

C-17: Pardon the Business Interruption

CARe Seminar, June 6, 2016

Boston, Massachusetts

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This session will provide a thorough overview of these key concepts, and demystify this coverage which is growing in importance and complexity. Additionally, the session will review several case studies highlighting specific issues relating to BI / CBI from a reinsurance perspective.

Moderator:

Mark Westmoreland

Presenters:

Christopher Boggs

Victor Min



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Agenda – June 6, 2016

- **Four Key Business Income Concepts**
 - Business Income
 - Period of Restoration
 - Operational Capability
 - Dependent Property
- **Case Studies**

To the extent there is time, will pause for questions after each of the main sections. Otherwise, will have questions at the end.



Section I

Important Business Income Concepts



Business Income Defined

- Net Income (Net Profit or Loss before income taxes) that would have been earned or incurred; and Continuing normal operating expenses incurred, including payroll.
- For manufacturing risks, Net Income includes the net sales value of production.
- We will pay for the actual loss of Business Income you sustain...



Key Terms in “Business Income”

“Net Income”:

“Continuing Normal Operating Expenses”:

“Actual Loss...Sustain”:



“Period of Restoration” Defined

Time period beginning after the direct physical loss or damage and ending on the earlier of (1) the date the property should be repaired, rebuilt or replaced with reasonable speed and similar quality; or (2) the date when business is resumed at a new permanent location.



Specific Requirements

Direct physical loss/damage to the insured property itself (can be endorsed to other property)

Loss causes a suspension of business operations

Damage is caused by a "Covered Cause of Loss"



Four “Period of Restoration” Objectives

1. Repair or rebuild the insured structure or find an alternative permanent location
2. Locate, purchase, install and have operational replacement machinery and equipment
3. Replace or replenish stock
4. Return as quickly as possible to the same level of “operational capability” existing just prior to the loss



10 Factors Affecting “POR”

1. Time to adjust the direct property loss;
2. Building plans must be drawn and approved;
3. A contractor must be found and hired;
4. The insured must apply for and wait for building permits to be issued;
5. Site preparation must be scheduled and completed, including clearing the site of damaged or destroyed property;



10 Factors - Continued

6. Time required to rebuild (may be adversely affected by “10.”);
7. Time required to restock;
8. Rehiring and hiring new employees;
9. Replacement machinery and equipment must be found, purchased, installed and made operational; and
10. Federal, state or local government may involve themselves following a loss.



Building Codes and the “POR”

The unendorsed BI policy excludes increased rebuilding time resulting from enforcement of any building code.

Building codes increase the time and cost to rebuild.

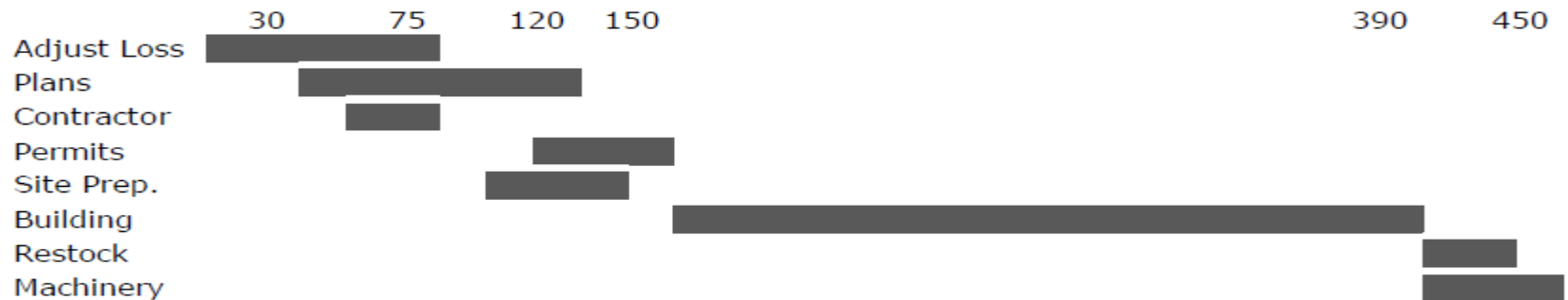
The business income policy must be endorsed to account for any increase in building time attributable to an ordinance or law!



Period of Restoration Time Factors

The 10 period of restoration factors are not necessarily linear or in order of importance.

Several steps may be able to be accomplished simultaneously.



Period of Restoration & Coinsurance

The coinsurance percentage is a function of the estimated “worst case” period of restoration:

$$\text{POR}/12 = \text{Coinsurance \%}$$



POR and Coverage Limit

The business income limit is a function of the 12-month business income exposure and the coinsurance percentage (Note: the coinsurance percentage is a direct function of the POR)

$$\text{Coinsurance \%} \times \text{12-month BI exp.} = \text{BI Limit}$$



“Operational Capability”

An entity’s ability to operate at or as nearly as possible at pre-loss sales or production levels.

Not to be confused with pre-loss income levels!



Contingent Business Income

- Business Income covers loss of business income when a covered cause of loss damages an insured location resulting in a suspension of operations
- Damage to dependent properties is **NOT** covered by the unendorsed Business Income Coverage Form



Types of Dependent Property

- Contributing Locations (“*Suppliers*”):
Supplies the insured with the parts, raw materials, merchandise or services necessary for the insured to conduct operations.
- Recipient Locations (“*Buyers*”):
An entity that buys/accepts a major percentage of the insured’s products, goods or services



Types of Dependent Property

- Manufacturing Locations ("*Provider*"): Location not owned by the insured or within its proprietary supply chain that manufactures or assembles a product sold by the insured.
- Leader Locations ("*Driver*"): Brings customers and potential customers to a location



Questions



Speaker Bios



Christopher J. Boggs

Christopher J. Boggs, Vice President of Education for Insurance Journal's Academy of Insurance, joined the insurance industry in 1990.

During his career, Boggs has authored more than 300 insurance and risk management-related articles, seven "e-books" - short, one-topic books covering various insurance and risk management-related subjects, and written and published six insurance and risk management-related books.

His favorite topics are Work Comp, Business Income, Contractual Risk Transfer, and Named Insureds.

A graduate of Liberty University with a bachelor's degree in Journalism, Boggs has obtained nine professional insurance designations: the **CPCU**, **ARM**, **ALCM**, **LPCS**, **AAI**, **APA**, **CWCA**, **CRIS**, and the **AINS**.



Victor Min

Victor Min is currently a property treaty underwriter at Munich Re America. He has been with Munich Re since June 2008, first as a pricing actuary in the Reinsurance Division and later became a property underwriter.

He started his actuarial career in February 2003 with Towers Perrin. Prior to Munich Re, he worked at Zurich Insurance Group in NYC and AXIS Insurance in Atlanta.

He grew up in China and graduated from University of International Business & Economics in Beijing, China in 1997. He graduated from University of San Francisco MBA program in 2001. In May 2008, he became a Fellow of Casualty Actuarial Society.

