

Business Interruption Training Series

Webinar – Module 2

The Fundamentals of Business Interruption Insurance

8 May 2017

Introduction

- ❖ Welcome
- ❖ Webinar Tools
- ❖ The Presenters
- ❖ The Steadfast / MSM Webinar Series
- ❖ Reference Material – Steadfast Website

Presenters



James Belfrage

MSM Loss Management



Paul Davidson

MSM Loss Management

Broker Tools

Accessing the Steadfast Website

- ❖ www.steadfast.com.au
- ❖ Login under the Broker tab
- ❖ Access to Broker Tools and Helplines

Steadfast Technical Helpline

1300 76 67 67

- ❖ Steadfast provides all Steadfast brokers with a free Technical Helpline Service
- ❖ MSM operates the Helpline and provides advice on:
 - Commercial and Business Packs as well as ISR
 - Sums Insured or Declared Values
 - Claims
 - Non-legal technical help across all commercial lines

❖ Call 1300 76 67 67



The 2017 Business Interruption Training Series

Recap of Module 1 Webinar

- ❖ What is Business Interruption insurance?
- ❖ Why should my clients insure for Business Interruption insurance?
- ❖ Where do I start?
- ❖ Business Pack – Coverage options available

What is Business Interruption Insurance?

- **Business Interruption Insurance** is Insurance covering the loss of revenue or income or gross profit suffered by a business and the increased or extra costs incurred when the assets of a business that are insured are damaged by a peril or event of the type insured.

The Fundamentals of Business Interruption Insurance: An Introduction

Agenda

- ❖ Gross Profit
- ❖ Trend Adjustment
- ❖ Uninsured Working Expenses
- ❖ Increased Cost of Working (ICW)
- ❖ Additional Increased Cost of Working (AICW)
- ❖ Claim Preparation Costs

Sum Insured – Gross Profit

- ❖ Gross Profit – As shown on the Schedule
- ❖ Sum Insured is a Gross Profit (GP) amount stated on the Policy Schedule based on the most recent results for the business, plus growth trend
- ❖ At a minimum, the Sum Insured must be a 12 month GP figure, even if the Indemnity Period is less than 12 months
- ❖ When the length of the Indemnity Period is greater than 12 months the Sum Insured would be a multiple of the 12 month GP figure, for example a 24 month Indemnity Period is 12 months Gross Profit multiplied by 2

Gross Profit

Definition

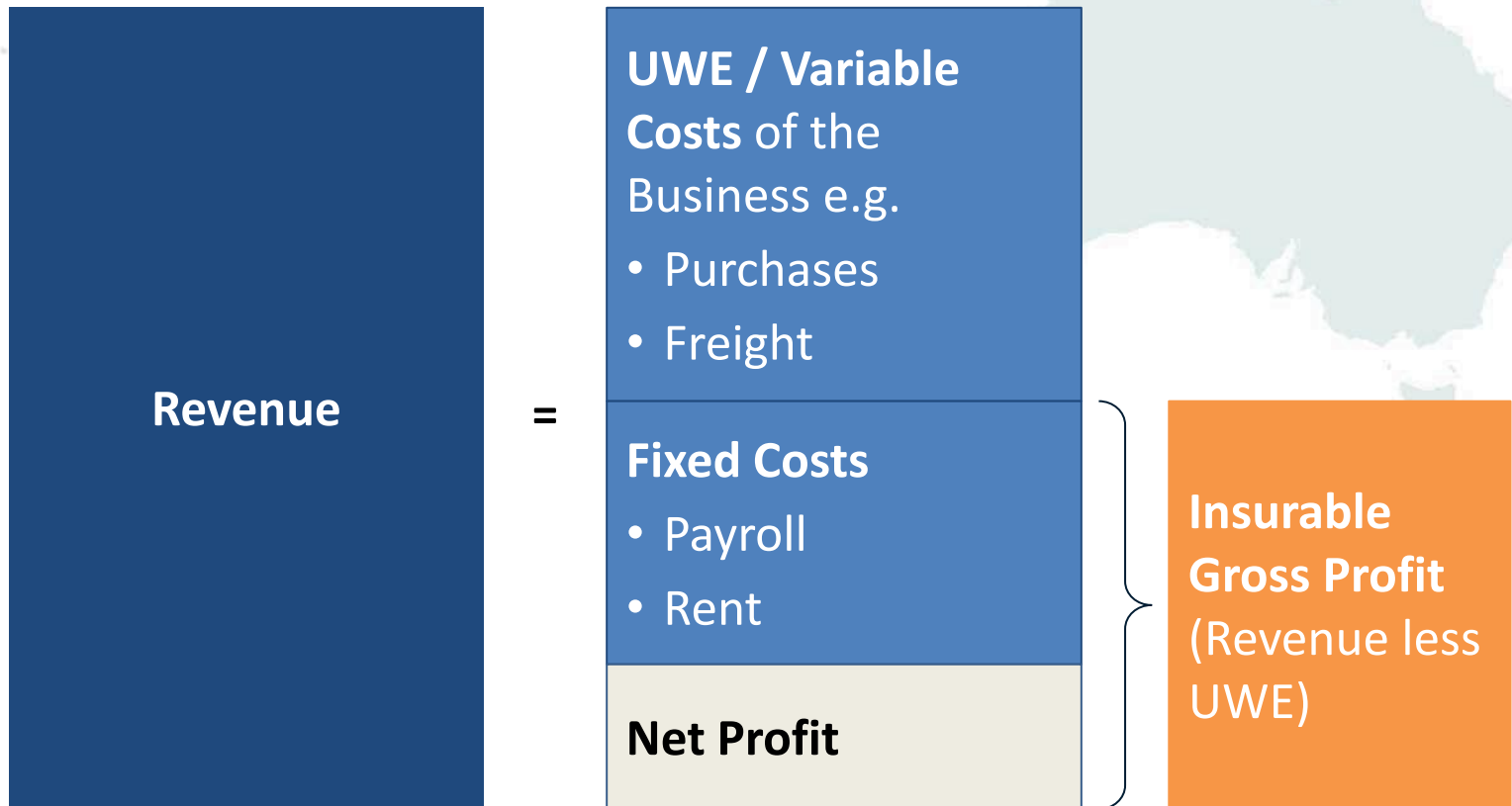
“Gross Profit is the amount by which the sum of the Turnover and the amount of the Closing Stock shall exceed the sum of the amount of the Opening Stock and the amount of the Uninsured Working Expenses (as set out in the Schedule).”

