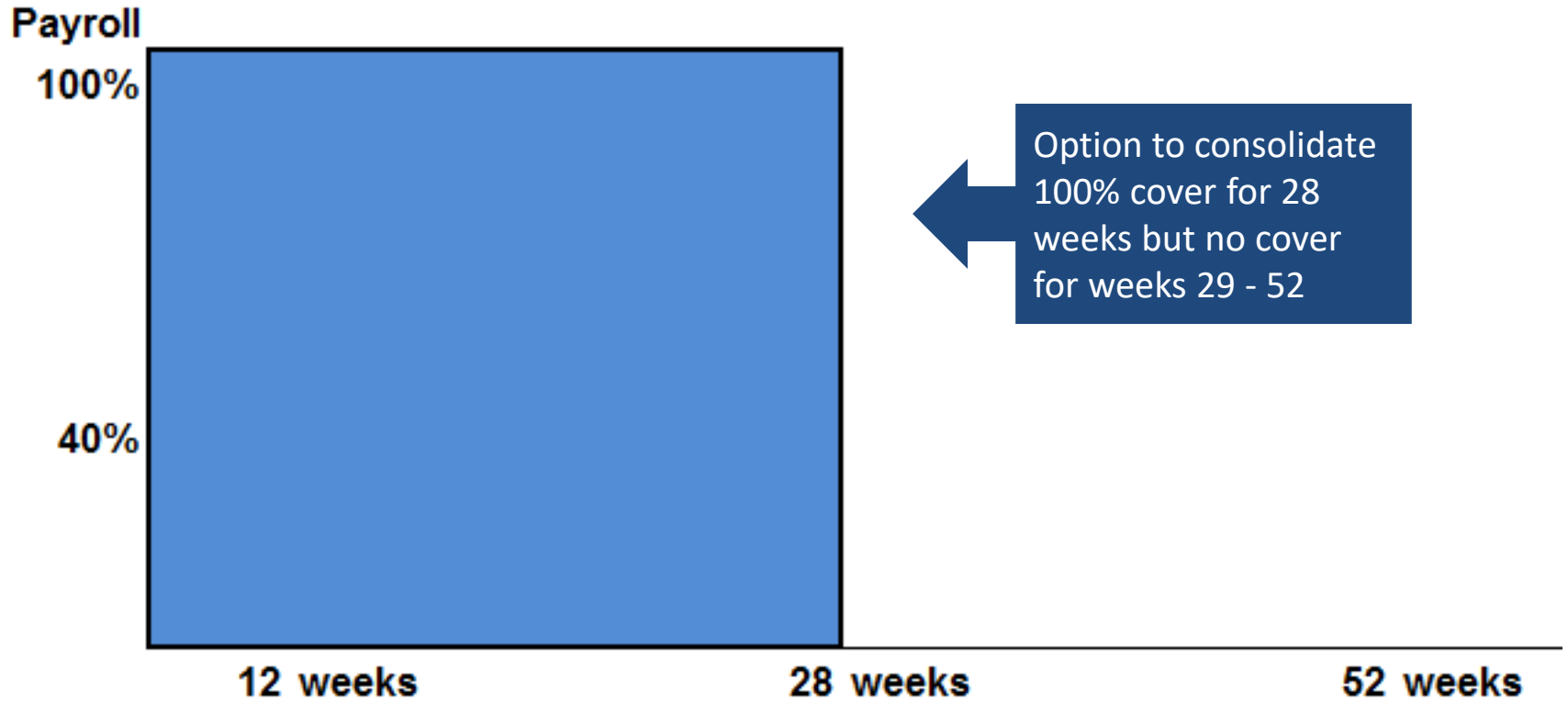
- ❖ **Consolidated Period = 28 weeks (=12+16)**

Consolidated Period

Consolidated Period

- ❖ Effectively moves the cover from the remainder period to the initial period to create a longer initial period of 100% cover.

