



# Business Interruption Values

## RIMS Arizona Central Chapter – October 12, 2016

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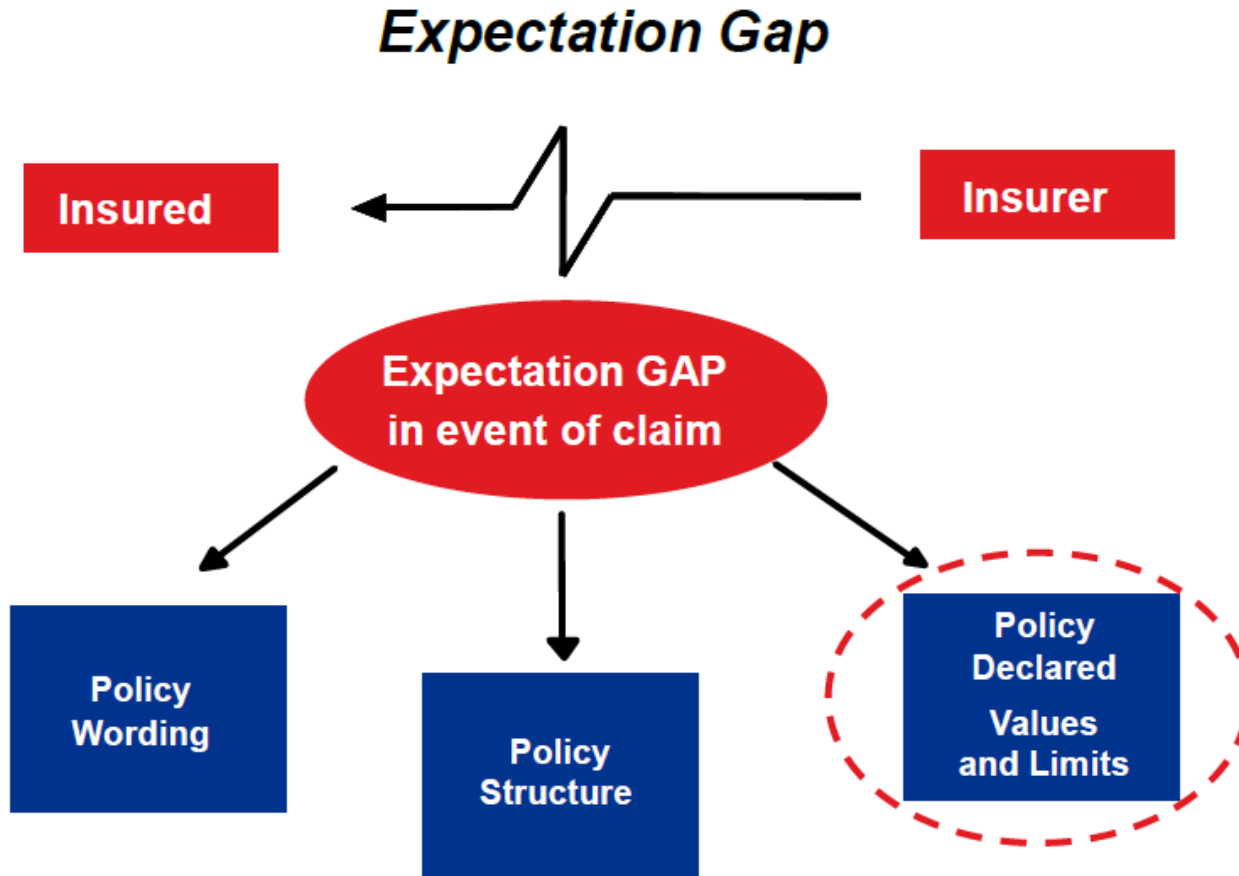
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# Hurricane Matthew



