

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

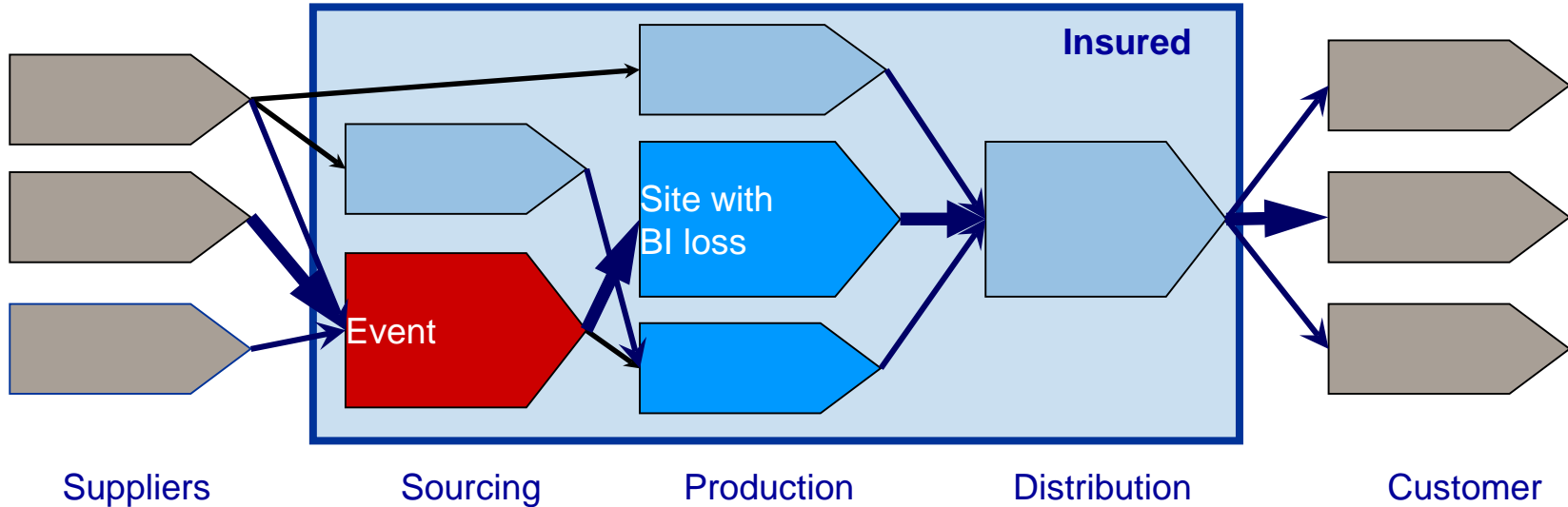
Time Element Coverages

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

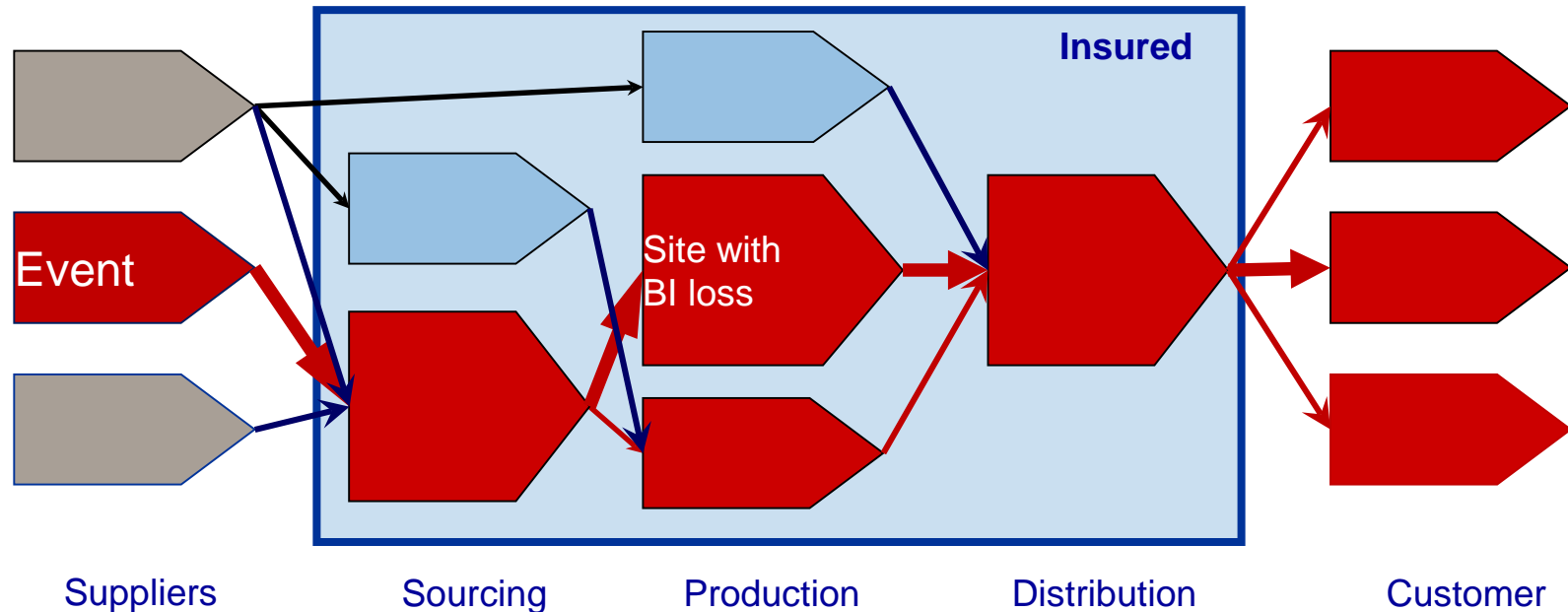


- Disruption of operations at the site caused by an insured loss elsewhere within the Group, due to the loss of services, supplies or products
- Both “up stream” and “down stream” interdependencies must be considered

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

- 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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