Consolidated Period



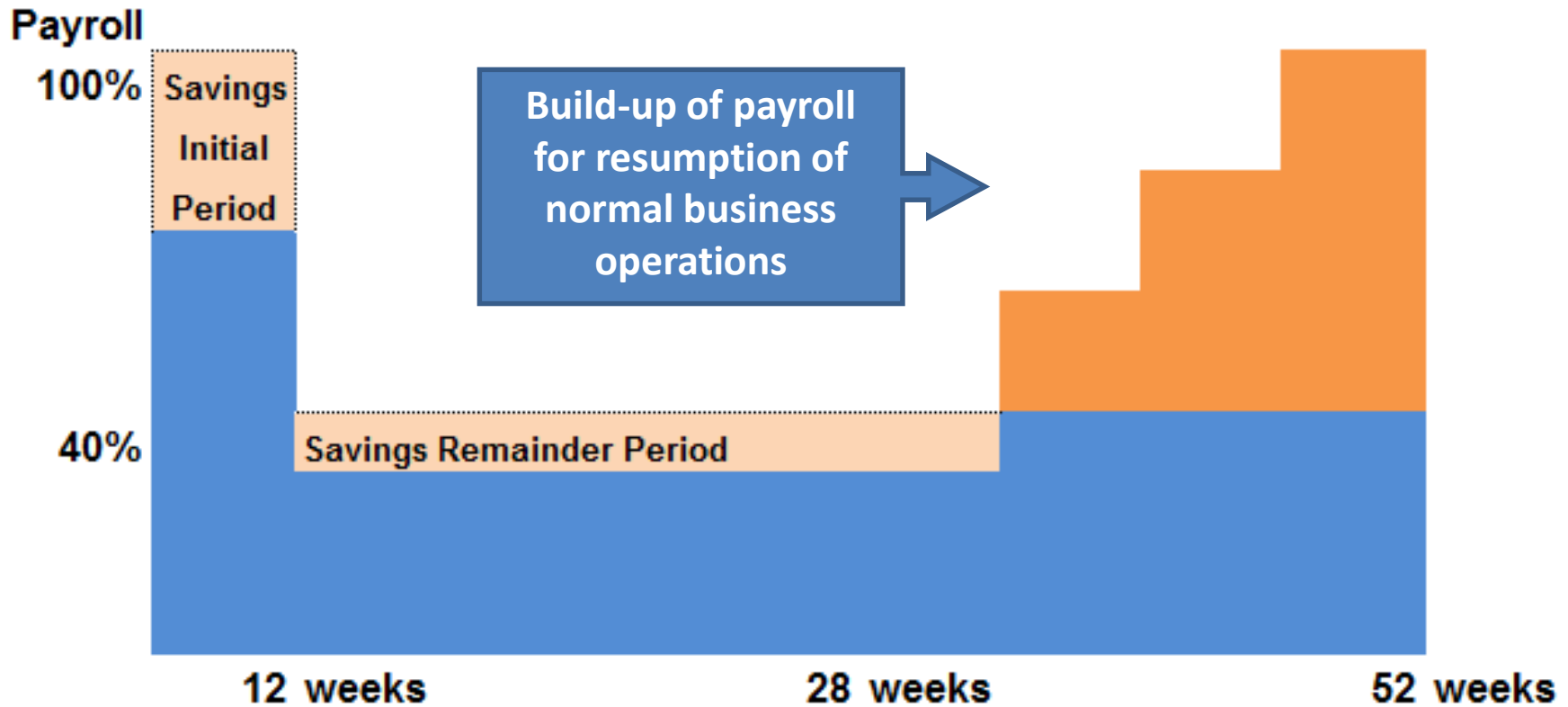
Dual Basis Payroll

Steadfast ISR Policy Wording Definition

- (i) during the portion of the Indemnity Period beginning with the occurrence of the Damage and ending not later than the number of weeks thereafter specified in the Schedule: the sum produced by applying the Rate of Pay-Roll to the Shortage in Turnover during the said portion of the Indemnity Period ***less any saving during the said portion of the Indemnity Period***, through reductions in consequence of the Damage, in the amount of Pay-Roll paid.
- (ii) during the remaining portion of the Indemnity Period: the sum produced by applying the Rate of Pay-Roll to the Shortage in Turnover during the said remaining portion of the Indemnity Period less any saving during the said remaining portion of the Indemnity Period, through reduction in consequence of the Damage, in the amount of Pay-Roll paid; but not exceeding the sum produced by applying the percentage of the Rate of Pay-Roll specified in the Schedule to the Shortage in Turnover during the said remaining portion of the Indemnity Period, ***increased by such amount as is deducted for savings under the terms of Clause (a)(i)***