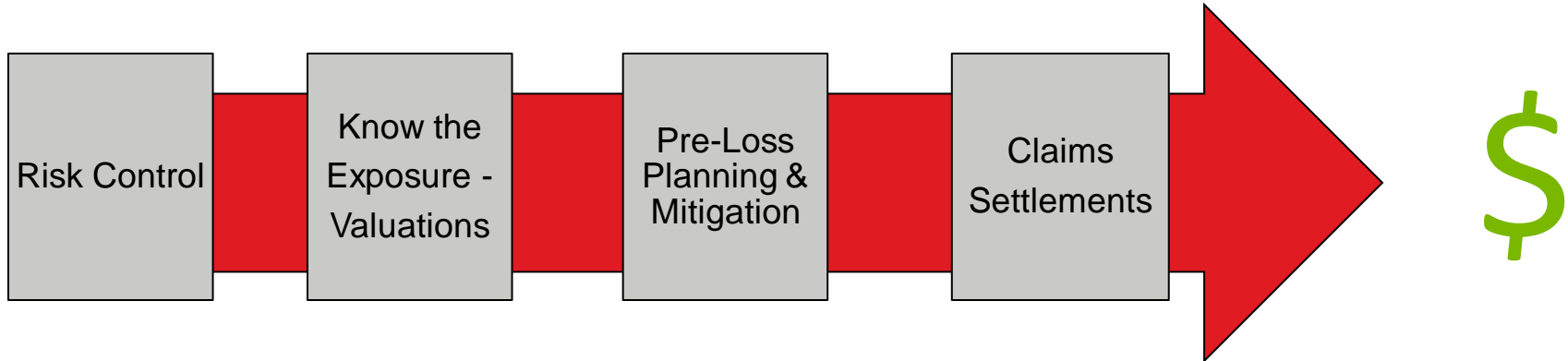
# Three Aspects to Your Policy

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# Property Risk Management Continuum

## Improves Total Cost of Risk



- Improves clients' property risk profile
- Improves clients' positioning in the property insurance market
- Only pay for cover that is required and eliminate potential of over insurance.
- Eliminates potential application of underinsurance penalties in the event of a claim.
- Know the value of % deductibles
- Better outputs for Cat models
- Business gets back to normal faster.
- Minimizes financial, operational, and reputational impact of an incident.
- Optimizes recovery of costs from insurer and reduces claim resolution time.
- Optimizes insurance recoveries and reduces claim resolution time.
- Provides necessary evaluations, data, and documentation in support of property claims.
- Cost of claim preparation fees typically covered under "professional fees" or "loss adjustment expenses" by insurance program.
- Reduction of Total Cost of Risk (TCOR)
- Consistency and economies of scope for pre and post loss property needs
- Property risk profile improved

# Declared Values and Exposures

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- Declared Values
  - Reported annually to insurers on SOV
  - Hypothetical 12-month shut-down of entire organization
  - Gross Earnings vs. Gross Profits Methodology
  
- Business Interruption Exposures
  - Not necessarily required to be reported but beneficial for insured and insurers
  - Prioritization of locations/suppliers for physical risk improvements and/or business continuity plans
  - Potential premium savings
  - Potential improvement in limits, sublimits and deductibles

## Declared Values

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- How are revenues generated?
- How are values currently being calculated and reported?
- Have there been BI losses? How did loss amount compare to values reported?
- Are values under or over reported?
- How is inventory valued/reported? Are there duplications with BI values?
- Are there interdependencies among facilities? If yes, how are they accounted for within BI values?
- Have Contingent BI values been calculated? Can critical suppliers and customers and their contributions be identified for computation of values?
- How should values be reported at distribution centers, data centers, corporate/administrative offices?

## PD and TE Coverage - Ordinary Payroll

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- What is it?
- Is ordinary payroll defined in the policy?
- What is the time period?
- When is it appropriate to cover ordinary payroll?
  - When contractually required
  - When there are hard to replace employees
  - When Time/Cost to train new employees is substantial
  - When Certification/Security Clearances are difficult to obtain
  - When there is a tight labor market
  - Other?
- Match reported values with coverage
- Consider union obligations and international laws if operations are global

## Tips / Common Mistakes

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- Start with detailed consolidated P&L by business AFTER intercompany transactions have been eliminated
  - Calculating BI values by location can lead to inconsistent methodologies and duplication (i.e. over reporting) of values
- Is inventory insured at selling price?
  - If so, the margin in the inventory should be reduced from the BI value to avoid over reporting values
- P&L's should be for a 12-month period
  - Can use PY, budgeted or CY actuals and budgeted
  - Should represent the period the policy is in place
- Typically, revenue not at risk (royalties, interest income, etc.) should not be included in the calculation
- Values should be allocated to each location based on dependency of a given facility
- Use YOUR P&L, do not try to fit your financials into a standard template



