

Business Interruption Training Series

Webinar – Module 3

Declared Values/Sum Insured - How to do the Calculation

13 June 2017

Introduction

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

Presenters



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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, Key aspects to consider - Common Steadfast Endorsements
- ❖ **August 10** Insuring Payroll – The range of options available

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

OUR SERVICES

OUR TEAM

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TOOLS



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 of the key elements:
 - Definition of Insurable Gross Profit
 - Turnover
 - Uninsured Working Expenses
 - Indemnity Period
 - Trend
- Average**
- ❖ Why do I (as the broker) need to get it right?
- ❖ Steadfast Tools Available – The Online Calculators
- ❖ A Worked Example

Insurable 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

Turnover = Revenue = Sales = Income

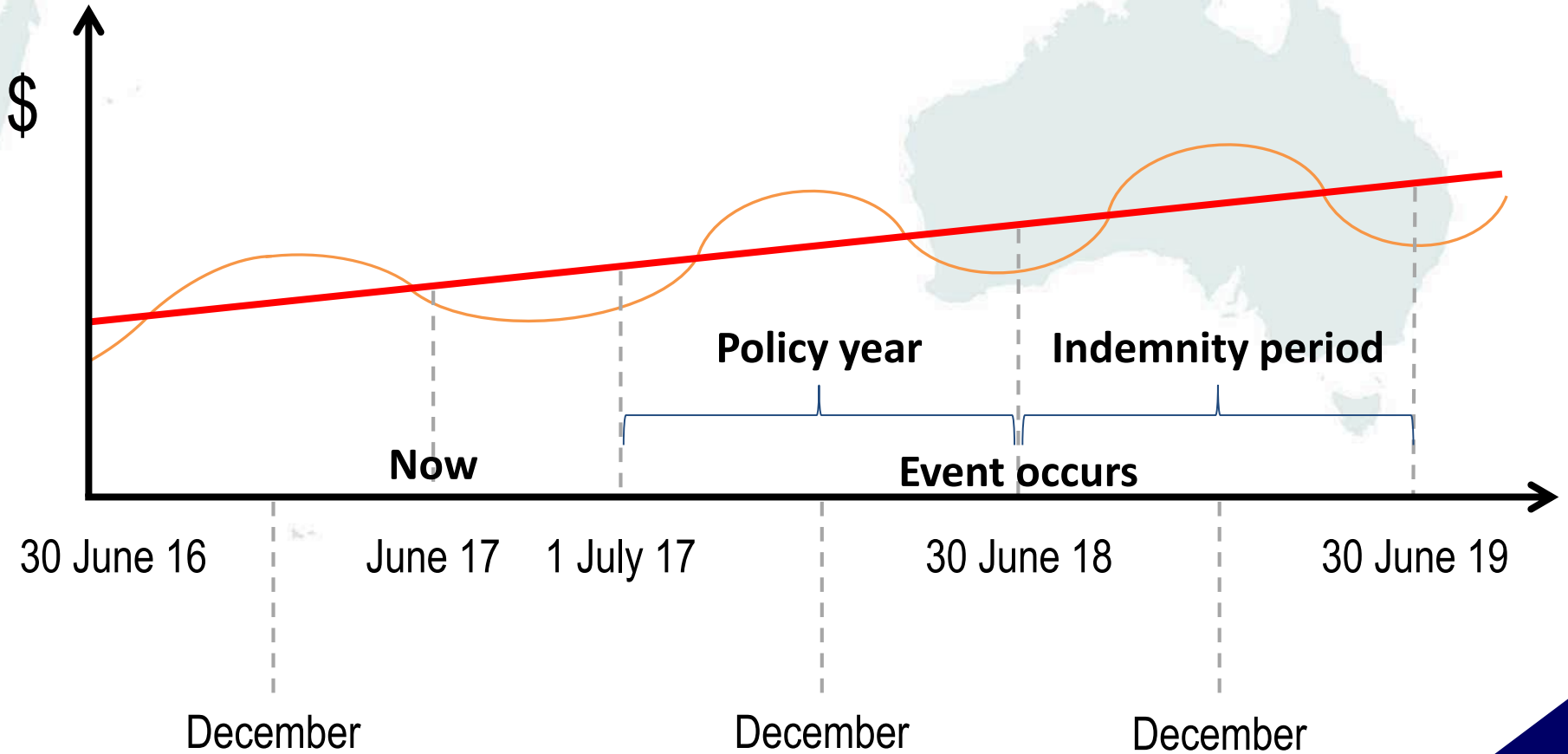
- ❖ They are common terms
- ❖ The receipts of the business for goods sold and services rendered to the customers / clients of a business
- ❖ Different businesses have different terminology

