

Business Interruption Training Series

Webinar – Module 4

Indemnity Period and Common Steadfast Endorsements

19 July 2017

Introduction

- ❖ Welcome
- ❖ The Presenters
- ❖ The Steadfast / MSM Webinar Series
- ❖ The Webinar Tools
- ❖ 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 and Common Steadfast Endorsements
- ❖ **August 10** Insuring Payroll – The range of options available
- ❖ **September** Traps and Pitfalls
- ❖ **October** The Claim Process
- ❖ **November** The Year in Review

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
- ❖ Setting the Indemnity Period: Key aspects to consider
- ❖ Endorsements for businesses with dependencies on:
 - Customers and Suppliers
 - Public Utilities
 - Restriction/ Prevention of Access
- ❖ Questions and feedback

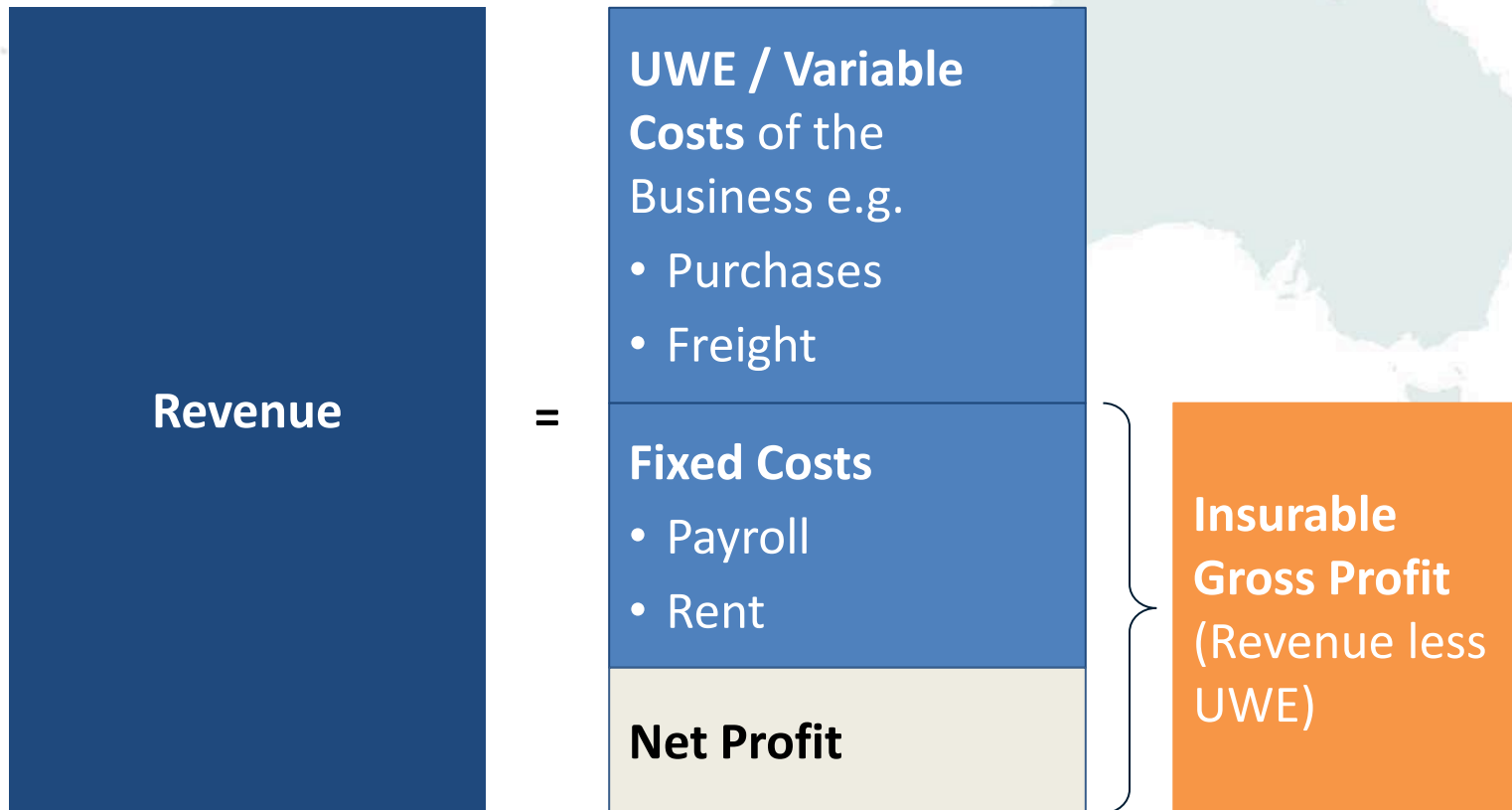
Recap

❖ Recap of the key elements:

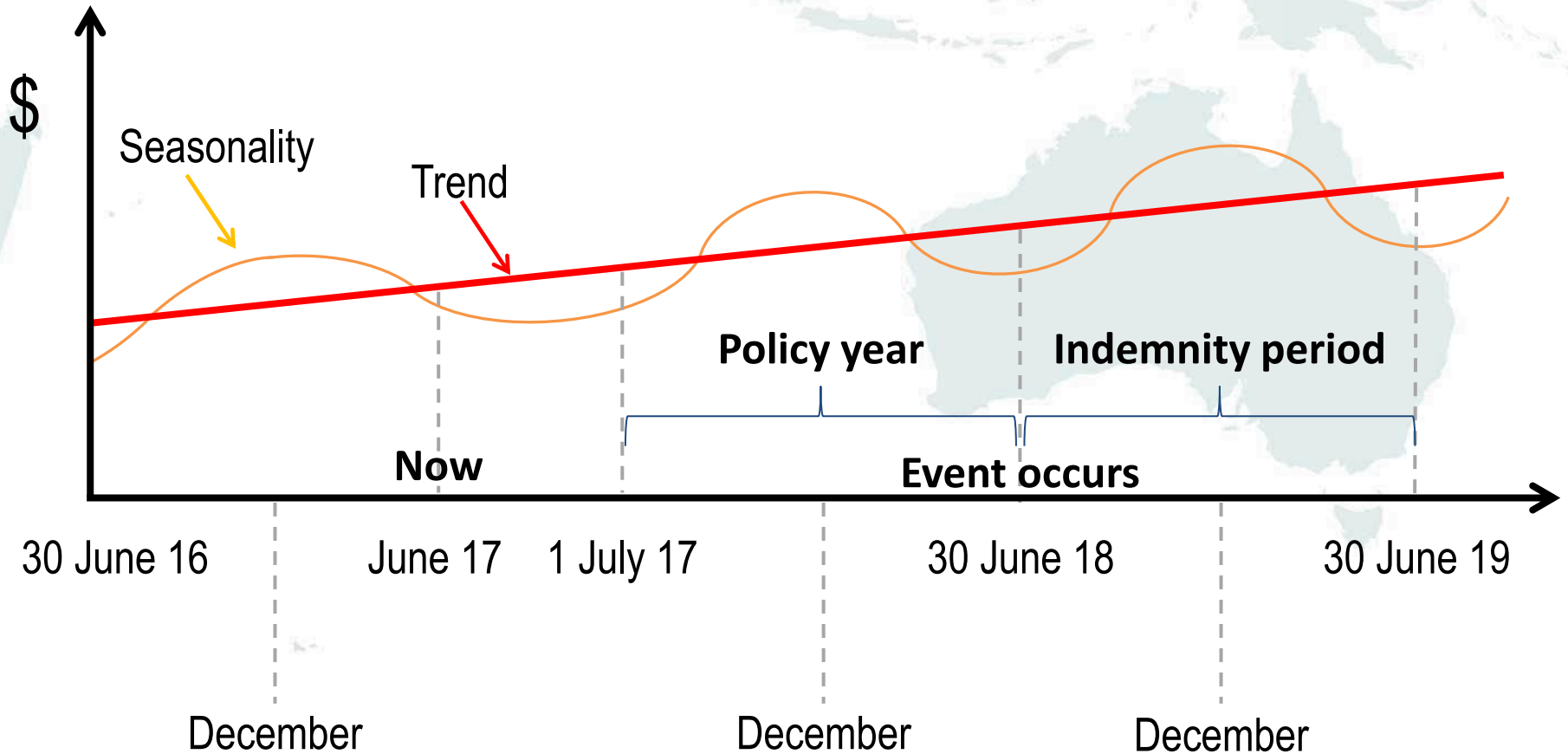
- Definition of Insurable Gross Profit
- Turnover
- Uninsured Working Expenses
- Trend
- Average
- Calculation of Declared Value for Gross Profit
- Indemnity Period