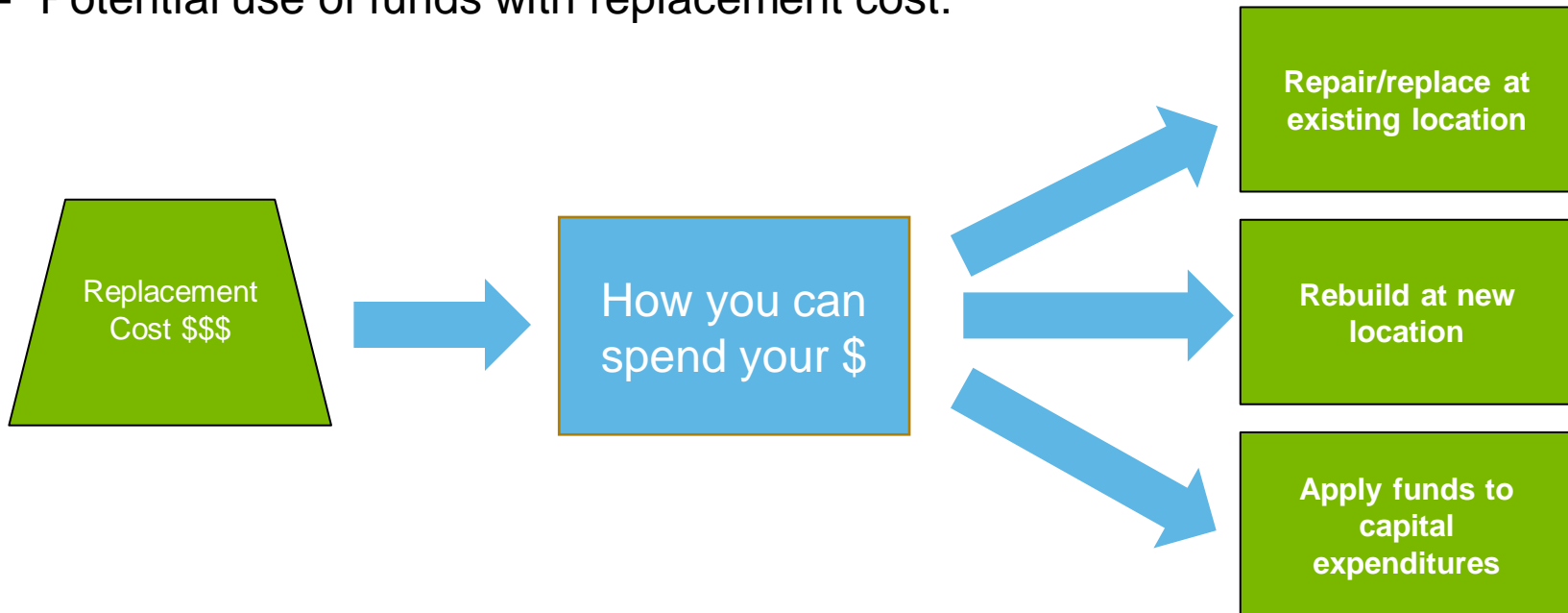
# Know Your Property Valuations

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- Collect and review detailed information about locations for underwriting specifications
  - Addresses, # of buildings
  - Construction, Occupancy, Protection, Exposure (aka COPE Info)
  - Report values for buildings, contents, inventory, machinery & equipment, business interruption, extra expense, other property
  - Catastrophe modeling - RMS, AIR
  - Basis of valuation and policy wording for each element
    - RCV, ACV, selling price, gross earnings, loss of profits
  - Acquisitions/Dispositions
  - Asset Valuations – Replacement Cost

# Valuation - Property

- Buildings/Personal Property
  - Replacement cost vs. actual cash value
  - Critical to have proper policy wording to ensure replacement cost
  - Code coverage
- Potential use of funds with replacement cost:



## Valuation - Inventory

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- Inventory
  - Generally valued at selling price for goods manufactured by the insured
  - ACV or RCV for other finished goods
  - Understand the operations and exposures. If the organization uses third parties to manufacture products a loss could be underinsured with this valuation
  - Amend the wording to cover all inventory at selling price if that is the exposure
  - If inventory is not valued at selling price, make sure the exclusion in the Business Interruption section of the policy as respects inventory is deleted

