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[ the business interruption e-source ]

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BUSINESS INTERRUPTION CONSULTANTS, INC.

## SHADES OF GREEN WHAT'S YOUR COLOR?



Green is everywhere—environmental green, that is. On April 22nd, Earth Day was 40! It was the brainchild of Wisconsin Senator Gaylord Nelson whose goal was to increase environmental awareness as well as to promote legislation to clean-up the earth's air and water. Incredibly, in 1970, twenty million people across our nation celebrated this new idea.

Today, "going green" is hip and hopefully, not simply a trend. To be part of the solution, an easy way to start is to appoint a "Green Committee" who will begin to explore ways to improve the company's environment. One simple measure would be to install recycling containers for glass, plastic, and aluminum drink containers near the soda machines in the break room or explore options for the recycling of paper and all those ink and toner cartridges. Perhaps changing your products' packaging to include recycled materials would be an option. There are also a number of ways to save electricity, not only in the office environment, but in the manufacturing process as well. Could solar panels or wind energy be incorporated to reduce the dependence on oil and coal? Your state may offer incentives to help defray the initial costs.

These are only a few ideas that will act as a springboard to bigger and better ideas. The sky's the limit! By encouraging the committee to think outside the box, your small steps will help ensure our planet will continue to be a great place to call home! Make "going green" your priority. Happy Earth Day!

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# COINSURANCE: Be An Educated Consumer

Coinsurance is a protective mechanism used by insurance companies to make sure their pricing is adequate which forces buyers to consider a portion of their replacement cost instead of “low balling” their limits to save money. Coinsurance, simply stated, requires the buyer to purchase an insurance limit that **equals the stated percentage times the replacement cost** of the property. Unfortunately, buyers treat coinsurance too casually on property insurance limits and do not understand the impact on their business income claims.

On the property side, entities too often use the depreciated building value and then apply the coinsurance valuation thereby severely increasing the undervaluation of the replacement cost of the property. The business income confusion comes from the fact that there are two definitions for coinsurance—one for rating purposes and the other to penalize entities for underinsurance. Some people think of coinsurance as a “deductible”, but it is really a pricing and claims paying mechanism. This provision requires the business owner to insure a certain percentage of the replacement cost of property and a certain percentage of the 100% (annual) business income.

**FOR EXAMPLE:** 80% coinsurance for a building would be replacement cost (not the balance sheet value) of \$10,000,000, times 80%, or \$8,000,000. Business income 50% coinsurance would be 6 months of protection and as long as the proper amount was purchased, there would be no penalty.

**FOR EXAMPLE:** 12 months, 100% BI (gross profit) of \$10,000,000, times 50% equals \$5,000,000 required insurance. At the time of loss, the required limit is recalculated. This is always a problem as the actual sales and expenses are different from the originally estimated amounts, so business owners end up severely penalized.

Once a loss has occurred, the full import of the buyer’s decision becomes painfully evident. To put it bluntly, coinsurance really causes problems at the

time of the claim because **if the insured’s business income limit is mathematically incorrect at the time of loss, then the insured will pay that error percentage of the claim.**

**FOR EXAMPLE:** The policy says there is a \$1 million business income limit with a 50% coinsurance clause. This means the 100% amount would be \$2 million. If, at the time of loss, the 100% amount was \$3 million, then the limit should be \$1.5 million (which is 50% of the \$3 million) and **the insured would be penalized 33% of the claim** (\$1 million vs. \$1.5 million). One client was penalized 85% of their \$750,000 loss after having failed to revise their insurance limits or coinsurance amounts in several years.

The coinsurance penalty is cause for a lot of lawsuits and unpaid claims. **Put agreed amount on the policy and eliminate this problem. However, to do so requires a signed business income worksheet in file showing future projections of income.** No worksheet? Then coinsurance applies.

Since most ISO companies have only filed rates to go down to 50% or six-months of coverage, there are two other options available for businesses that want less than six-months protection: **Monthly Limit of Insurance** and **Period of Indemnity**, both of which have been the subject in previous newsletters.

