



Development of parametric BI solutions – dealing with coverage gaps

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Introduction / housekeeping

Welcome and thank you!

60 minutes webinar format – muted and video off. Polls, Chat, Q&A

Diane Jenkins

- Background in Insurance Broking Sector – technical programme design, M&A due diligence, BI reviews
- Former chair and education secretary of London Business Interruption Association



Nick Thomas & Associates

- Up to the minute training solutions addressing the challenges of the modern insurance professional
- Technical insurance; sales, communication and soft skills; customer service; management and leadership; performance, resilience and wellbeing training

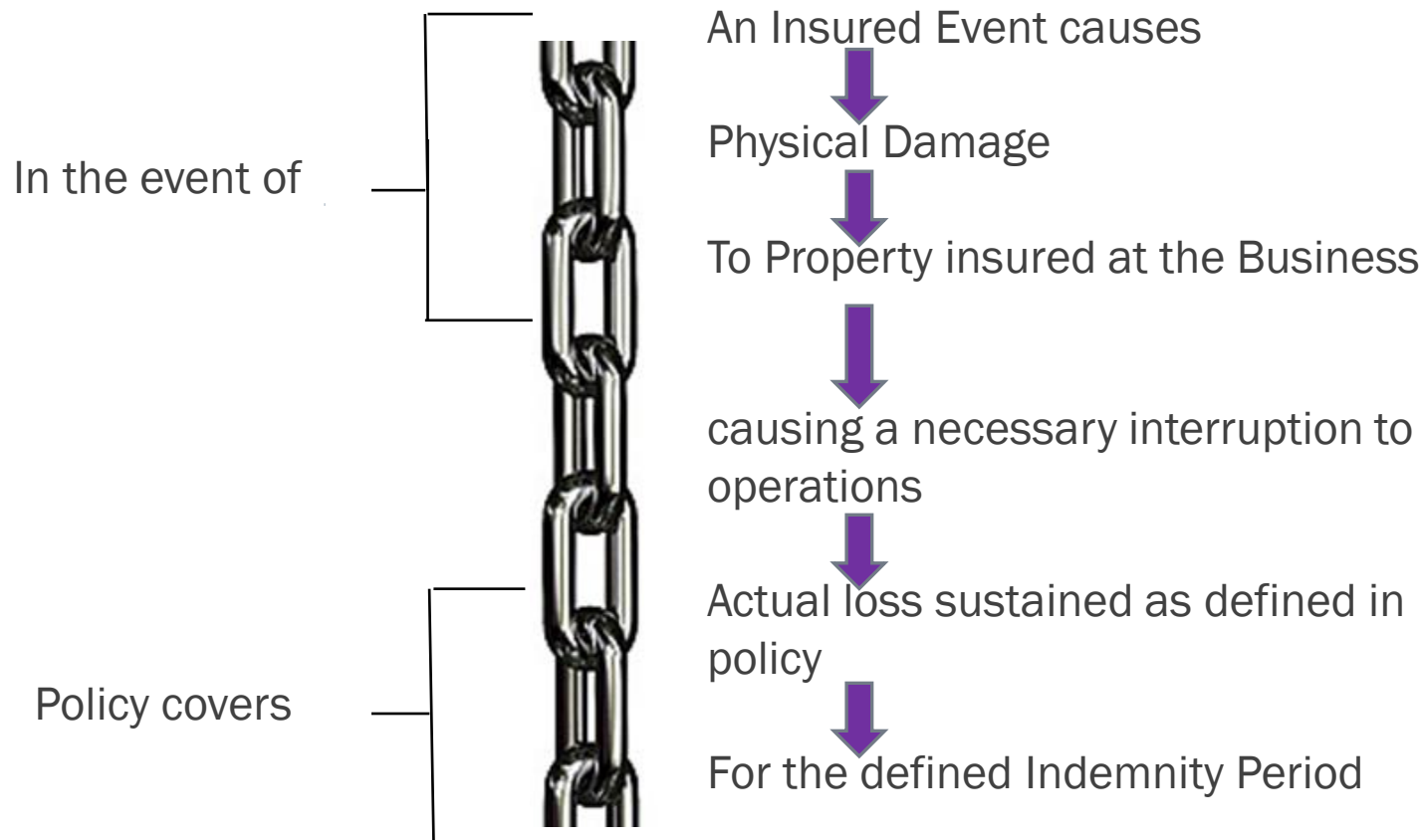
Objectives

By the end of the session, attendees will:

- be aware of the current coverage gaps found in BI insurance
- be able to identify how new parametric cover options may deal with some coverage gaps
- be able to compare parametric and conventional cover