Dual Basis Payroll - Savings

Flexibility to use savings in payroll claim in later periods



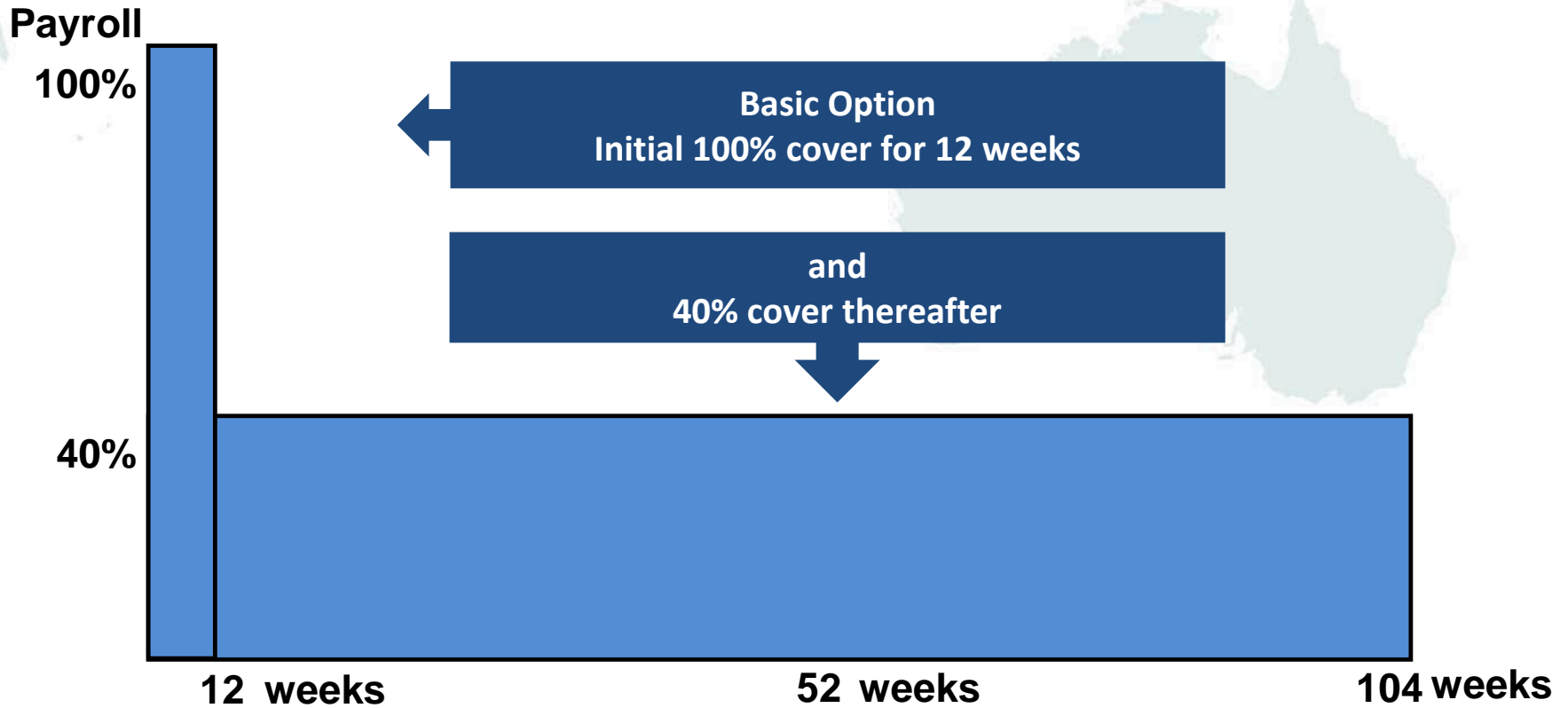
Dual Basis Payroll

- **Note:** At the option of the Insured, the number of weeks referred to in Clause (a)(i) above may be increased to the number of weeks specified in the Schedule under the heading “Consolidated Period” provided that the amount arrived at under the provisions of Clause (a)(ii) shall not exceed such amount as is deducted under Clause (a)(i) for savings effected during the said increased number of weeks.

