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BUSINESS INTERRUPTION CONSULTANTS, INC.

BUSINESS CONTINUITY and the Localized Incident

Author's operation area at the I-35W bridge collapse.

Photo By: Kevin Rofidal, USCG



As a Deputy Fire Chief assigned to Minnesota Task Force One, the state's urban search and rescue team, I responded to the I-35W bridge collapse in Minneapolis on August 1, 2007.

While waiting for a search team to finish their equipment check before entry, I took in the fact that hundreds of tons of wreckage lay on top of a road that ran under the bridge. Following the road with my gaze, I saw a number of businesses. "Wow," I thought, "they're in big trouble. Nobody is going be able to use this road to get to them for a long time." The same would be true for the businesses that relied on barge traffic on the Mississippi River, or the road and rail lines on the other riverbank.

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Get the Facts!

- **100%:** Percentage increase in the number of Americans taking antidepressants in 2005 compared with 1990.
- **10,000:** Number of people living in Ziketan, China who were quarantined after an outbreak of pneumonic plague killed three.
- **\$291,570:** Average cost for a middle income family in the US to raise a child born in 2008 to age 18, according to a government estimate.
- **\$70,000:** Amount of money Monroe College is being sued by a graduate with an IT degree who has struggled to land a job since graduation. According to the August 17, 2009 issue of *Time Magazine*, instead of blaming the recession, she is suing her alma mater to recoup \$70,000 in tuition fees, accusing the school's career advancement office of failing to, well, advance her career. Monroe's defense? It is impossible for any college to guarantee employment—"especially in this economy."



(continued from page 1)

We all know about the big disasters that can hit—earthquakes, hurricanes, tornadoes, and floods. However, business interruption can be caused by a small or localized incident—something you might never imagine. For instance, in a local industrial park, I am willing to bet that the other twelve or so businesses have no idea that a company with an innocuous sounding name, manufactures blasting caps for the mining industry and military. Nor did the businesses in another industrial park realize that the R and D lab in their midst not only did testing on food crops, but also on antibiotic resistant bacteria. That is, not until the lab had a small fire and the Hazmat teams, the Department of Health, the EPA, and the CDC arrived and cordoned off the area for two days. That was a rude awakening to say the least. (See archived *Understanding Civil Authority and Ingress/Egress Insurance Coverages*, September, 2009, Be Prepared! newsletter, pages 1-2.)

The point is, do you know all of the hazards to your business? Probably not, but do not feel badly. Not many people outside of emergency management have considered the items on this short list of risks:

- What hazardous materials are being transported within a half-mile of your business?
- Where are the major gas or petroleum pipelines in your area?

- Are your facilities susceptible to storm-water and/or sewage back-ups?
- What do the businesses surrounding you manufacture, use, or store?
- How many access roads are there to your facilities, and are they at risk?
- Are your data/communication lines on a loop, or are they on a single, vulnerable cable?
- If an incident occurs nearby, you may not be allowed back into your facility for days/weeks. What would you do then?

These are a few of the more obvious hazards that can impact your business operations. Not one of the business owners affected by the I-35W bridge collapse ever thought that eight gusset plates manufactured in the mid-1960's, would cause such harm. All of the businesses near the collapse were impacted and many did not survive. Remember, no one can predict every eventuality, but you can protect your organization with a comprehensive Business Continuity Plan that can be adapted to any disaster that may befall your business. **Being prepared is your best defense.**

Our thanks to Robert Eastham for submission of this article. Mr. Eastham was working for the Minnetonka Fire Department in Minnesota as Deputy Chief of Operations when the I-35W bridge collapsed.

GOT A PLAN?

The Department of Homeland Security/FEMA is asking all entities to "voluntarily" develop their disaster preparedness plans and requires it for all government vendors/contractors. Be ready. For help writing or reviewing your Contingency Plan, contact Business Interruption Consultants at info@BISimplified.com or phone 307.433.8180.

b (FUNNY!)
[a little insurance humor]

Send us your insurance jokes for a chance to be in our next newsletter at info@bisimplified.com.

Do you know the difference between a man and a whole life policy?
A whole life policy eventually matures.

Did you hear about the insurance executive that nearly died from a horseback riding accident? He was saved when the manager of WalMart finally came out and unplugged it.

How many producers does it take to change a light bulb?
None, they'll just have a CSR do it.

HELP! Step-by-Step Claim Instructions

First, refer to your **Claim Journal** (See October, 2010, *Be Prepared!* newsletter, page 4) as you compile your documentation and complete your calculations. Identify and document any lost new business, existing key accounts, or special agreements you made to keep from losing vendors or customers, such as free shipping, expedited shipping (air versus truck), or discounts given to retain customers, etc.