Gross Profit – Trend Adjustment

Need to consider specifics for your client

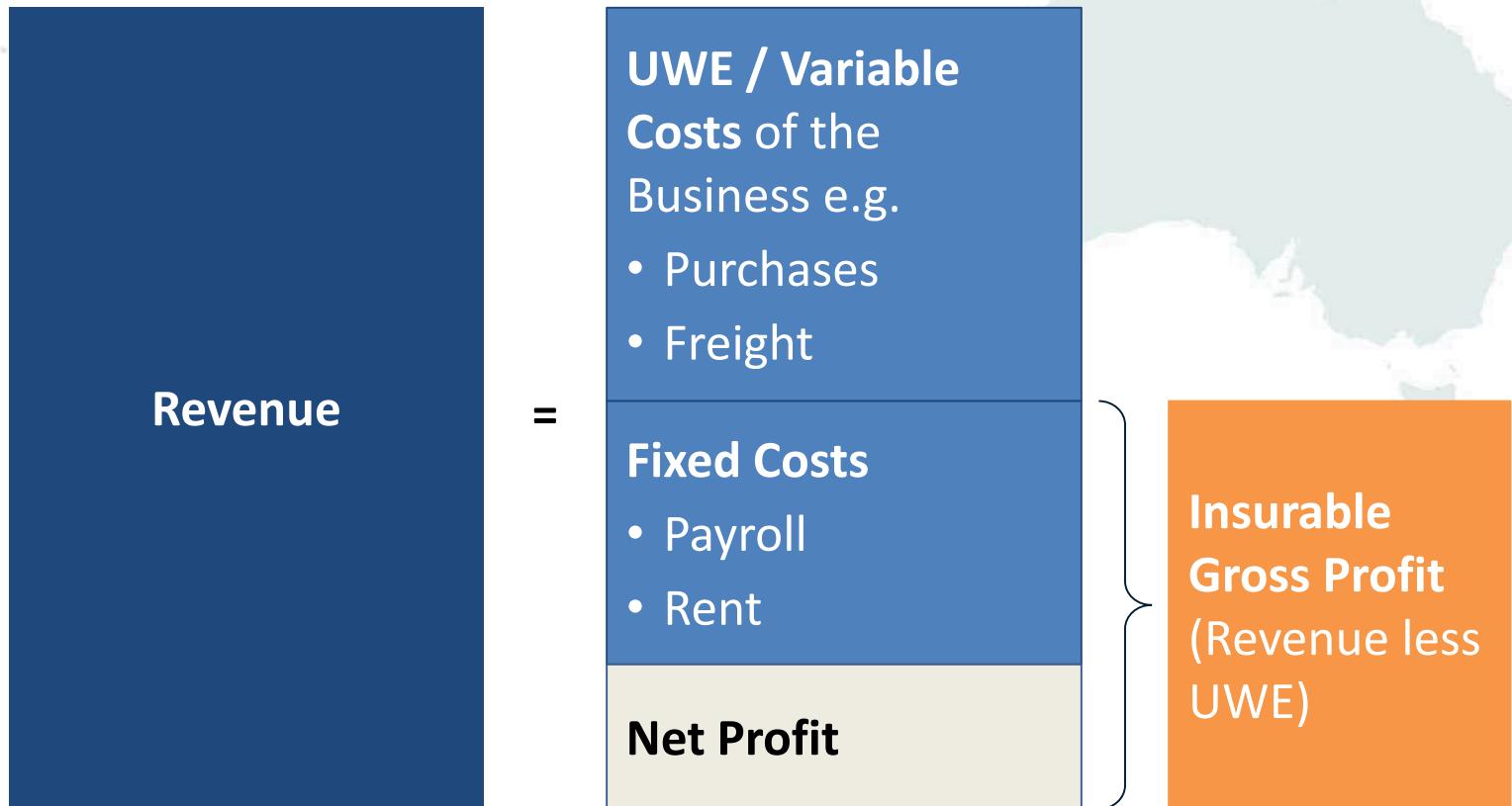
- ❖ Product price changes
- ❖ New products
- ❖ Expanding sales volume
- ❖ Expansion plans
- ❖ Acquisitions
- ❖ Improvements to productivity