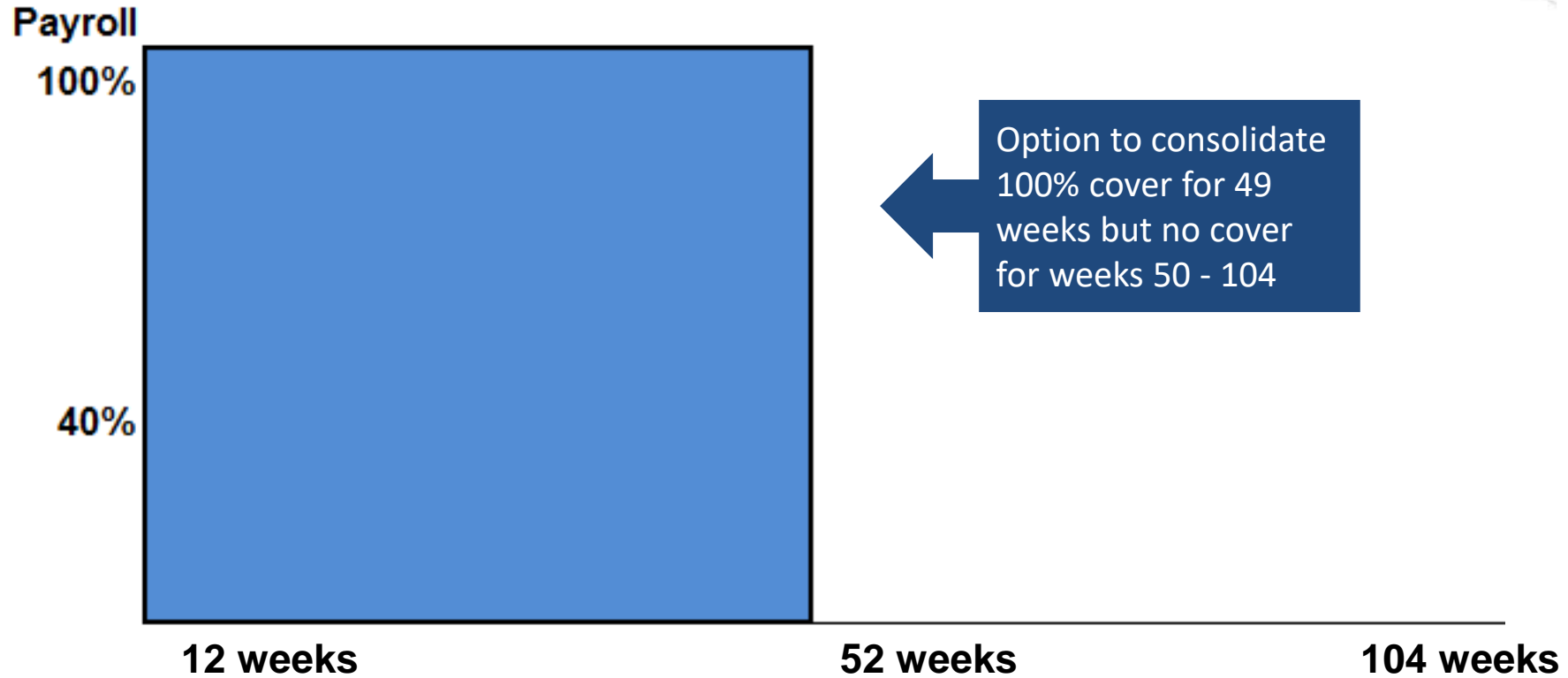
Dual Basis Payroll

Gross Annual Payroll			\$520,000
Initial Period	12 Weeks @	100%	\$120,000
Remainder Period	40 weeks @	40%	\$160,000
Total Dual Basis Payroll (Sum Insured)			\$280,000
Sum Insured is the same as the Consolidated Period			
Consolidated Period	28 Weeks @	100%	\$280,000

Longer Indemnity Periods



Longer Indemnity Periods Consolidated Period



Examples Where Dual Basis Payroll is Appropriate

- ❖ Major companies
- ❖ Where the “initial &/or consolidation period” is sufficient to cover short term losses (i.e. all staff are retained)
- ❖ Where the client has a casual/part-time and/or truly unskilled labour
- ❖ Where it is carefully assessed and calculated
- ❖ For Example: Clubs, Hotels and Hospitality

Examples Where Dual Basis Payroll is Not Appropriate

- ❖ Small companies with a low number of employees, for example single owner single proprietor, small restaurant or café
- ❖ Where the client has mostly skilled labour, for example Professional Services firms

Dual Basis Payroll

- ❖ Payroll should be listed as an Uninsured Working Expense so a Double Premium is not paid.
- ❖ Show Initial Period on Policy schedule by the number of weeks and the Remainder Period percentage.



HOW DO THE ONLINE CALCULATORS HELP ME?



MSM Loss Management Business Interruption Coverage Calculator