**To prevent this from happening to your company:**

- Ask for agreed amount!
- Do not have coinsurance on your business income policy!
- Be aware that you **MUST complete a business income worksheet to get agreed amount.**

It should now be obvious how very important it is to be an educated consumer. What you do not know **CAN** hurt you. **Make certain you are buying the right coverages for the correct amount and discuss your needs with your insurance professional.**

As we always say:

**Be prepared. Be protected.™**

# Get the Facts!



## BUSINESSES NEED DISASTER POLICY

by Joyce Rosenberg

*The Columbus Dispatch, 3/31/2010*

Recent occurrences of flooding and wind damage in the northeast should serve as reminders to businesses and municipalities that without adequate insurance they could be facing a second disaster, the entity's survival. But there are indications that companies socked by the recession might be deciding to cut back or even do without disaster coverage. Loretta Worters, a vice president at the Insurance Information Institute, said that some entities decide to gamble on being uninsured or underinsured and others that buy insurance after a disaster lose their sense of urgency over time if another calamity does not occur. Small businesses should consider getting at least a business owner's policy, known as a BOP, the most basic coverage, which generally includes property insurance, liability protection, and business interruption insurance. However, neither a BOP nor a standard property/casualty policy will protect businesses from damage caused by floods, earthquakes, and landslides. For damage protection from these disasters, a business needs to purchase special coverage.

**Please note: If there isn't a disaster preparedness plan, the entity does not know what financial protection to purchase.** Call us for help developing or refining your plan.

*Insurance Daily Digest (April 19, 2010)*  
*From The Insurance Information Institute*

## INSURERS SAY AIRLINES NOT COVERED FOR VOLCANO DISRUPTION

by Vladimir Guevarra, Ulrike Dauer, Ruediger Schoss  
*Wall Street Journal Online, 04/16/2010*

Airlines will not be able to file insurance claims for the huge losses of revenue they will incur as a result of the volcanic ash cloud over northern Europe that has grounded flights. Christoph Groffy, a spokesman for Talanx AG's unit, HDI-Gerling, a large aviation insurer, said, "**Business interruption policies are expensive and generally, airlines or airports haven't bought them, so the full risk lies with them.**" Most airline insurance policies would, however, cover damage sustained by planes that flew through a volcanic ash cloud. Robert Hartwig, president of the Insurance Information Institute, said, "**The way the airlines are treating this is very much like a weather delay such as a severe snowstorm or an ice storm. Even though the event is going to be very, very expensive, costing billions in terms of economic losses, it's unlikely that much of it will be insured.**" The article reports that some stranded passengers may be covered under their personal insurance policies for the costs of the trip delays.





**“Forewarned, forearmed;  
to be prepared is half the victory.”**

**~ Miguel de Cervantes Saavedra**

**As a follow-up to our January newsletter, below is a questionnaire that can help entities get started with their disaster preparedness plans.**

## **STRATEGIC PLANNING QUESTIONNAIRE**

**Questions to consider as you develop your strategy:**

1. Will you immediately continue operations or will you wait to assess the damage?
2. Will you change operations, organization, or the distribution model?
3. Which departments or products will recover first?
4. What are the existing or necessary redundancies in plant operations, computer operations, utilities, and personnel?
5. If you are a tenant, what will the landlord do to help you recover?
6. Will you give discounts or other considerations to keep your suppliers and customers?
7. Will you use a competitor or your own employees to continue operations?
8. Will the bank and other creditors allow you to delay payments and/or increase your credit line?
9. Will investors allow you to delay dividends?
10. How much cash will you need? Set aside a sufficient amount to see you through at least three month's expenses.
11. Is there a Crisis Media Management Protocol and who is the spokesperson?
12. What are the computer operations back-up procedures?
13. Do you need a hot, warm, or cold site? Will you have a guaranteed seat at a guaranteed location?
14. How long would it take to move permanently or to repair the facilities?
15. Will you move to another location or rebuild? If you move, where will you go?  
If you rebuild on your current site, where will your temporary facility be located?
16. What type of a new facility do you want and have the architectural plans been developed?
17. Who are the members of the Incident Command Team and where is the Command Center located?
18. What will you do if a major supplier, subcontractor, or customer suffers the disaster?
19. What is the employee notification system?
20. How long will it take to replace key personnel, equipment, or materials?
21. If material, equipment, or personnel are one-of-a-kind, should you acquire a duplicate now?
22. What will you do if you lose your utilities?
23. What will you do if you lose access to your premises?

## **NOW HIRING: REGIONAL SALES CONSULTANTS**

**Business Interruption Consultants, Inc. has opportunities for experienced sales consultants!**

Responsibilities include promotion and sale of website and services to commercial property insurance agencies. These commissioned positions allow unlimited growth opportunities for the self-starter, with potential for future advanced technical training. Income limited only by your goals. Applicants should have experience with commercial property, risk management, and/or claims. Familiarity with insurance agency operations is a plus. Send your resume to: [INFO@BISIMPLIFIED.COM](mailto:INFO@BISIMPLIFIED.COM)

# BE INFORMED!

What are the six common areas of business income claim disputes that can be resolved with patient explanations, policy knowledge, pictures, and receipts?

