

**PRESENTATION ON
BUSINESS
INTERRUPTION
INSURANCE AT
2019 GIBA
CONFERENCE**

BY GUSTAV SIALE

CEO OF VISAL REINSURANCE BROKERS LIMITED



**VISAL REINSURANCE
BROKERS LTD.**

CONTENT

- ▶ Introduction
- ▶ Definition of Business Interruption
- ▶ Why Business Interruption Insurance
- ▶ Principles of BI Insurance
- ▶ Two Key Factors that affect the arrangement of BI Insurance
- ▶ Rating
- ▶ Accountants Clause
- ▶ Endorsements
- ▶ Developments



Introduction

- ▶ I congratulate the Executive Management Committee of GIBA for selecting Business Interruption insurance as a topic for discussion at this years conference:
- ▶ BI is a complex area of insurance, which requires a good level of understanding to achieve the right outcome for customers
- ▶ It is gradually becoming a norm for insureds to request BI cover in addition to material damage cover.



CONTINUED...

- ▶ Brokers risk litigation against them should a customer's cover be inadequate.
- ▶ BI is a prime target for rival brokers, who may seek to expose mistakes in how sums insured and indemnity periods have been calculated.
- ▶ Sale of BI insurance could bring in additional income.



Definition of Business Interruption

- ▶ Duncan Ellis, Marsh's US Property Practice Leader defined Business Interruption coverage as property damage and time element insurance or any type of insurance that covers the ongoing expenses created by damage that stems from an insured loss.
- ▶ BI is mainly associated with Property Damage ie damage caused to property by fire and other insured perils.



Why Business Interruption Insurance?

- ▶ Occurrence of fire at the premises of a business does not lead only to material damage such as:
 - ▶ Damage to the building
 - ▶ Damage to the machinery
 - ▶ Damage to office equipment etc, but to continuous generation of income to fund the expenses of the business – Cash flow



CONTINUED...

- ▶ The lifeblood of every business is its cash flow.
- ▶ Any interruption of this lifeblood could threaten the very existence of the business.
- ▶ It may make it difficult for the business to meet the orders of its clients on time.
- ▶ Loss of cherished customers
- ▶ Staff rationalization may be triggered



CONTINUED...

- ▶ Increase in cost of working as the insured tries to minimize the loss in production
- ▶ Net profit reduces or disappears completely
- ▶ Enough cash flow would not be generated to cover the running costs of the business when they fall due



CONTINUED...

- ▶ Fire insurance policy provides cover for the material damage the insured suffers.
- ▶ The Business Interruption insurance seeks to make good the shortage in cash which is necessary to fund the expenses of the business which would fall due but income has not been generated as a result of the fire outbreak.



Principles of BI Insurance

▶ The Specification

- ❖ It is the portion of the policy that clearly defines and describes how BI insurance is arranged and how claims should be settled
- ❖ It indicates what is covered as:
 - (a) Loss of gross profit resulting from shortage in turnover; and
 - (b) Increase in cost of working (ICOW)



Two Key Factors that affect the arrangement of BI Insurance

- ▶ Gross Profit
- ▶ Gross profit (GP) is defined in the specification as the amount by which:
 - (a) the sum of the amount of turnover and the amounts of the closing stock and work in progress shall exceed
 - (b) The sum of the opening stock and work in progress and the amount of the uninsured working expenses



CONTINUED...

The GP is the basis for determining the Sum Insured.

There are two methods of determining the GP namely: (a) addition method and (b) difference method.

- ▶ Indemnity Period (IP)

The IP is defined in the Specification as :

The period beginning with the occurrence of the incident and ending not later than the Maximum Indemnity Period thereafter during which the results of the business shall be affected in consequence therefor.



CONTINUED...

- ❖ The IP governs the maximum cover under the policy;
- ❖ It is key in the determination of the Sum Insured; and
- ❖ It is critical in the determination of the rate chargeable.



Some factors to consider when selecting maximum indemnity period

- ▶ Availability of alternate premises;
- ▶ Ease or otherwise with which the existing premise can be repaired or replaced;
- ▶ Availability of raw material;
- ▶ The 'lead time' for replacement of machinery;
- ▶ Possibility of producing from another factory within the group;
- ▶ Estimated time required to 'recover' customers; and
- ▶ Seasonality of the business – 12 months minimum IP



Rating

- ▶ The first consideration in the rating of a BI insurance is the risk of fire, a measure of which is available in the fire rate or rates charged for the contents of the premises;
- ▶ The second consideration is the length of the maximum indemnity period, multiple of the average rate for the insured premises being applied for any particular period.



CONTINUED...

- ▶ The loss of profits 'multiplier' as it is sometimes called, for 12 months maximum indemnity period is 150% of the average fire rate while the multiplier for maxima of 5, 9, 18, 24 months are 100%, 130%, 140%, and 125% respectively.



Accountants clause

- ▶ The role of an accountant is very important in the adjustment of a BI claim
- ▶ The policy therefore provides coverage for this which the insured would have to consider.



Endorsements

- ▶ The policy can be endorsed to provide cover for the following:
 - (a) Service interruption (Utilities)
 - (b) Contingent BI (CBI)

CBI coverage is designed to cover an insured's business income loss resulting from loss, damage, or destruction of property owned by others such as:



CONTINUED...

- ❖ Direct 'suppliers' of goods or services to the insured;
- ❖ Direct 'receivers' of goods or services manufactured or provided by the insured

The property damage to these suppliers or receivers must be a type that would be covered by the insured's policy had the damage happened to the insured's property.

© Leader Property

(d) Interruption by Civil or Military Authority



**VISAL REINSURANCE
BROKERS LTD.**

Developments

Developments in BI insurance are captured aptly by Caroline Woolley, Global Leader of Marsh's BI Center of Excellence when she said:

- “ we are changing the conversation in relation to BI. If you mention BI to anyone in the insurance industry, they automatically assume you mean property damage (PD) BI insurance. We take a broader view of BI risk – anything that interrupts business – whether that is a natural catastrophe event or cyber attack, within the boundaries of your own organization or somewhere in the vast value chain. However, as a property damage event remains the worst loss that many



CONTINUED...

businesses face, and it is the policy most people buy, we are beginning with the improvement of PD/BI, focusing on five key issues that have been around for quite some time”.

Two prone approach to developments are being pursued: (a) broadening what constitute BI risks and (b) Addressing issues that plague BI insurance in its current form in order to bring about improvements.



Five key issues

- ▶ Determining the insured values and avoiding underinsurance;
- ▶ Selecting the maximum indemnity period;
- ▶ Purchasing relevant supply chain cover;
- ▶ Lengthy and intensely scrutinized claims settlement process;
- ▶ Ensuring efficient claims settlement.



THANK YOU
END OF PRESENTATION



**VISAL REINSURANCE
BROKERS LTD.**