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Manchester CII

Business Interruption Masterclass

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Learning objectives

- **Gross Profit**
 - Definition
 - Common mistakes
 - Multiple companies
- **Indemnity Period**
 - Factors affecting the length of Indemnity Period including real-life examples
- **Extensions**
 - Denial of access/Loss of Attraction
 - Terrorism





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Gross Profit



What is it? Why do we insure GP?

- Gross Profit:
 - Accountants definition
 - Policy definition (more later)
- Why Gross Profit?
- Type of policies available



Gross Profit Definition

- Gross Profit is defined as:
- *“The amount by which*
- *the sum of the amount of the Turnover and the amounts of the closing stock and work in progress shall exceed*
- *the sum of the amounts of the opening stock and work in progress and the amount of the **Uninsured Working Expenses***
- *Note: the amounts of the opening and closing stocks and work in progress shall be arrived at in accordance with the Insured’s normal accountancy methods, due provision being made for depreciation.”*
-
- Uninsured Working Expenses are defined as, and typically include
- Purchases
- Carriage, packing & freight
- Bad debts



Uninsured Working Expenses

- Intention is to identify costs that reduce with turnover
- Un-insure as little as possible
- What are 'Purchases'?
- Don't assume all purchases are variable
- Partial losses



Common Mistakes

- Setting the insurable amount
- Selection of wrong indemnity period
- Grossing up the sum for multiple indemnity periods
- Using the wrong accounts to calculate the insurable amount



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Example 1 – incorrect GP calculation

- Estimated Gross Profit £4,500,000 (insured amount)
- Maximum Indemnity Period 18 months
- Uninsured Working Expenses:
 - Purchases less discounts received
 - Discounts Allowed
 - Bad Debts





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The Indemnity Period



Selecting the correct Indemnity Period

- **Buildings**
- Length of repair/reinstatement
- Site layout – one building or a range?
- Construction – asbestos, composite panels, non-standard construction, listed status
- Boundaries
- Neighbours/location
- Obsolete construction
- Public authorities intervention
- Landlord/tenant



Selecting the correct Indemnity Period

- **Contents and Machinery & Plant**
- Reliance on one machine
- Readily available replacements, second hand market – lead times on new/old equipment
- Installation
- Ease of relocation
- Foundations



Selecting the correct Indemnity Period

- **Stock**
- Readily available replacements?
- Source of stock
- Lead times
- Is stock a scarce resource or are there a limited number of suppliers?
- Storage conditions





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Extensions



Denial of Access

- Property in the vicinity of the Premises loss or destruction of or damage to which shall prevent or hinder the use of the Premises or access thereto whether the Premises or property of the Insured therein shall be damaged or not but excluding loss or destruction of or damage to property of any supply undertaking from which the Insured obtains electricity, gas or water or telecommunications services



Non-Damage Denial of Access

- Action by the Police or other competent Local, Civil or Military Authority following a danger or disturbance within a ½ kilometre radius of the Premises whereby access thereto shall be prevented.
- **OR**
- The Company will indemnify the Insured against loss suffered as a direct result of access to the property being hindered or denied due to the property or any other premises in the area including any rights of way being
- 1. occupied by Terrorists 2. unlawfully occupied by Third Parties EXCEPT in the course of a trade dispute 3. closed down or sealed off in accordance with instructions issued by the Police or any other statutory body except where the cause of such closure or sealing off is the condition of or the business carried on within the property or any other premises owned or occupied by the Insured 4. thought to contain or actually containing an explosive device



Loss of Attraction

- Property within the vicinity of the Premises, such loss, destruction or damage directly resulting in a diminished attraction to customers and solely in consequence thereof an identifiable reduction in the Insured's Business.



Terror claims

- The Manchester Bomb
- Novichok



Forensic Accountants

- Appointments are made in relation to litigated commercial disputes where the independent quantification of economic damages is required.
- The nature of the engagements will vary including damaged stock claims, loss of profits, business valuation, product recalls, divorce settlements, liability claims, loss of earnings etc.
- Forensic Accountants will also be called upon as expert witness and provided testimony in the event that the case goes to trial.
- Expert witness reports and analysis will therefore be prepared in accordance with legal guidelines and procedures, depending on the jurisdiction
- Investigations will require a much more detailed examination and scrutiny of financial records as these will be put to task by opposing experts.





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Questions