Recap

Sales – Uninsured Working Expenses = Insurable Gross Profit



Recap



A Worked Example

B.I Review Summary Report		
Reference No:	201707007	
Insured Name:	Crown Enterprise 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	\$200,000	\$400,000
Claims Preparation Fees	\$100,000	\$200,000
Total Declared Values	\$2,367,323	\$4,838,013
Uninsured Working Expenses: Commission Paid, Freight, Purchases		

MSM Calculator

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

www.msmbicalculator.com



INDEMNITY PERIOD

What is the significance of the Indemnity Period?

- ❖ **The calculation of the claim commences on the date of the Damage and ends on the earlier of**
 - The time at which the business returns to normal operations
 - The end of the maximum Indemnity Period stated on the Schedule.
- ❖ When deciding upon the length of the period you need to take into account how long it would take the Insured's business to recover back to pre event trading levels.

Indemnity Period

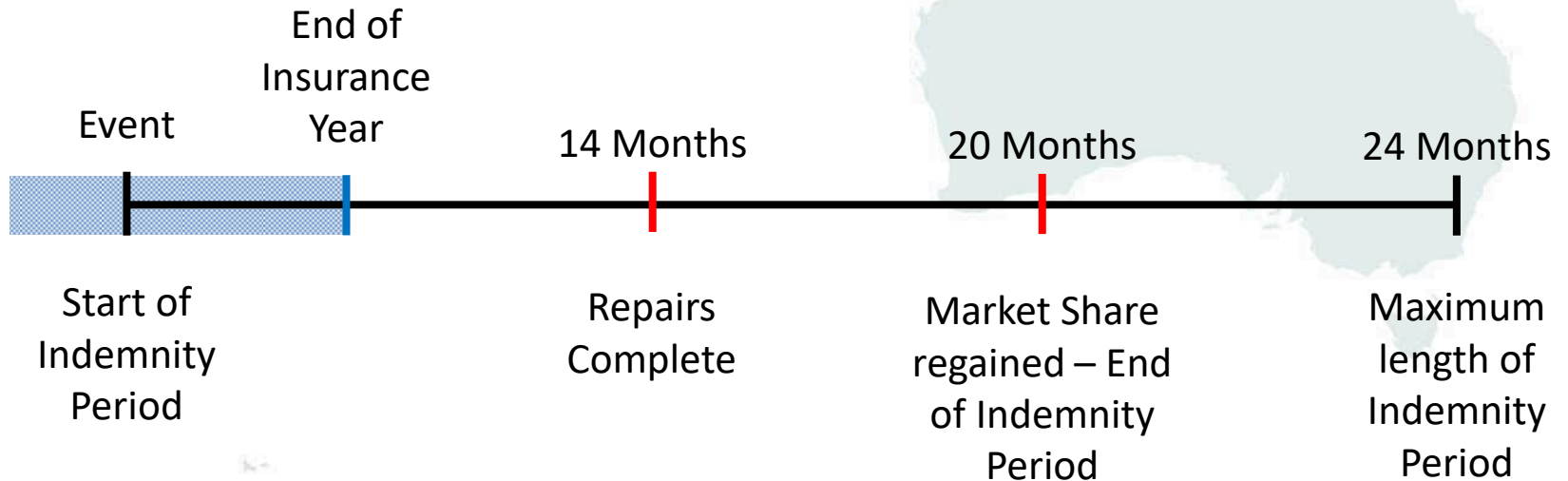
Definition

“Indemnity Period: means the period beginning with the occurrence of the Damage during which the results of Your Business are affected by the Damage and ending not later than the number of months or weeks specified in the Policy Schedule.”

Key Points

- Period the results of the Business are affected by the Damage
- No later than the number of months specified in the Policy Schedule

What is the significance of the Indemnity Period?



Factors relevant to setting the Indemnity Period

- Does the client own the building?
- Are they dependent on the building for their income?
- Do they have any long term intentions to redevelop the building?
- Is the client a tenant?
- If so, what does the lease say about their obligations in the event of damage to the building?
- If the building is unable to be used for an extended period, can the business be carried on from alternative premises?