Limitations of current BI cover

Capitals indicate term that is defined in the policy



Limitations of current BI cover

Damage is the trigger - Insured event must be the cause of the Damage

Damage must occur at a location and to property that is insured

The Damage must be the cause of the BI loss

- only perils insured under property cover included in basic policy
- i.e. cause of interruption must be insured under MD section

Only the amount of the loss suffered will be paid (so savings always considered)



Limitations of current BI cover

Material Damage Proviso

The Proviso is not qualified

- 1p of damage will satisfy it
- once the MD Proviso is satisfied, policy will respond to BI losses flowing from any of the damage, not just the damage that satisfied the Proviso

Glengate - KG Properties Ltd v
Norwich Union Fire Insurance Society
Ltd and Others (1995)

Material Damage Proviso

Provided that at the time of any Event there is an insurance in force covering the interest of the Insured in the Property at the Premises against such Event and that

- 1. payment has been made or liability has been admitted for payment, or*
- 2. payment would have been made or liability would have been admitted for payment but for the operation of a proviso in such insurance excluding liability for claims below a specified amount.*

Limitations of current BI cover

Physical damage trigger BUT some extensions

- amend definition of Premises/Property to add additional locations (still has to be Damage) – e.g., suppliers, customers
- amend definition of damage (but not Premises/Property) – e.g., terminal ends/failure of supply, non-damage denial of access, loss of attraction
- change basis of settlement – e.g, accounts receivable (Book Debts), R&D



Limitations of current BI cover

Reduction in turnover needed to trigger the policy

Basis of cover complicated

- insurable gross profit – as defined in policy
- gross revenue/ fees
- increased costs of working

Formula and clauses in policy

Insured required to prove amount of loss via their accounts – claims take a long time to settle

Limited by chosen Indemnity Period

Gross Profit Items

The Insurer will pay the Insured as indemnity in consequence of Business Interruption for loss of Gross Profit due to

- 1 Reduction in Turnover*
- 2 Increase in Cost of Working.*

Reduction in Turnover means the sum produced by applying the Rate of Gross Profit to the amount by which the Turnover during the Indemnity Period falls short of the Standard Turnover

Limitations of current BI cover

Cyber BI

- triggered by cyber event as defined in policy
- limit not sum insured
- cover basis may not be same as property BI – several net profit wordings
- very few extensions of cover possible

Insured required to prove amount of loss via their accounts

Often very short Indemnity Period



Limitations of current BI cover

There are many examples of risks faced by business that are not covered under conventional BI

- manufacturing – closure of a supplier’s premises due to a safety issue
- hospitality – cancelled bookings due to baggage handler strike/travel disruption
- leisure / tourism – theme parks closed due to a death of a visitor / HSE investigation
- construction – site shut down and corresponding delay costs due to shortage of raw materials
- transportation – freighters unable to move goods due to high or low water levels



Parametric BI

Parametric insurance

- event driven
- based on pre-agreed parameters/events occurring
- payments based on pre-agreed fixed amount
- fast pay-outs

Cover is triggered if pre-defined event parameters are met or exceeded

Some parametric cover available for specific perils

Useful if peril not insurable or expensive
e.g., flood, earthquake i.e. no property damage insured