1.	2.	3.	4.	5.	6.
General Cause of Loss	Period of Indemnity	Lost Amount of Business Income	Discontinuing Expenses	Co-Insurance Calculation	The Deductible

- 1. General cause of loss** specifies what actually caused the damage (wind, fire, flood, etc.). Is it covered on your insurance policy?
- 2. Period of Indemnity** identifies how long sales were lost and when you returned to "normal". In some cases, your policy covers you beyond rebuilding or repair of the damage. Check your policy for an "extended period of recovery". Is your business seasonal? Did you lose any contracts, new business, or repeat business?
- 3. Lost amount of business income** is the "sales" you would have had if there was no disaster, during the period of time it takes to return to full operations or reach your projected sales, whichever comes first. Did you regain any of the lost sales after you recovered? The accepted calculation method is to subtract discontinuing expenses from the net sales that have been projected through the recovery period. Remember, you are not trying to reach the income level you had before the disaster, but rather, reach the income level that is projected to be at the end of the recovery period.
- 4. Most forensic accountants** use a formula (which may not be accurate) for calculating the **discontinuing expenses** as a percentage of sales that need to be subtracted from gross sales. Make certain any deductions for discontinuing expenses are accurate and that those expenses actually did decrease.
- 5. Co-insurance calculation** is the penalty amount of the claim that is deducted for not insuring to value. It is based upon your business income amount, not gross sales. For example, if you purchase 50% coinsurance and your business income amount at the time of loss is \$10 million, then your insurance policy limit should be \$5 million. Yet if your insurance policy limit is actually \$3 million, you will be paid only 60% of the claim (3/5).
- 6. The deductible** will vary. It may be a number of days, normal business hours, percentage of sales, or a dollar amount, and there might be a maximum for certain perils such as wind or flood. Also there may be no deductible or it may be included in the total policy deductible. Choose the deductible that works best for you. This value will be subtracted from the amount of the claim the insurance company owes you.

Remember, the key to a successful recovery is to be prepared, know what to do, and how to calculate the financial impact of a disaster on your business. Also, make sure the entity has its own advocate to ensure it receives the full amount of the claim. For expert claim preparation and presentation, call Business Interruption Consultants, Inc., 307.433 8180. The initial consultation is free!

PLEASE CONTINUE TO GIVE US YOUR COMMENTS AND ASSOCIATED ARTICLES ON TOPICS OF INTEREST.

# FAIA'S 106th ANNIVERSARY CONVENTION!



## FAIA BOOT CAMP: BUILDING LEADERS IN CHALLENGING TIMES

is this year's theme and the focus is to have the industry's best speakers, at a phenomenal location, with the most networking opportunities, and entertainment that will keep you smiling. The place to be is the Orlando World Center Marriott, June 24th though June 26th.

Business Interruption Consultants will be well represented. Business interruption specialist and speaker, Robert Swift, will be presenting: Business Interruption Made Simple, a seminar that will keep your clients out of the bull's eye of the next catastrophe. Also, look for us at the "BICI Booth" in the Exhibit Hall. Learn about opportunities to provide value-added services for your customers while simplifying agency business income tasks that will save you time and money. We look forward to seeing you soon!



An army private was assigned to an induction center, where he advised new recruits about their government benefits, especially their GI insurance. It wasn't long before Captain Hardy noticed that the private had almost a 100% record for insurance sales, which had never happened before. Rather than ask about this, the captain stood in the back of the room and listened to the private's speech.

The private explained the basics of the GI insurance to the new recruits and then said, "If you have GI insurance and go into battle and are killed, the government has to pay \$200,000 to your beneficiaries. If you don't have GI insurance and you go into battle and get killed, the government only has to pay \$6000."

"Now," he concluded, "Which bunch do you think they are going to send into battle first?"

"Do you know the present value of your husband's policy?" the life insurance salesman asked his client.

"What do you mean?" countered the woman.

"If you should lose your husband, what would you get?" asked the salesman.

The woman thought a minute, then brightened and said, "Probably a poodle."

[ Send us your insurance jokes for a chance to be in our next newsletter at [info@bisimplified.com](mailto:info@bisimplified.com) ]

**PLEASE CONTINUE TO GIVE US YOUR COMMENTS  
AND ASSOCIATED ARTICLES ON TOPICS OF INTEREST.**

**WE WELCOME YOUR INPUT!**

Send us your comments, questions and jokes to be published in upcoming issues.

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