



The Insurance
Institute of Halifax
Chartered Insurance Institute



Business interruption – back to basics?

DELIVERED BY DIANE JENKINS ACII, CHARTERED INSURANCE BROKER

NICK THOMAS & ASSOCIATES

OCTOBER 2020



Introduction / housekeeping

Welcome and thank you!

Webinar format – muted and video off. Interactive features – polls, Q&A

60 minutes including short period of 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

- Specialist training, coaching and consulting to the UK Insurance Sector
- Technical insurance, sales, business and soft skills, compliance training

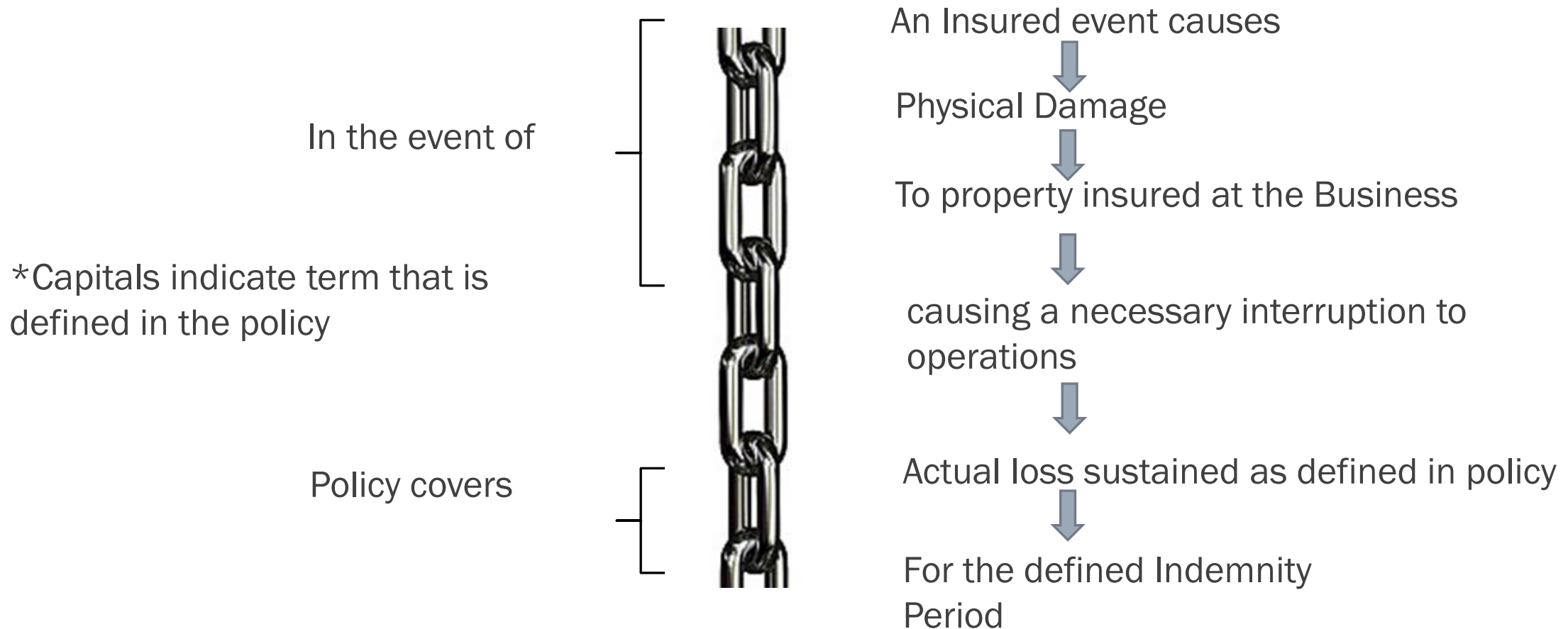


Objectives

- Outline how a BI policy works
- Assessing adequate limits/sums insured/indemnity periods



BI – the basics





Business interruption

- Definitions of Damage, Business, Property and Premises are key to BI section
- BI losses flowing from Damage caused by a peril are insured
- Only perils insured under property cover included in basic policy
 - i.e. cause of interruption must be insured under MD section
- Material damage proviso





Sum insured – insurable gross profit

The amount by which
the sum of the **Turnover** and the
amount of the closing stock and work
in progress shall exceed
the sum of the amount of the opening
stock and work in progress and the
amount of the Uninsured Working
Expenses





Sum insured

- What is insurable Gross Profit?

Net Profit + Fixed Costs = Insurable Gross Profit

- BUT this definition relies on identifying ALL the fixed costs of the business - it is safer to use the DIFFERENCE BASIS

Sales Turnover less variables = Insurable Gross Profit

Not the same as an Accountants definition





Sum insured – insurable gross profit

Turnover of £1,000,000 is allocated as follows:-

- Variable Costs £300,000
- Fixed Costs £500,000
- Net Profit £200,000

Sales Turnover less variables =
Insurable Gross Profit

£1,000,000 - £300,000 = £700,000

Variable Costs £300,000
Fixed Costs £500,000
Net Profit £200,000



Sum insured – insurable gross profit

- Variable costs are business costs which rise and fall in exactly the same way as turnover
- No need to insure variable costs – business saves costs
- NB for some businesses there are very few variable costs - gross revenue basis





Sum insured – insurable gross profit

- Need to review the client's financial information
- Understand their variable costs
- Some policies define – example:
 - Purchases less discounts received
 - Discounts allowed
 - Carriage freight and packaging
 - Bad debts
- Are these correct for the business?
- Also called specified working expenses





Sum insured - options

- Gross revenue
- Gross income
- Gross rentals
- Gross fees
- Gross rent





Declaration link basis of sum insured

- Estimated gross profit provided
- Up to 133.33% cover given
- Adjusted by declaration at end of policy period
– AP charged
- Clause deletes average
- Increased indemnity period x estimated gross profit





Non declaration link basis of sum insured

- Estimate of annual gross profit given – used as sum insured
- Adjusted by declaration at end of policy period – RP or AP
- Need to allow for trend of business in sum insured
- Increased indemnity periods – allow for trend over period
- Average will apply





Increased costs of working

- Two ways to insure Increased Costs of Working
 1. within insurance of Gross Profit /Gross Revenue
 2. Stand-alone
- What sort of items would be considered as increased costs?
- Economic limit applies
- Cannot spend more than a pound to save a pound'





Indemnity period

The period beginning with the occurrence of the **Damage** and ending not later than the **Maximum Indemnity Period** as stated in the Schedule afterwards during which the results of the **Business** shall be affected in consequence of the **Damage**





Indemnity period

- Absolute time limit on how long the policy can respond
- The insured may want something short – for economy or business case reasons
- Affected = higher or lower than expected





Indemnity period

- Decisions
- Planning permission
- Rebuilding
- Lead times
- Staff
- Suppliers
- Regaining customers
- Worst case



Contact

Contact:

- Email: nick@nickthomasassociates.co.uk
- Telephone: 07767 647812
- LinkedIn: <https://www.linkedin.com/in/nick-thomas-64046113/>
- LinkedIn Company: <https://www.linkedin.com/company/nick-thomas-associates/>

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