Consider

- Turnover
- Trend
- Uninsured Working Expenses
- Rate of Gross Profit

Turnover, Gross Profit & UWE Relationship

Sales – Uninsured Working Expenses = Insurable Gross Profit



Turnover

Turnover = Revenue = Sales = Income

- ❖ They are common terms
- ❖ Found in the company's Profit & Loss Statement
- ❖ The receipts of the business for goods sold and services rendered to the customers / clients of a business
- ❖ Different businesses use different terminology

Turnover

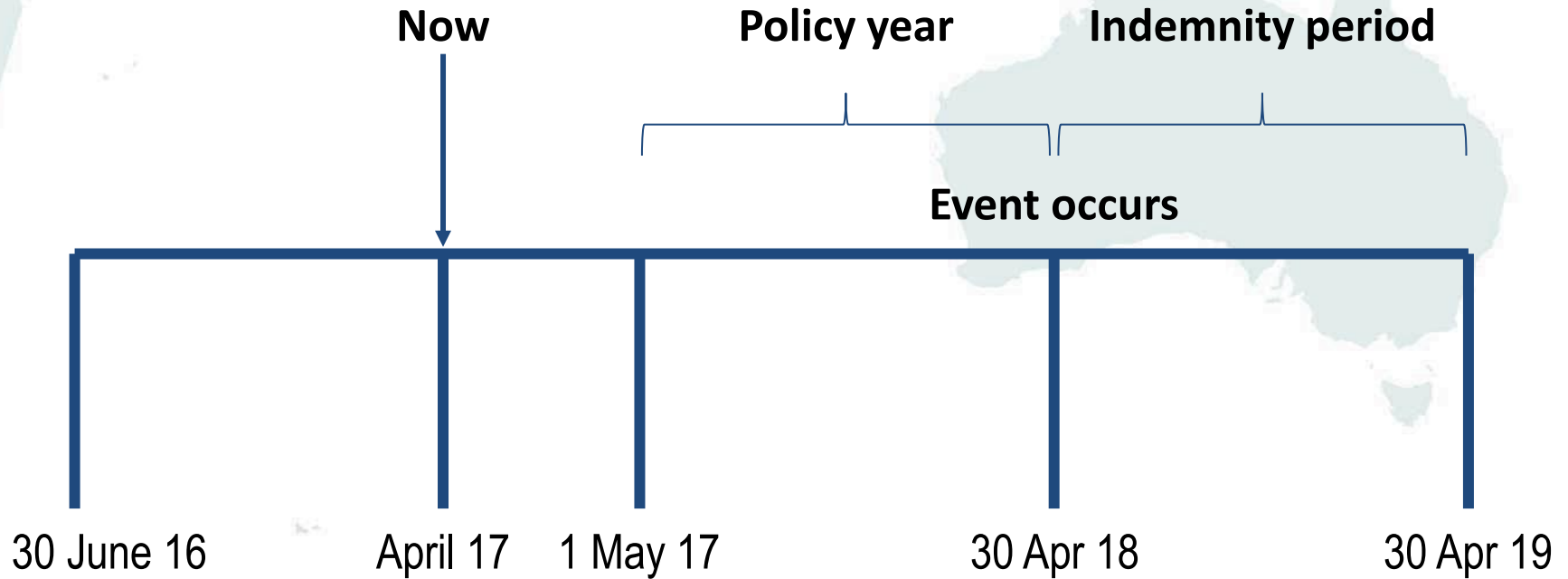
Definition

“the amount (less discounts allowed) paid or payable to You for goods sold and delivered for services rendered and for Rent Receivable