Trend



Turnover, Gross Profit & UWE Relationship

Sales – Uninsured Working Expenses = Insurable Gross Profit



Uninsured Working Expenses (UWE)

Directly variable expenses

Purchases, discounts, commissions, freight

Expenses with fixed/variable components

Electricity (office lighting, air conditioning), other utilities, repairs and maintenance

Fixed expenses

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

Indemnity Period

”

*“The period beginning with
the occurrence of the Damage
during which the results of your business are affected by
the damage
and ending at
the expiration of the maximum period
specified in the current Policy Schedule.....”*

Indemnity Period

Set the Indemnity Period based on catastrophic loss

Under a catastrophic loss scenario consider length of time to:

- ❖ Rebuild buildings (delays from councils)
- ❖ Purchase new equipment (sometimes from overseas)
- ❖ Commission new equipment
- ❖ Regain lost market share (sales) to pre loss position



BUSINESS INTERRUPTION INSURANCE WHY DO I (AS THE BROKER) NEED TO GET IT RIGHT?

Why do I (as the broker) need to get the cover right? Common Claim Issues

- ❖ Declared Value Calculations are wrong – Average applies
- ❖ Indemnity Period too short (Webinar 4)
- ❖ Limits/sub limits are inadequate
- ❖ Incorrect Payroll cover (Webinar 5)
- ❖ Supply chain – Customers &/or suppliers
- ❖ Inadequate AICW
- ❖ Claims preparation costs inadequate or not covered

Average

80% AVERAGE – SECTION 2

”

Provided that if the Declared Value of Gross Profit at the commencement of each Period of Insurance be less than the sum provided by applying the Rate of Gross Profit to 80% of the Annual Turnover (or its proportionately increased multiple, where the Indemnity Period exceeds 12 months), the amount payable hereunder shall be proportionately reduced.

Average

Average Example – Underinsurance

❖ Insurance Renewal Date	30 June 2017
❖ Indemnity Period	12 months
❖ Sum Insured Gross Profit at Renewal	\$500k
❖ Date of Incident/Claim Commences	29 June 2018
❖ Estimated 12 month Gross Profit	\$1.25m ("Value at Risk")
❖ Apply 80%	\$1m ("Value at Risk")

The Company is therefore only Insured (\$0.5m/\$1m) = 50%

Average

Consequence of Underinsurance

- ❖ Total Value of Gross Profit Claim \$300k
- ❖ Insurance Recovery
Value of Insurance Claim x Value Insured \$300k x 50%
= \$150k

Uninsured Losses – Client Out of Pocket \$150k



THE DECLARED VALUE CALCULATION

Broker Templates and Worksheets

- ❖ Do not initiate removal of Average
- ❖ Vary in levels of sophistication
- ❖ Templates may be consistent, but accounting descriptions may vary
- ❖ Outputs from Templates and Workbooks can sometimes be misleading

Declared Value Calculation Worksheet

Note

Details			
1) Gross Profit			
Turnover/Sales/Revenue/Fees		A	
Less - Uninsured Working Expenses/Cost of Sales			
Opening Stock			
Purchases			
Subcontractors			
Factory & Store Supplies			
Commission Paid			
Freight & Cartage			
Less - Closing Stock			
Uninsured Working Expenses/Cost of Sales		B	
Insurable Gross Profit		C	0
Rate of Gross Profit (excluding direct wages)			
Add - Growth Trend			
1) to start of Insurance Year for - months @ 0.00%			0
2) for Insurance Year ie 2003 - 12 months @ 5.00%			0
3) for the first 12 months of Indemnity Period @ 5.00%			0
Declared Value based on 12 Months		D	0
Declared Value based on 24 Months		2 x	0
Expected Declared Value/Sum Insured		E	0
2) Payroll based on Dual Wages			
Direct Labour			
Employee Entitlements (Super, Payroll Tax, Workcover, AL, AS)			
Total Labour Cost		F	0
Rate of Payroll			
Sum Insured Selected			
xx weeks @ 100%			0
yy weeks @ 50%			0
Plus Estimated growth in wages 6.00%			0
Expected Sum Insured Payroll		G	0
Sum Insured - Gross Profit plus Payroll		H=E+G	0
3) Additional Increase in Cost of Working (AICOW)			
Recommended AICOW (see text for more information)		I	
4) Claim Preparation Fees (CPF)			
Recommended CPF		J	
Total Declared Values		K=H+I+J	0



ONLINE CALCULATORS



THE LMI CALCULATOR

The LMI Calculator

1.