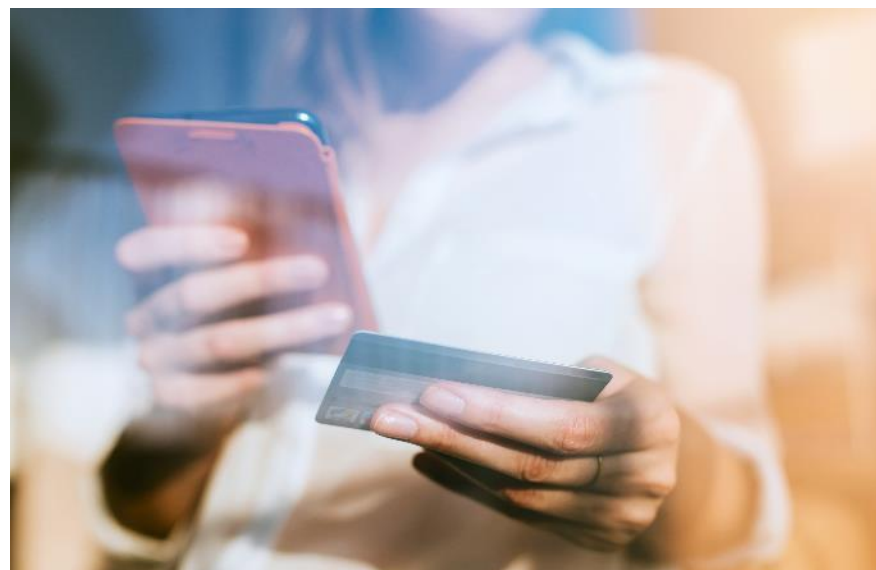
Parametric BI

Some additional risks may be covered via a parametric solution

Cover levels agreed with insured/insurers

Measurements that trigger policy based on

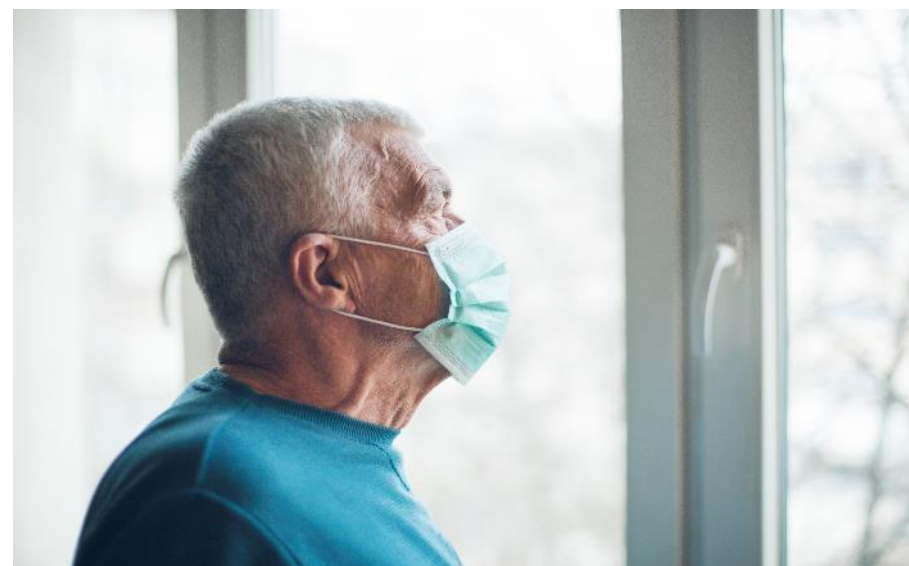
- credit card transactions
- room occupancy rates
- passenger numbers
- footfall
- restaurant seats occupied
- revenue per seat



Parametric BI

Various parametric options now available - can cover:

- pandemic – customers unwilling or prohibited from accessing venues (including Covid-19)
- significant terror attack that deters customers
- widespread travel disruption
- sustained poor weather keeps customers at home
- systemic cyber attack cripples a key payment network
- river levels too high/too low



Parametric BI

Exclusions include:

- gradual declines in business
- corporate mismanagement
- client underperformance
- fraud

Limit not sum insured

- no average
- insurers need evidence of why limit chosen (avoid fraud)

Proof of loss may be needed (e.g., US)



Parametric Cyber BI

Suppliers' 'extension'

- cover for downtime to IT service providers (cloud, eCommerce, payment systems CRM, content delivery networks)
- continuously monitor services
- automatic payment



Parametric BI

Other covers available/in development to provide cover for BI gaps:

- rent reductions (e.g., turnover rent) – named peril (Covid) or all risks
- supply chain issues - non-damage e.g., port delays, strikes, congestion
- reputation – revenue losses caused by reputation damage
- construction project delays
- life cycle variations in Life Sciences R&D



Objectives Revisited

By the end of this webinar, attendees should now:

- be aware of the current coverage gaps found in BI insurance
- be able to identify how new parametric cover options may deal with some coverage gaps
- be able to compare parametric and conventional cover

Thank you! Questions?

Contact:

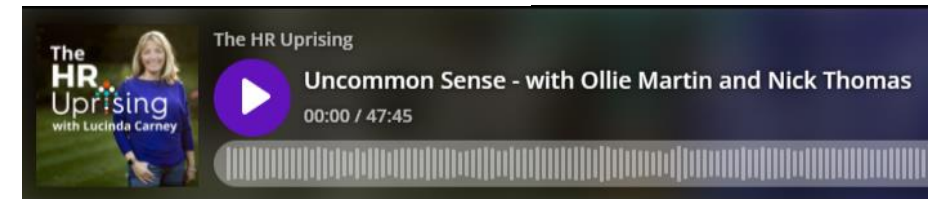
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'Up to the minute training solutions addressing the challenges of the modern insurance professional'

The logo for HRUprising, with 'HR' in purple and 'Uprising' in a lighter purple, where the 'i' is replaced by a colorful dot-matrix character.

[Click here](#) to listen to Nick's latest podcast appearance on 'HR Uprising' talking about workplace performance, resilience and health