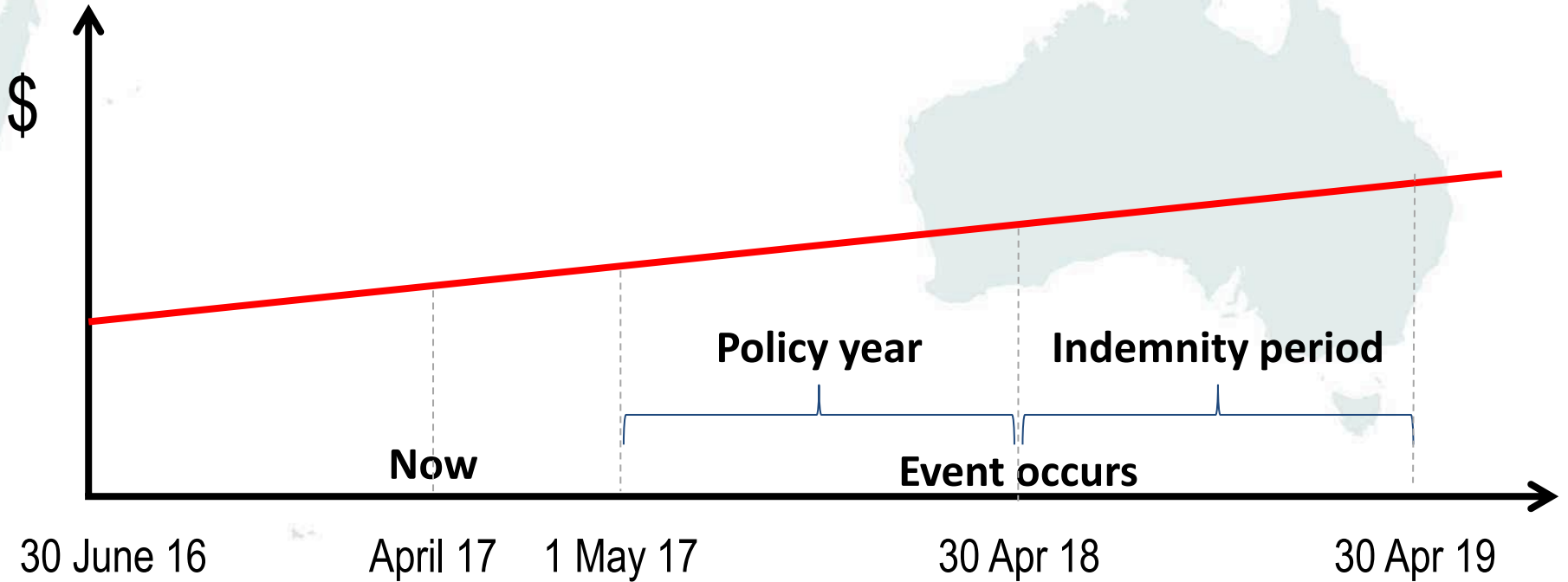
(unless Loss of Rent Receivable is shown as separately insured in the Policy Schedule with a specific Sum Insured)

in the course of Your Business at the Premises.”

Gross Profit – Trend Adjustment



Gross Profit – Trend Adjustment



Gross Profit – Trend Adjustment

Need to consider specifics for your client

- ❖ Product price changes
- ❖ New products
- ❖ Expanding sales volume (growth)
- ❖ Expansion plans
- ❖ Acquisitions
- ❖ Historic and anticipated growth

Trend

Definition

“...variations in or other circumstances affecting Your Business either before or after the Damage or which would have affected Your Business had the Damage not occurred.”

Consider

- Business Growth
- New Products/Customers
- New Locations

Uninsured Working Expenses (UWE)

Definition

“the working expenses of Your Business which You have elected not to insure under this cover section, and which are specified in the Policy Schedule.”

Uninsured Working Expenses (UWE)

- ❖ Uninsured Working Expenses can be referred to as the Variable Expenses being those expenses that cease or diminish in proportion with a reduction in Turnover or Sales
- ❖ Fixed Costs are those that remain constant irrespective of the level of Turnover.