Select Your Calculator

Our Business Interruption calculators are specific to individual policies.

To bring up the correct cover calculator simply click the appropriate 'Enter' button. To double check that you have the correct policy you can click on the 'PDF' icon for the wording. If you wish to email a link of the correct cover calculator to your client, accountant or the like please simply click on the Email icon and then email it with an explanation as to what you want the recipient to do with it.

Insurer	Policy	PDF	Email	Data Input	
Accerta	Business Insurance Policy				
Allianz	Business Pack				
Ansvar Insurance Limited	Business Insurance Policy				
Ansvar Insurance Limited	Faith Organisations Insurance Policy				
Arch Underwriting at Lloyds (Australia) Pty Ltd	Business Property Insurance Package				
Breeze Underwriting Restaurant Insurance - Vero	Business Insurance				
Calibre Insurance	Business Package Insurance				
Capricorn Mutual	Protections Policy				
CCU	Business Pack				
Elders Insurance (Underwriting Agency)	Business Commercial Retail Industrial Insurance				
GIO	Business Insurance				
Industry Standard ISR	Mark IV Advisory Wording				
Industry Standard ISR	Mark IV Modified Wording				
Insoight	Zurich Business Insurance (Gold)				
Lumley General	Commercial Business Package				
NRMAA Insurance	Business Insurance				
NRMAA Insurance	Easybiz Business Insurance				
OBE Insurance Australia Ltd	Commercial Retail Industrial Business Pack				
RACV	Business Insurance				
Radium Pty Ltd	Business Insurance				
SGIC	Business Insurance				
SGIC	Easybiz Business Insurance				
SGIO	Business Insurance				
SGIO	Easybiz Business Insurance				
Sportscover	Sportspack Business Package				
Steadfast	Allianz Business Pack				
Steadfast	Allianz Industrial Special Risks Policy				
Steadfast	Calibre Business Package Insurance				
Steadfast	CCU Business Insurance Policy				
Steadfast	Lumley Commercial Business Package				
Steadfast	Miramar Commercial Package				
Steadfast	OBE Commercial Retail Industrial Business Pack				
Steadfast	Vero Business Insurance				
Steadfast	Zurich Business Insurance				
Steadfast - Wording	ISR Mark IV				
Territory Insurance Office (TIO)	Commercial Business Package (Part A & B)				
Vero (Gross Income)	Enterprise Business Insurance Policy				
Vero (Gross Income)	Professional Services Policy				
Vero (Gross Profit)	Enterprise Business Insurance Policy				
Vero (Gross Profit)	Professional Services Policy				
WPI	Commercial Plan				
Zurich Australian Insurance Limited	Business Insurance (Gold)				



The LMI Calculator

2.

What is the name of the Insured?

What industry is the insured in? *

What is the commencement date of the Policy?



What is the date of last financial statement?



What Maximum Indemnity Period (in months) would you like to insure for? *

This is the period you seek to be covered for following an insured event.

Months

3.

Is full Pay-Roll to be insured as part of Item 1 - Gross Profit?. If you intend insuring 100% of Pay-Roll the Coach recommends you do not split it out but insure it as part of Gross Profit. In such a case you should select "Yes"

*

In line with convention Dual Wages should only be considered when the Indemnity Period is equal or greater than 12 months.

Yes

No

The LMI Calculator

4.

What was the Turnover of the insured business(es) during the last financial year?

 AUD

What was the Closing stock at the end of the last financial year?

 AUD

What was the Opening Stock at the start of the last financial year?

 AUD

Purchases of Raw Materials, and Stock and or Merchandise during the past financial year.

Please refer to the latest Profit and Loss Statement to identify the following expenses.

 AUD

Please specify any additional uninsured working expenses you do not wish to insure.

[+ ADD WORKING EXPENSE](#)

The LMI Calculator

5.

What is the expected annual growth rate in turnover (record here as a percentage) from the end of the financial year to the start of the Period of Insurance?

Turnover typically grows year on year. This is due to increased brand awareness, increases in selling prices etc.

 %

What is the expected annual growth rate in turnover (record here as a percentage) for the **Period of Insurance**?

Turnover typically grows year on year. This is due to increased brand awareness, increases in selling prices etc.

 %

What is the expected annual growth rate in turnover (record here as a percentage) for the **Indemnity Period**?

Turnover typically grows year on year. This is due to increased brand awareness, increases in selling prices etc.

 %

The LMI Calculator

6.