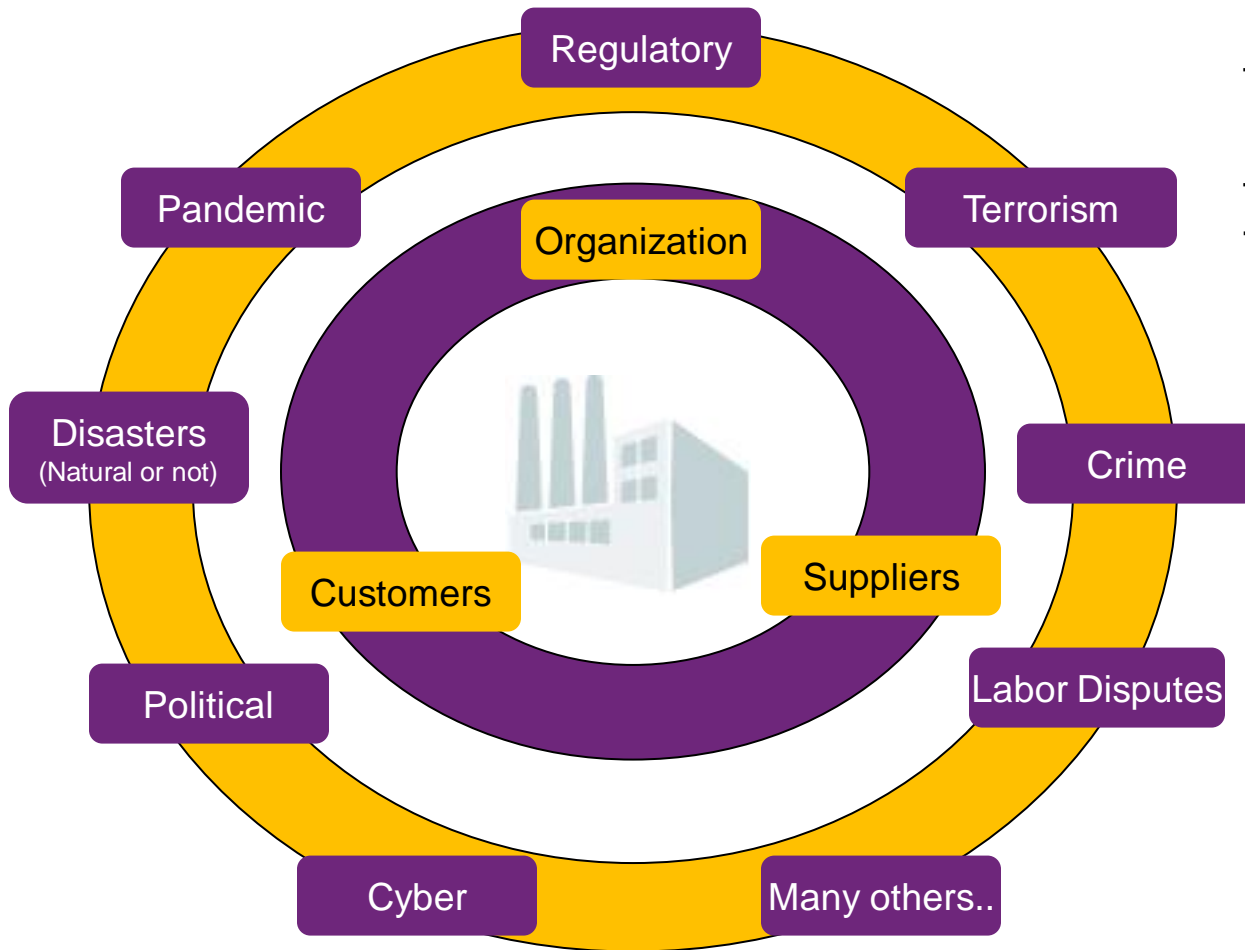
***Just because inventory is valued at selling price doesn't mean that BI is not needed. Think about turnover, time frame, seasonality and other scenarios***

# Know Your Property and Time Element Exposures

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- Business Interruption exposure calculations
  - Understand the different operations, products, services and revenue streams
  - Review which expenses will continue/not continue in the event of a loss
  - Understand ordinary payroll obligations, skill level of key employees, job market in that area, expected practices, varying obligations in different countries
  - Review business continuity plans (BCP) and understand how an operation plans to mitigate a loss if it occurs
  - Use this information to quantify the worst case scenario and help make decisions about insurance program, BCP, supply chain

