

BUSINESS INTERRUPTION INSURANCE

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I have trained more than 1,000 individuals to become ACII qualified

I have trained over 50% of the individuals in the last 8 years that have gone onto achieve the highest ACII pass in the whole of the UK.

I train to a pass rate of more than 96% in all CII qualification levels. Certificate , Diploma and Advanced Diploma.

I deliver the Allianz scholarship and academy programmes in both the UK and Ireland and I have been a Cii examiner.

I have trained students who have won national prizes in almost all ACII subjects including Insurance Law (MO5), Liability (M96), Commercial Property and BI (M93), Personal Lines Insurance (P86), Business and Finance (M92), Underwriting Practice (M80), Advanced Underwriting (960), Claims Practice (M85), Advanced Claims (820), Marketing (945), Advanced Broking (930) and Advanced Risk Management (992).

What is the purpose of Business Interruption Insurance?

Gross profit / Insured profit

- To start with we are going to look at how we protect firms who have stock.
- Traditionally this has been called Gross Profit cover but sometimes it is now called Insured Profit.
- We are going to look at the Gross profit (Insured profit) formula and in order to understand it we need to look at the costs and the income that would and would not be covered under a BI policy.

Some costs

- Wages
- Salaries
- Electricity – Heat – Light - Power
- Gas
- Water rates
- Business rates
- Rent
- Loan interest
- Overdraft
- Directors fees
- Leasing costs
- Training
- Consultancy
- Mortgage
- Cleaning
- Maintenance of property and machines
- Security
- Insurance premiums
- Marketing costs
- Sponsorship
- Advertising
- Stationery
- Bank Charges
- Printing

More costs

- Auditors fees
- Accountants charges
- Legal fees
- Pension funds
- Fleet maintenance
- Postage
- Temporary staff
- Stationary
- Subcontractors
- Hire fees
- Printing
- Delivery charges
- IT costs
- Purchase of raw materials
- Packaging
- Transportation of goods
- Courier fees
- Bad debts
- Catering

The difference between costs Fixed or Variable

Some are fixed costs and remain payable during the indemnity period whether the business trades or not

These are known as **standing charges** and need to be insured

Some of the costs are variable and do not need to be covered by the BI policy

These are **variable charges** and do not need to be insured. These are often called ***Uninsured Working Expenses or Specified Working Expenses***

Which is your favourite Bi wording?

Variable costs incurred in running a company

- Purchases (raw materials)
- Packing and packaging

Transport possibly shown in the accounts as :-

- Delivery costs or charges
 - Freight
 - Haulage charges
 - Petrol cost
 - Logistics
-
- Bad Debts
 - Discounts Allowed
-
- In summary PPT plus bad debts and discounts allowed

Income

Only profit directly related to the trading portion of the business is covered. Back to our plumbing distributor

Net Profit

What is this and does it get covered by a BI policy?

The Difference basis of Gross Profit

Gross Profit (Insured Profit) sum insured is defined as :-

The combined sum of the turnover, closing stock and work in progress
less

the combined sum of the opening stock and work in progress and uninsured working expenses

Uninsured working expenses are specified in the policy usually as Purchases, Packing , Transport costs, bad debts and discounts allowed.

Case Study – Manufacturing Mike

Mike manufacturers metal cases, his figures from last years accounts were:

Turnover £2,420,000

Expenses are:

Wages for staff not directly involved in manufacturing £300,000

Depreciation on machinery £20,000

Purchases £730,000

Transportation of goods £100,000

Accountants fees £20,000

Utility bills not used in manufacturing £60,000

Electric used in the manufacturing process £100,000

Wages for staff who are employed in the manufacturing process £500,000

Rent of premises £150,000

Packaging £70,000

Work in progress 01/01/18 £100,000. Work in progress 01/01/17 £200,000

Opening stock £100,000. Closing stock £180,000

Manufacturing Mike's Insurance Gross Profit

Accountants Gross Profit

Turnover Minus cost of sales

THIS WOULD INCLUDE THE DEDUCTION OF WAGES OF STAFF
AND POWER USED IN THE MANUFACTURING PROCESS

Insurance Gross Profit £

MINUS

Wages of staff employed in the manufacturing process

Electric used in the manufacturing process

Accountants Gross Profit £

NOW THAT'S A LOT DIFFERENT FROM THE INSURANCE GROSS
PROFIT AND IS A BROKER PI CLAIM IN WAITING AS WHICH ONE
WILL THE CLIENT THINK TO GIVE YOU!