What level of Claims Preparation Expenses (Additional to General Claims Condition 2 Claims Preparation Expenses is Limit the lesser of \$10,000 or 25% of the claim amount otherwise payable) do you require?

 AUD

What level of Additional Increase in Cost of Working do you require?

 AUD

What level of Loss of Rent cover do you require (Applicable to Part B and/or Part C only)? - If insuring on behalf of landlord or if the building is owned by a different legal entity from the operating company but the two companies are both insured on the same policy.

 AUD

What is the expected increase in rentals going to be (Applicable to Part B Consequential Loss of Profits and/or Part C Revenue Protection only? Please record the annual growth rate.

 %

What level of Accounts Receivable cover do you require (Applicable to Part B Consequential Loss of Profits and/or Part C Revenue Protection only?

 AUD

The LMI Calculator

Some Points to Note:

- ❖ Single company figures only, even where the Insured comprises multiple entities
- ❖ Only one Indemnity Period option
- ❖ Does initiate removal of Average where individual BAS statements are entered, e.g. Calibre Insurance Business Pack
- ❖ No provision to modify and update after completion



THE MSM CALCULATOR

A WORKED EXAMPLE

www.msmbicalculator.com

Crown Enterprise Pty Ltd
 Profit and Loss Statement
 For the year ended 31 December 2016

		2016
		\$
Revenue		
	Sales	5,000,000
		5,000,000
Cost of Goods Sold		
	Purchases	3,000,000
		3,000,000
Gross Profit		2,000,000
Rate of Gross Profit		40%
Less - Expenses		
	Accountancy	50,000
	Bank Fees and Charges	103,000
	Commission Paid	70,000
	Consultants Fees	1,000
	Depreciation - Other	97,000
	Freight	100,000
	Fringe Benefits Tax	42,000
	General Expenses	32,000
	Insurance	76,000
	Legal Fees	39,000
	Salaries	400,000
	Staff Recruitment	16,800
	Superannuation	52,200
	Telephone & Postage	23,300
		1,102,300
Operating Profit		897,700

The MSM Calculator

1.

👤 Broker Register

Email:	Please enter your business email address
Re-Enter:	Please re-enter your email
Region:	Please select your region/country ▾
Insured Name:	Please enter insured name

I acknowledge the MSM BI Calculator is a generic electronic system to assist me and my organisation in calculating declared values, limits and sub-limits for the Business Interruption Policy for my client/s.

I agree that MSM make no representations regarding the correctness of the calculations or the conclusions reached. I accept it is my responsibility to collect and input the correct data and verify the Policy wording to be utilised.

I agree to hold MSM harmless for any loss occasioned by any person or organisation using this calculator.

I accept the terms and conditions

MSM Loss Management Business Interruption Coverage Calculator

Basic Settings

1) Enter Insured Name:

Crown Enterprises Pty Ltd

2) Enter Business Details:

Clothing Wholesaler

3) Select Insurance Year From:

30/06/2017

To:

30/06/2018

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

31/12/2016

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

No

Yes

6) Select Indemnity Period: i

12 Months

18 Months

24 Months

30 Months

36 Months

All Options

7) Is Payroll Insured Separately?

No

Yes

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

8.1) Do you have different growth rates (trend) for each division?

No

Yes

Adjustment for period (180.0 Days)	5	%
Adjustment for Insurance Year	5	%
Adjustment for 1st Year	5	%
Adjustment for 2nd Year	5	%
Adjustment for 3rd Year	0	%

2.

3.

Data Entry

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

Details	Crown Enterprises Pty Ltd \$	Total
Sales	\$5,000,000	\$5,000,000
+ Add Revenue Line		
Total:	\$5,000,000	\$5,000,000

PLUS: CLOSING STOCK ⓘ

Details	Crown Enterprises Pty Ltd \$	Total
Finished goods	0	-
Raw materials	0	-
Work-in-progress	0	-
Total:	-	-

LESS: OPENING STOCK ⓘ

Details	Crown Enterprises Pty Ltd \$	Total
Finished goods	0	-
Raw materials	0	-
Work-in-progress	0	-
Total:	-	-

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

Details	Crown Enterprises Pty Ltd \$	Total
Purchases	\$3,000,000	\$3,000,000
Freight	\$100,000	\$100,000
Commissions Paid	\$70,000	\$70,000
+ Add Uninsured Working Expenses		
Total:	\$3,170,000	\$3,170,000

The MSM Calculator

4.