# Impact of Supply Chain Disruption

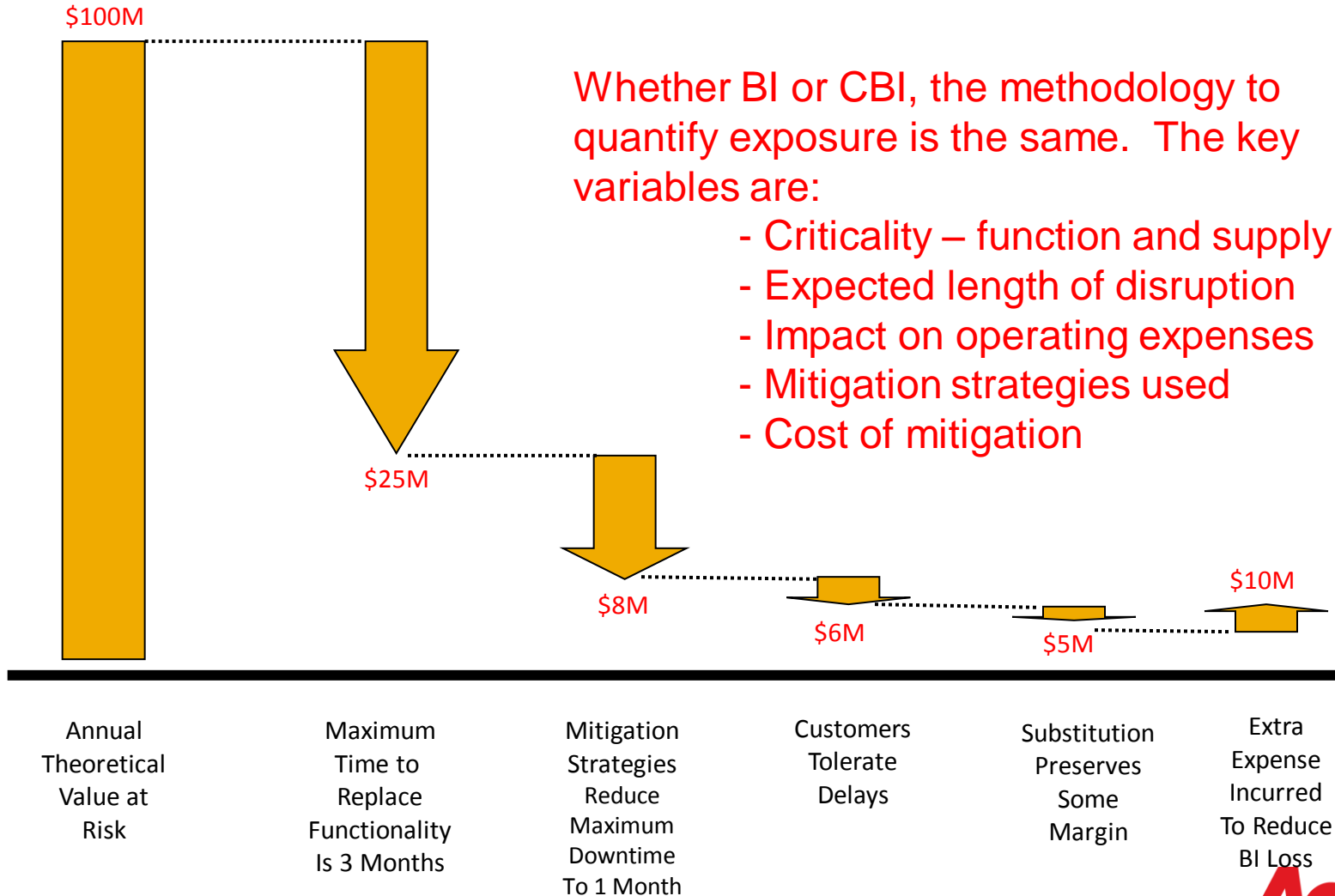


## Bottom line:

Product(s) and/or services from one or more company location(s) are partially or fully compromised.

The question is: "for how long?"