Uninsured Working Expenses (UWE)

Directly variable expenses

Purchases, discounts, commissions, freight

Expenses with fixed/variable components

Electricity, other utilities, repairs and maintenance

Fixed expenses

Insurance premiums, interest, lease costs, accounting and audit fees

Uninsured Working Expenses (UWE)

Points to Note:

- ❖ They are variable expenses or costs specific to the Insured's business
- ❖ They are always saved and deducted from a claim settlement
- ❖ There is no point paying a premium to insure them
- ❖ Viewed from the perspective of a partial interruption
- ❖ Need to be itemised on the Policy Schedule

Sums Insured – Annual Revenue

Definition

“the Revenue earned during the 12 months immediately before the date of the Damage to which such adjustments will be made as may be necessary to provide for the trend of Your Business and for variations in or other circumstances affecting Your Business either before or after the Damage or which would have affected Your Business had the Damage not occurred....”

Annual Revenue – Sums Insured – Business Pack

- ❖ An annual amount stated on the Policy Schedule
- ❖ Based on the most recent results for the business plus growth trend

Sums Insured – Weekly Revenue

Definition

“the amount received by You each week the Business is in operation for foods sold, services rendered or rental received less the purchase price of stock.”

Weekly Revenue – Sums Insured – Business Pack

- ❖ A weekly amount stated on the Policy Schedule
- ❖ Based on the most recent results for the business plus growth trend

Increase in Cost of Working (ICW)

Definition

*“The additional expenditure necessarily and reasonably incurred for the **sole purpose** of avoiding or diminishing the reduction in Turnover which but for that expenditure would have taken place during the Indemnity Period in consequence of the Damage, **but not exceeding the sum produced by applying the Rate of Gross Profit to the amount of reduction thereby avoided.**”*

Consider

- The Sole purpose test
- The Economic limit test

Increase in Cost of Working (ICW)

- ❖ Additional expenditure
- ❖ Necessarily and reasonably incurred
- ❖ For the Sole Purpose
- ❖ During the Indemnity Period
- ❖ Not exceeding loss of Gross Profit (Economic Limit):
Spend up to \$1 to save \$1 in gross profit
- ❖ Insured has a duty to mitigate losses
- ❖ Liability of Insurer is reduced
- ❖ There is **no Sub-Limit**

Increase in Cost of Working (ICW)

Examples

- ❖ Rent on alternative premises
- ❖ Additional labour costs/overtime
- ❖ Purchasing in alternative product

Where these costs satisfy the Sole Purpose and Economic Limit Tests

Additional Increase in Cost of Working (AICW)

Definition

“The insurance under this item is limited to increase in cost of working (not otherwise recoverable hereunder) reasonably incurred during the indemnity period in consequence of the damage for the purpose of avoiding or diminishing reduction in turnover and/or resuming and/or maintaining normal business operations and/or services.”

Additional Increase in Cost of Working (AICW)

Key components of the definition

- ❖ Reasonably incurred (not “Necessarily and Reasonably”)
- ❖ During the Indemnity Period
- ❖ In consequence of the Damage
- ❖ Purpose of avoiding and diminishing reduction in turnover
- ❖ Resume and/or maintain normal business operations and/or services (most important)
- ❖ **BUT** limited to the amount of the sub limit specified on the Policy Schedule

Additional Increase in Cost of Working (AICW)

Extremely useful – For example

- ❖ Some underinsurance scenarios
- ❖ Avoiding Sole Purpose
- ❖ No Economic Limit
 - (e.g. buying in finished goods at a loss to keep customers)
- ❖ Gaining remaining elements of lost market share
- ❖ General guideline: 5% to 10% of Gross Profit

Claim Preparation Costs

Definition

*“The insurance under this item is to cover such **reasonable professional fees** as may be payable by the Insured, and such other reasonable expenses necessarily incurred by the Insured and not otherwise recoverable, for preparation of claims under the Insured’s Material Damage and Consequential Loss insurance policies and the Insurer(s) shall indemnify the Insured for such reasonable fees and expenses.”*

Claim Preparation Costs

General
Guidance

3-5% of
Gross Profit

Greater than \$10m Gross
Profit

Case by case

- **Number of locations, dependencies and interdependencies**
- **Level of sophistication**
- **Dual Basis Payroll**
- **Indemnity Period**

❖ We recommend a minimum of \$50,000

Advantages of Claims Preparers (Example MSM)

- ❖ Add value to the claim and maximise entitlements
- ❖ Policy interpretation
- ❖ Management of the claim process
- ❖ Minimise the impact to the business and free up management resources to concentrate on operational issues
- ❖ Covered by Insurance - essentially free for the client
- ❖ Makes the Broker look great!
- ❖ A happy client helps cement the broker relationship

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