GROSS FEES/REVENUE/INCOME

- So far we have looked at Gross profit otherwise known as Insured profit. What is the position for firms that do not have stock?
- We arrange cover on a Gross fees, Gross revenue or gross income basis – is there any difference?
- Lets not forget we only cover income relating to the business description so that must be fully correct.

The Indemnity Period

- The period during which the business results are affected due to the damage and ending no later than the maximum period shown in the policy
- Usually shown as months in the policy
- What factors would you take into account in arriving at an indemnity period for a client? – REMEMBER THE TWO PHASES!

Factors affecting an Indemnity Period

Rebuilding Premises

Replacing machinery/Contents

Factors affecting an Indemnity Period

Specialist Staff

Replacing Stock

Rebuilding the Customer Base

Increased Cost of Working (ICW)

- It is in an insurer's interest to spend some additional money to allow a business to get to work speedily to offset the loss of turnover following an insured event.
- A BI policy on gross profit or gross income will automatically include Increased Cost of Working providing it is economic, what do we mean by this phrase?

- Lets go through some of the main examples of ICW

Additional Increased cost of working

- If we introduce the extra word of 'Additional' we change the legal position – what extra cover does this provide?
- Do Underwriters need to charge for this?
- What are the main risks that may require additional increased cost of working?

Increased Cost of working only

- For firms that provide a service there are two main options
 1. Gross fees (or revenue) or
 2. Increased cost of working only
- List some of the main things an insured would get paid if they took the more expensive gross fees over the cheaper ICW option

Increased cost of working

- If an insured took out an ICW only policy how do they go about setting the correct sum insured?
- Would it be appropriate for an insured with a lot of stock to have ICW only?

Projecting a correct sum insured

- If you remember Manufacturing Mike had a Gross profit (Insured profit) sum insured we calculated
- This figure related to the period of accounts ending in 2017. The year is now 2019.
- The insured has an indemnity period of 24 months
- The insured has stated that their growth including an allowance for inflation is projected to run at 5% per annum for the foreseeable future.
- How do we calculate a correct sum insured?

Projecting a correct sum insured

2017

2018

2019

2020

2021

Declaration Linked

- Introduced in the 1980's to deal with the difficulties of underinsurance created by the difference wording.
- Client estimates Gross Profit at the beginning of each period of cover.
- In the event of a loss the estimated Gross Profit is increased to 133% i.e. by one third.
- Within 6 months of the end of each period of insurance the client sends details of actual Gross Profit earned as confirmed by an accountant.
- A premium adjustment is made at the end of each Period of Insurance.

Property Damage proviso/ Warranty

- This states that there is no BI cover in force unless there is also a valid property policy in place which is covering the claim
- So what is the position if there is a £10,000 deductible on the property policy but no such deductible under the BI section. There is a property loss of £8,000 causing a BI loss of £2,000 – is the £2,000 covered?
- What about explosions of boilers under internal steam pressure used for revenue generation.

Advanced Loss of Profit

- Kevin's kebabs will be opening a takeaway restaurant in a new shopping centre in Bristol.
- They plan to commence the operation in October to benefit from the Christmas trade.
- How could they protect against loss of income if there was a fire on the construction site which might cause the opening to be delayed.

Business Interruption Extensions – Firstly the most common

1. Specified Customers
2. Unspecified Customers
3. Specified Suppliers
4. Unspecified Suppliers
5. Prevention of access (damage)
6. Prevention of access non damage (Action by police or other authority)
7. Public Utilities
8. Terminal ends (accidental failure of utilities)
9. Specified disease, food poisoning, vermin, pests, defective sanitation, murder or suicide
10. Loss of attraction