B.I Review Calculation Sheet

GROSS PROFIT, RATE OF G.P. (Payroll, Rate of Payroll, if applicable)

Items	Crown Enterprises Pty Ltd	Total
Total Sales	\$5,000,000	\$5,000,000
Total Uninsured Working Expenses	\$3,170,000	\$3,170,000
Insurable gross profit	\$1,830,000	\$1,830,000
Rate of gross profit	36.6%	36.6%

CALCULATION

Indemnity Period	12 Months	24 Months
Gross Profit Cover		
Gross Profit 	\$1,830,000.00	\$3,660,000.00
Add - Trend for the selected period	\$237,323.42	\$578,013.02
GP Declared Value	\$2,067,323.42	\$4,238,013.02
Declared Values (GP+Payroll)	\$2,067,323.42	\$4,238,013.02

The MSM Calculator

5.

Additional Cover

PLEASE SELECT ADDITIONAL COVER IN RELATION TO THE FOLLOWING ITEMS

Indemnity Period	12 Months	24 Months
Note: Gross Profit	\$2,067,323.42	\$4,238,013.02
Additional Increased Cost of Working i	\$250,000	\$500,000
Claims Preparation i	\$125,000	\$250,000
Accounts receivable	0	0
Rent	0	0
Customers and suppliers - unspecified	\$250,000	\$500,000
Restriction of access	0	0
Public utilities	0	0
Loss of attraction	0	0
+ Add Benefit Row		
Total Declared Values	\$2,692,323.42	\$5,488,013.02

The MSM Calculator

6.

B.I Review Summary Report			
Reference No:	201706019		
Insured Name:	Crown Enterprises Pty Ltd		
Business Details:	Clothing Wholesaler		
Policy Year:	From 30/06/2017 To 30/06/2018		
Indemnity Period:	12 Months	24 Months	
Gross Profit:	\$2,067,323	\$4,238,013	
Payroll:	Included		
Additional Increased Cost of Working	\$250,000	\$500,000	
Claims Preparation Fees	\$125,000	\$250,000	
Total Declared Values	\$2,692,323	\$5,488,013	
Customers and suppliers - unspecified:	\$250,000	\$500,000	
Uninsured Working Expenses: Purchases, Freight, Commissions Paid			

The MSM Calculator

7.

Thank you for using MSM Business Interruption Calculator.

We provide the following link in relation to your BI review, Ref No: **201706019** (Crown Enterprises Pty Ltd). Please click on the following link to access your input, calculation and summary.

Your link will expire in 21 days on 29/06/2017

Your MSM BI Calculator

The following link provides a READ ONLY report view of your calculation, you can share it with related parties.

https://www.msmbicalculator.com/calculator/report/D9KX3dPVPWgKVFikB9Sv7c0JHXlqnr6H7z3t4AhNGF34LxYzDHnEg3tsdaYaOZ4R_yqMg4BcjAYIzm5HNLzA1VVNW2WFKNYfsxOU

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The MSM Calculator

1. Simple to use
2. All inputs, worksheets and outputs available to be reviewed and modified as necessary
3. Allows for multiple entities and comparative Indemnity Periods
4. Easy to modify and update
5. Confirmation email sent to Broker or Client who used the calculator
6. Easy for MSM to review in 30 minutes or less
7. For ISR select wordings with the relevant Endorsement, where a review of the calculation is undertaken by MSM or LMI, Average is removed.

MSM Calculator

- ❖ 6 pages from Registration to Calculation Summary

www.msmbicalculator.com

Web Based Tools

Accessing the Steadfast Website

- ❖ www.steadfast.com.au
- ❖ Login under the Broker tab
- ❖ Access to Listings, Triage, 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 files

❖ Call 1300 76 67 67



The Steadfast / MSM Webinar Series

Don't miss the next Webinar

July 19 – *The Indemnity Period and Common Endorsements*

- ❖ Setting the Indemnity Period: Key aspects to consider:
 - Replacement and reinstatement of property
 - Regaining lost market share
- ❖ Endorsements for businesses with dependencies on:
 - Customers
 - Suppliers
 - Public Utilities
 - General Area Damage, Restriction of Access & Loss of Attraction

The Steadfast / MSM Webinar Series

Don't miss the August Webinar

Insuring Payroll – what are the options?

- ❖ What coverage is available, Commercial Packs and Industrial Special Risks (ISR)
- ❖ The key definitions and what do they mean
- ❖ Options for insuring Payroll
 - 100% included in Gross Profit
 - Dual Basis Payroll
- ❖ How do the online calculators help me?



THANK YOU FOR ATTENDING