Examples of Drivers of Period of Interruption To Consider When Setting the Indemnity Period

- ❖ Fire investigations
- ❖ Access to the building
- ❖ Asbestos requiring involvement from environmental authorities
- ❖ Council zoning requirements and changes to building regulations
- ❖ Delays to the construction process
- ❖ Does the business use specialised equipment which cannot easily be sourced?
- ❖ Competitiveness of Insured's market



SETTING THE INDEMNITY PERIOD: KEY ASPECTS TO CONSIDER

Setting the Indemnity Period

Set Indemnity Period based on catastrophic loss

Under catastrophic loss scenario consider length of time to

- ❖ Rebuild buildings
- ❖ Purchase and Commission new equipment
- ❖ Rebuild stock / pre loss inventory levels
- ❖ Regain lost market share (sales) to pre loss position
- ❖ Costs and expenses return to normal (pre loss) levels

Key Aspects to Consider: Regaining Lost Market Share

Regaining Lost Market Share

- ❖ Potential loss of major customer(s)
- ❖ Competitiveness of market
- ❖ Time to get back to pre incident levels

Common mistake in setting the Indemnity Period

- ❖ Underestimate the time to regain customers
- ❖ Underestimate the time for rebuilding, replacing and commissioning equipment
- ❖ Insured has a 6 month Indemnity Period and the Broker does not declare a 12 month Gross Profit figure
- ❖ Insured has a multiple year Indemnity Period and the Broker does not multiply the Gross Profit by 1.5, 2 or 3 or account for trend.

Indemnity Period

Remember

- ❖ 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
 - Estimated time of the above
- ❖ Does the client own the building? Is the client a tenant?



POLICY ENDORSEMENTS

Policy Endorsements

- ❖ An endorsement is an additional cover to the Standard Policy attaching to and forming part of the Policy
- ❖ Important to know what is already included in the Standard Policy Wording and what is excluded (Additional Benefit vs Optional Cover)
- ❖ Some need to be listed on the Policy Schedule with appropriate Sub Limit, others form part of the Policy

Some Key Policy Endorsements

- ❖ Customers and Suppliers (Unspecified and Specified)
- ❖ Public Utilities
- ❖ Restriction/ Prevention of Access

Customers

- ❖ Customer – Who the Insured sells to
- ❖ An adverse event at a key customer's location (e.g. fire, storm) may lead to lost sales to the Insured
- ❖ Unspecified (relates to any customer) usually 20 percent of the Sum Insured
- ❖ Specified (specific customer) usually a percentage of Sum Insured.

Suppliers

- ❖ Supplier – Who the Insured buys from
- ❖ An adverse event at a key supplier's location (e.g. fire, storm) may lead to lost sales to the Insured
- ❖ Unspecified (relates to any supplier excluding Public Utilities) usually 20 percent of the Sum Insured
- ❖ Specified (relates to specific supplier) usually a percentage of Sum Insured

Unspecified Customers and Suppliers

Business Pack Policy Wording

We will treat Damage to unspecified property at the premises of:

- Your suppliers, manufacturers or processors of component goods, materials or services which supply the Business directly; or
- Your customers of goods or materials or services (other than those services provided by any utilities);

all within the Commonwealth of Australia as Damage for the purpose of this cover section, provided that:

- the Damage would have been covered under the Property Damage cover section of the Policy if the unspecified property had been insured under that cover section; and
- Our liability will not exceed 20% of the Sum Insured applicable to this cover section.

Specified Customers and Suppliers

Business Pack Policy Wording

We will pay for loss of Gross Profit, Revenue or Weekly Revenue that results from an interruption to Your Business that is caused by Damage that occurs in the Commonwealth of Australia to:

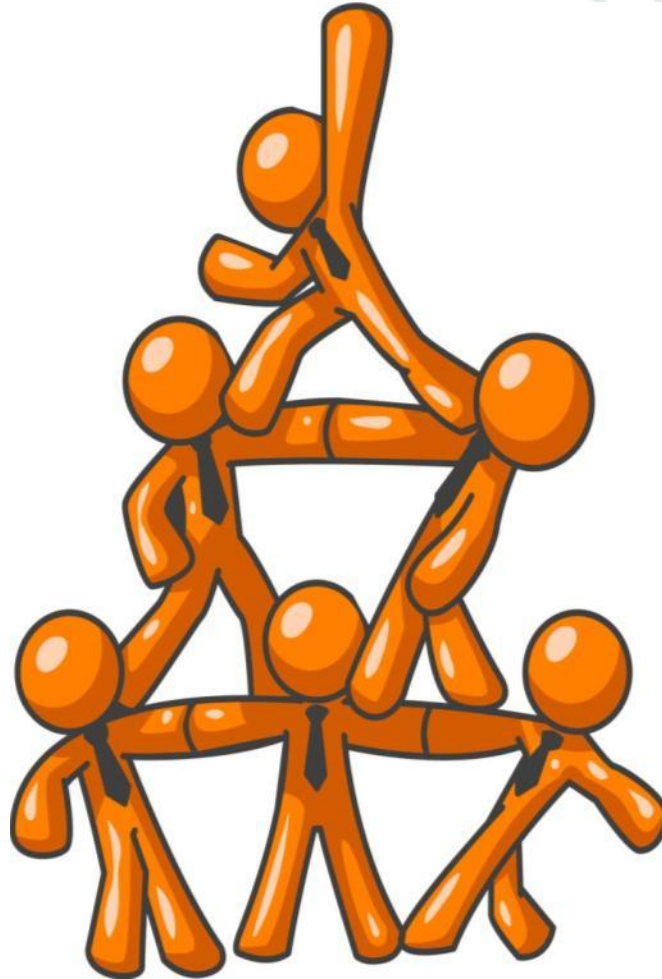
Specified suppliers

- property at the premises of Your suppliers shown in the Policy Schedule up to the amount calculated by applying the percentage shown in the Policy Schedule to the Sum Insured for Insurable Gross Profit, Annual Revenue or Weekly Revenue;

Specified customers

- property at the premises of Your customers shown in the Policy Schedule up to the amount calculated by applying the percentage shown in the Policy Schedule to the Sum Insured for Insurable Gross Profit. Annual Revenue or Weekly Revenue.

Customers and Suppliers - Interdependency



Public Utilities

Damage to:

- ❖ Electricity supply
- ❖ Gas supply
- ❖ Water supply or sewerage
- ❖ Land Based Telecommunications Systems

Public Utilities

Is deemed to be Damage for the purposes of Business Interruption losses, provided that:

- ❖ The Damage is Damage of the type that would have been covered under the Property Damage cover section of the Insured's Policy
- ❖ The Damage results in hindering or stopping the supply of electricity, gas, water or telecommunications to the Insured's Premises; and
- ❖ The Damage results in interruption of or interference with the Insured's Business.

Public Utilities

Business Pack Policy Wording

We will treat Damage to any equipment forming part of the following utilities:

- any electricity supply system; or
- gas supply system; or
- water supply or sewerage works; or
- any telecommunications system that is land-based within the Commonwealth of Australia and supplies Your Business;

as Damage for the purposes of this cover section, provided that:

- the Damage to the equipment would have been covered under the Property Damage cover section of the Policy if such equipment had been insured under that cover section;
- the Damage results in hindering or stopping the supply of electricity, gas, water or telecommunications to the Premises or sewerage from the Premises; and
- the Damage results in interruption of or interference with Your Business;

Limitation on Utilities cover

There is no cover for the first 48 hours where the utility was damaged



Restriction/ Prevention of Access

- ❖ Damage prevents or hinders the use of or access to the Insured's premises
- ❖ Damage within 10, 20, 25 or 50 kilometre radius of Insured's premises
- ❖ Damage is of the type that would be covered under Section 1 of the Insured's Policy
- ❖ OR; Order of any legal authority

Restriction/ Prevention of Access

Business Pack Policy Wording

Any loss to property for which a claim would have been payable under section 1 of this Policy if such property had been insured under this Policy, resulting in interruption of or interference with the Business as a consequence of Damage to property within X kilometres of the Situation, which prevents or hinders access to, or use of, the Property

Restriction / Prevention of Access





QUESTIONS AND FEEDBACK

The Steadfast / MSM Webinar Series

Don't miss the next Webinar

August 10 - *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