# Quantification of Supply Chain Risk

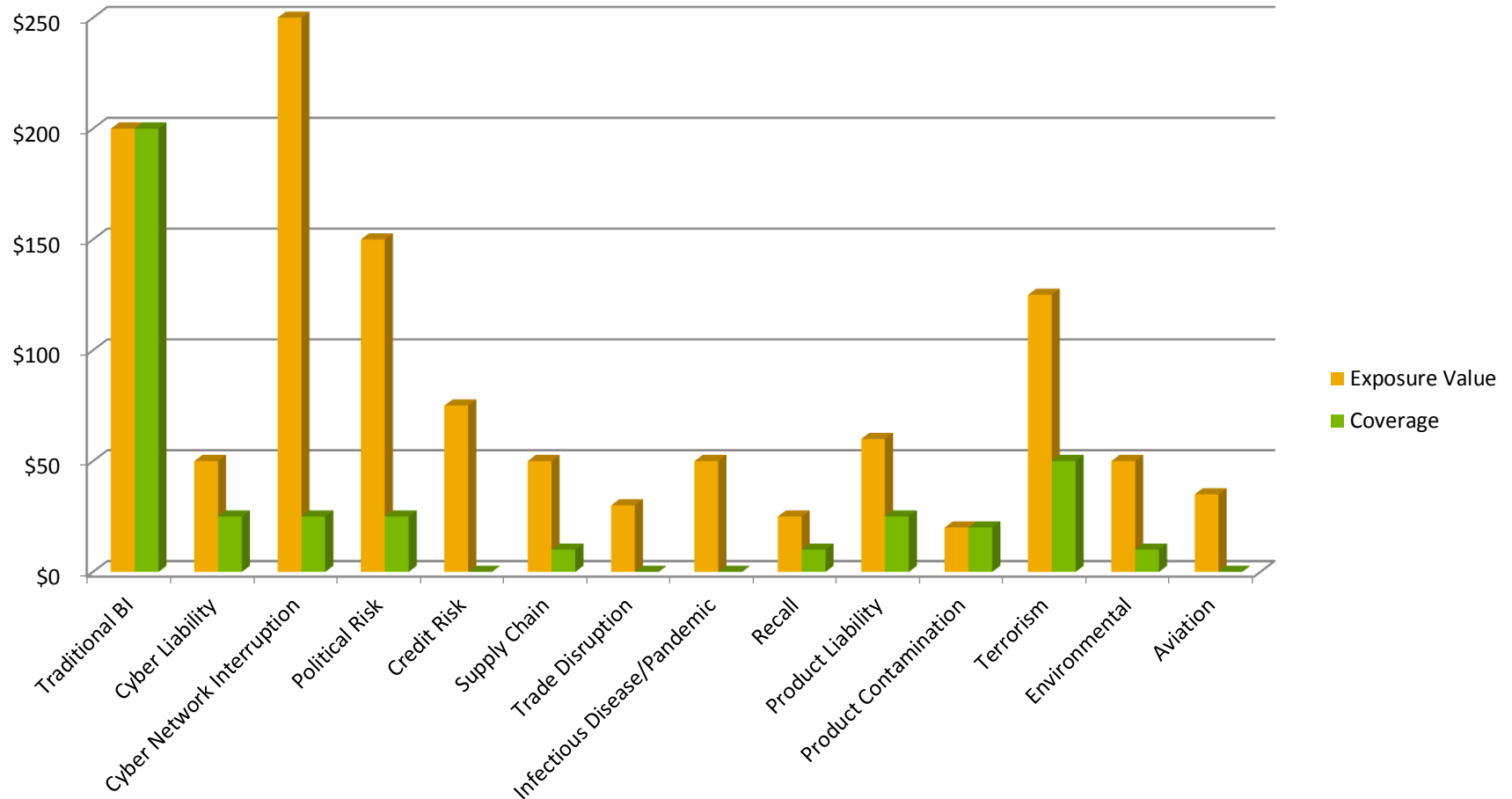


Whether BI or CBI, the methodology to quantify exposure is the same. The key variables are:

- Criticality – function and supply
- Expected length of disruption
- Impact on operating expenses
- Mitigation strategies used
- Cost of mitigation

# The Evolving Business Interruption Risk – Quantification

## Exposure Value Coverage Assessment



## Contact Information

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