Basic Settings

1) Enter Insured Name:

Insured Pty Ltd

2) Enter Business Details:

Please enter business details

3) Select Insurance Year From:

01/09/2017



To:

01/09/2018

4) Select Base Year (Financial Year Ended/Ending on):

30/06/2017



5) Do You Have Multiple Departments/Divisions/Companies within the Insured Entity?

No

Yes

6) Select Indemnity Period:

12 Months

18 Months

24 Months

30 Months

36 Months


All Options

7) Is Payroll Insured Separately?

No

Yes

Indemnity Period	Initial Weeks	Remainder Weeks	Remainder %	Consolidated Weeks
12 Months	<input type="text" value="12"/>	40.0	<input type="text" value="40"/> %	28.0

8) Enter Growth in **Business (GP)** in % p.a. 

Adjustment for period (63.0 Days)	<input type="text" value="3"/>	<input data-bbox="1284 164 1362 221" type="text" value="%"/>
Adjustment for Insurance Year	<input type="text" value="3"/>	<input data-bbox="1284 264 1362 321" type="text" value="%"/>
Adjustment for 1st Year	<input type="text" value="3"/>	<input data-bbox="1284 364 1362 421" type="text" value="%"/>
Adjustment for 2nd Year	<input type="text" value="3"/>	<input data-bbox="1284 464 1362 521" type="text" value="%"/>
Adjustment for 3rd Year	<input type="text" value="0"/>	<input data-bbox="1284 564 1362 621" type="text" value="%"/>

9) Enter Growth in **Payroll** in % p.a.

