

# BUSINESS INTERRUPTION INSURANCE

## **Alan Chandler, Chartered Insurer**

**I have trained more than 2,000 individuals to become ACII qualified**

I have trained over 50% of the individuals in the last 8 years that have gone onto achieve the highest ACII pass in the whole of the UK.

I train to a pass rate of more than 96% in all CII qualification levels. Certificate , Diploma and Advanced Diploma.

I deliver the Allianz scholarship and academy programmes in both the UK and Ireland and I have been a Cii examiner.

I have trained students who have won national prizes in almost all ACII subjects including Insurance Law (MO5), Liability (M96), Commercial Property and BI (M93), Personal Lines Insurance (P86), Business and Finance (M92), Underwriting Practice (M80), Advanced Underwriting (960), Claims Practice (M85), Advanced Claims (820), Marketing (945), Advanced Broking (930) and Advanced Risk Management (992).

What is the purpose of Business Interruption Insurance?

## Gross profit / Insured profit

- To start with we are going to look at how we protect firms who have stock.
- Traditionally this has been called Gross Profit cover but sometimes it is now called Insured Profit.
- We are going to look at the Gross profit (Insured profit) formula and in order to understand it we need to look at the costs and the income that would and would not be covered under a BI policy.

## The difference between costs Fixed or Variable

Some are fixed costs and remain payable during the indemnity period whether the business trades or not

These are known as **standing charges** and need to be insured

Some of the costs are variable and do not need to be covered by the BI policy

These are **variable charges** and do not need to be insured. These are often called ***Uninsured Working Expenses or Specified Working Expenses***

***Which is your favourite Bi wording?***

## Variable costs incurred in running a company

- Purchases ( raw materials )
- Packing and packaging
- Transport possibly shown in the accounts as other things such as?
  - Bad Debts
  - Discounts Allowed
- In summary PPT plus bad debts and discounts allowed

## Income

Only profit directly related to the trading portion of the business is covered. Back to our plumbing distributor

## Net Profit

What is this and does it get covered by a BI policy?



## The Difference basis of Gross Profit

Gross Profit (Insured Profit) sum insured is defined as :-

The combined sum of the turnover, closing stock and work in progress  
less

the combined sum of the opening stock and work in progress and uninsured working expenses

Uninsured working expenses are specified in the policy usually as  
Purchases, Packing , Transport costs, bad debts and discounts allowed.

## **Case Study – Manufacturing Mike**

**Mike manufacturers metal cases, his figures from last years accounts were:**

**Turnover £2,420,000**

**Expenses are:**

**Wages for staff not directly involved in manufacturing £300,000**

**Depreciation on machinery £20,000**

**Purchases £730,000**

**Transportation of goods £100,000**

**Accountants fees £20,000**

**Utility bills not used in manufacturing £60,000**

**Electric used in the manufacturing process £100,000**

**Wages for staff who are employed in the manufacturing process £500,000**

**Rent of premises £150,000**

**Packaging £70,000**

**Work in progress 01/01/18 £100,000. Work in progress 01/01/17 £200,000**

**Opening stock £100,000. Closing stock £180,000**

## **Manufacturing Mike's Insurance Gross Profit**

## GROSS FEES/REVENUE/INCOME

- So far we have looked at Gross profit otherwise known as Insured profit. What is the position for firms that do not have stock?
- We arrange cover on a Gross fees, Gross revenue or gross income basis – is there any difference?
- Lets not forget we only cover income relating to the business description so that must be fully correct.

## The Indemnity Period

- The period during which the business results are affected due to the damage and ending no later than the maximum period shown in the policy
- Usually shown as months in the policy
- What factors would you take into account in arriving at an indemnity period for a client? – REMEMBER THE TWO PHASES!

## Increased Cost of Working (ICW)

- It is in an insurer's interest to spend some additional money to allow a business to get to work speedily to offset the loss of turnover following an insured event.
- A BI policy on gross profit or gross income will automatically include Increased Cost of Working providing it is economic, what do we mean by this phrase?
- Lets go through some of the main examples of ICW and compare it with AICW

## Increased Cost of working only

- For firms that provide a service there are two main options
  1. Gross fees (or revenue) or
  2. Increased cost of working only
- List some of the main things an insured would get paid if they took the more expensive gross fees over the cheaper ICW option

## Increased cost of working

- If an insured took out an ICW only policy how do they go about setting the correct sum insured?
- Would it be appropriate for an insured with a lot of stock to have ICW only?