Business Resilience: How to Get Business Interruption Right Before and After the Storm

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Time Element Issues

- Business interruption values
- Time element coverages – the basics
- Interdependencies
- Contingent time element
- Natural catastrophes
- Loss lessons
Proper Business Interruption Values

- Accurate recognition of exposure
- Accurate loss estimates
- Treaty & facultative reinsurance needs
- Accumulation – wind, EQ, flood, terrorism
- Deductible considerations - % for CAT
- Premium development
Time Element Coverages

The basics

- Gross Earnings = reduction in net income plus continuing expenses
- Period of Liability/Restoration
  - From when the covered event takes place
  - To resumption of operations to pre-loss level
- Ordinary Payroll
  - Focus on direct/indirect labor
  - Yes/No/Limited
Time Element Coverages
The basics

- Expenses to reduce the loss vs. extra expense
  - ERL needs to reduce the loss $’s
  - EE – keeping the business going as normal as possible
  - Cost of implementing the business continuity plan
- Extended Period of Indemnity (EPOI)
  - From end of the period of liability/restoration
  - To date sales are restored to pre-loss level
  - Or EPOI time limit
- Other extensions of coverage
Interdependencies

- Disruption of operations at the site caused by an insured loss elsewhere within the Group, due to the loss of services, supplies or products
- Both “up stream” and “down stream” interdependencies must be considered
Interdependencies

- Understand the business
  - Within each facility
  - Across the business
- Identify critical process/products - affected revenue
  - Bottlenecks
  - Volume vs. margin
- Redundancy
  - Duplicate processes
  - Interchangeable production equipment
  - Buffer stock
- Additional capacity in the group
Contingent Time Element

- BI impact at the site, due to a covered loss at a 3rd party supplier or recipient of services, supplies or products.
- Extension of bi coverage
- Consider both “upstream” and “downstream”
- Growing in importance due to more single sourcing, Just In Time processing, globally integrated supply chains
Contingent TE considerations

- Named vs. unnamed locations
- Mapping critical suppliers and customers
- Identify and quantify financial impact of losing a critical supplier or key customer
- Basic underwriting information on critical suppliers and key customers – COPE +
- Look for bottlenecks, critical equipment, additional capacity, etc.
- Tier 1 suppliers….? Tier 2, Tier 3
- In a CAT zone
- Accumulation
- Sub limit
Contingent TE exposures

- Development of back-up vendors
- Development of standardized parts and sub-assemblies
- Increase storage of critical parts and sub-assemblies
- Predetermination of location of critical parts
- Full backup of tooling and drawings
- Proper contractual relationships
- Development of contingency plans
Natural catastrophes

- Effective disaster recovery and business continuity plans
- Define pockets of risk and value
- Area wide assessment of suppliers and customers
  - Are they all in the affected area
- Accumulation
  - What competitors use your suppliers
  - Are you first in line
Business Interruption – Key themes from losses

• Impact assessment
  – Is there a clear understanding of critical activities that would have a significant impact on output and profit if disrupted?
  – Has the credibility of alternative arrangements been demonstrated?
  – Identify bottlenecks, critical utilities, special raw material, regulatory issues

• Recovery strategies
  – Is there a clear understanding of what the company would do if something went wrong?
  – Is there a plan – credible, tested and supported
  – Approval requirements
  – Spare capacity, redundancies, buffer stock, outsourcing
Business Interruption – Key themes from losses

- Proven/tested recovery capabilities
  - Has the credibility of alternative arrangements been demonstrated?
    - Formal agreements with recovery specialists
    - Confirmed supplier and equipment replacement lead times

- Business culture
  - What broader business issues might influence decision making following the disruption?
    - Market dynamics, track record, top level support
    - Consider business needs and changing priorities
Thank you
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