Adjustment for period (63.0 Days)	<input type="text" value="3"/>	<input data-bbox="1284 735 1362 792" type="text" value="%"/>
Adjustment for Insurance Year	<input type="text" value="3"/>	<input data-bbox="1284 835 1362 892" type="text" value="%"/>
Adjustment for 1st Year	<input type="text" value="3"/>	<input data-bbox="1284 935 1362 992" type="text" value="%"/>
Adjustment for 2nd Year	<input type="text" value="3"/>	<input data-bbox="1284 1035 1362 1092" type="text" value="%"/>
Adjustment for 3rd Year	<input type="text" value="0"/>	<input data-bbox="1284 1135 1362 1192" type="text" value="%"/>

Data Entry

SALES: (please enter revenue items such as sales, etc) i

Details	Insured Pty Ltd \$	Total
<input type="text" value="Sales"/>	<input type="text" value="\$500,000"/>	\$500,000
+ Add Revenue Line		
Total:	\$500,000	\$500,000

PLUS: CLOSING STOCK i

Details	Insured Pty Ltd \$	Total
<input type="text" value="Finished goods"/>	<input type="text" value="0"/>	-
<input type="text" value="Raw materials"/>	<input type="text" value="0"/>	-
<input type="text" value="Work-in-progress"/>	<input type="text" value="0"/>	-
Total:	-	-

LESS: OPENING STOCK i

Details	Insured Pty Ltd \$	Total
<input type="text" value="Finished goods"/>	<input type="text" value="0"/>	-
<input type="text" value="Raw materials"/>	<input type="text" value="0"/>	-
<input type="text" value="Work-in-progress"/>	<input type="text" value="0"/>	-
Total:	-	-

LESS: UNINSURED WORKING EXPENSES (please enter UWE such as purchases, freight, etc) i

Details	Insured Pty Ltd \$	Total
<input type="text" value="Purchases"/>	<input type="text" value="\$200,000"/>	\$200,000
+ Add Uninsured Working Expenses		
Total:	\$200,000	\$200,000



LESS: PAYROLL (please enter payroll items whether or not insured separately) i

Details	Insured Pty Ltd \$	Total
Salaries & Wages	\$75,000	\$75,000
Casual Labour	0	-
Annual Leave Accrual	0	-
Long Service Leave	0	-
Superannuation	\$9,500	\$9,500
Payroll Tax	\$25,000	\$25,000
Workers Compensation	0	-
Fringe Benefits Tax	0	-
	0	-
+ Add Payroll		
Total:	\$109,500	\$109,500

B.I Review Summary Report

Reference No:	201708038
Insured Name:	Insured Pty Ltd
Business Details:	
Policy Year:	From 01/09/2017 To 01/09/2018
Indemnity Period:	12 Months
Gross Profit:	\$203,148
Payroll:	\$62,876
GP + Payroll:	\$266,024
Initial Period (in weeks):	12.0
Remainder Period:	16.0 (40.0 weeks at 40%)
Consolidation Period (in weeks):	28.0
Additional Increased Cost of Working	\$100,000
Claims Preparation Fees	\$50,000
Total Declared Values	\$416,024
Uninsured Working Expenses: Purchases, Payroll including incidental costs	

Note (if payroll is fully insured)

Indemnity Period:	12 Months
GP (inc 100% Payroll, exc AICW, CPF etc.)	\$319,918

MSM Calculator

- ❖ Ability to include multiple entities
- ❖ Ability to include multiple Indemnity Periods
- ❖ 6 pages from Registration to Calculation Summary

www.msmbicalculator.com

The Steadfast / MSM Webinar Series

Don't miss the next Webinar

September TBA - *Traps & Pitfalls – Common Issues and how to avoid them*

- ❖ Average, not removed or under-declared
- ❖ Inadequate Indemnity Period
- ❖ Limits and Sublimits inadequate
- ❖ Impact of Exclusions. Can the Wayne Tank principle be overcome?
- ❖ Would an extra Endorsement have provided a better outcome? Examples of Endorsements sometimes overlooked



THANK YOU FOR ATTENDING