MINIMUM REQUIRED DOCUMENTATION FOR BUSINESS INTERRUPTION CALCULATION

1. 2 years of tax reports.
2. 2 years of detailed, monthly Profit and Loss (P&L) statements for the same period.
3. 2 years of monthly payroll records.
4. 2 years of monthly sales journals from 12 months prior to the loss to current or when sales reached projected levels.
5. Monthly balance sheet for the same period.
6. To document Extra Costs Incurred, copy all receipts and compile a report categorizing costs into property purchases, service charges, rents, staff costs, subcontracted costs, etc.

CALCULATING LOST SALES

Begin by establishing the trend (growth or decline) of business so that you are able to project what your sales would have been during the recovery period.

1. Compare at least two years of monthly sales to determine the trending percentage.
2. Apply this percentage to the previous year's months corresponding to the recovery period. For example, if your recovery period is the fourth quarter, '09, apply the trend percentage to the fourth quarter, '08. This gives you what your sales should have been.
3. Take a realistic look at your budgeted or projected sales to verify that your numbers are accurate. Have you included projections for seasonality, new business, etc.?
4. Now compare the actual sales for these recovery months to the projected sales. The difference will be the sales you lost during the recovery period.

CALCULATING DISCONTINUING EXPENSES

Discontinuing expenses are all the monies you do not have to spend if you are shutdown:

i.e. materials, supplies, maintenance, rental equipment, etc.

Payroll may or may not be a discontinuing expense or may be a partial expense. Is payroll covered on your policy? If so, do not subtract payroll from sales.

1. Compare two years of monthly cost of sales expenses to establish what percentage of sales these expenses represent. For example, cost of goods sold is 50% of sales, so subtract 50% of lost sales as discontinuing expenses. On the other hand, if you are a service or municipal organization, you do not have cost of sales to subtract. Be careful not to subtract payroll from this calculation if you are including payroll in your claim.
2. Check other historical expenses to determine if any of those discontinued. If so, calculate what percentage of sales they were and subtract those discontinuing expenses from projected lost sales.

CALCULATING BUSINESS INCOME AMOUNT

1. Add the lost sales amount for each month in the recovery period.
2. Subtract the monthly discontinuing expenses.
3. The difference is the lost business income for your claim.
4. Usually, this is where the deductible is applied. For daily value deductible, determine the daily value of lost income and then subtract the deductible amount, such as three days, from the total lost income. If the deductible is a dollar amount, subtract that value from the first month's lost income, etc.

(continued on next page)



CALCULATING EXTRA EXPENSES

Extra expenses are all the monies you spent to recover from the disaster that are not “usual” to your business. This would include such expenses as overtime, expedited shipping, increased subcontractor costs, etc. They are also the increased expenses over expected expenses during your recovery period.

1. Calculate increased costs by listing the actual monthly sales during the recovery period.
2. Apply the expected expense ratios to these sales to calculate what your expenses should have been.
3. List your actual monthly expenses during the recovery period.
4. The difference is your extra operating expenses.

This calculation should include all extra expenses you incurred if shown on your profit and loss statement. Keep in mind that you will have to provide the adjuster with a list of “unusual” or additional expenses that you incurred during the recovery period (refer to your Claim Journal).



You could follow our detailed instructions above, or subscribe to **BISimplified.com** and use our electronic claim worksheets. It's so easy—supply the numbers, click, and WE do all the calculations for you!

If you missed opening September's *Be Prepared!* e-newsletter, go back and check out the included non-electronic samples of two interactive claim worksheets! The **BI Claim Worksheet** trends sales growth, calculates lost income, discontinuing expenses, extra expenses and provides a summary of the total claim amount. The **BI Claim Worksheet** maintains a running total dollar amount and record of the specific repairs made to the property. Both worksheets are electronic and simplified—pop-up text boxes provide explanations that keep you on track, eliminate guesswork and arguments, and save you weeks of claim settlement time and fees.

“Though no one can go back and make a brand new start, anyone can start from now and make a brand new ending.” —Anonymous

Be *pre* (PREPARED!)

- Nearly 770,000 Americans live near a volcano. Heavy ash falling after an eruption can cause serious lung irritation, corneal abrasions, and shortness of breath, especially for people with asthma. The Center for Disease Control and Prevention suggests that people living in volcanic regions keep N-95 respirators and eye protection on hand for themselves and their families.
- Batteries can last up to ten times longer in light-emitting diode (LED) flashlights. LED flashlights are 70% more efficient than incandescent models, and unlike bulbs, LEDs have no fragile parts so they can better withstand shock. That makes them a smarter choice for an emergency kit.
- More than 67% of respondents in an ASPCA survey said they would refuse to evacuate without their pets. The Pets Evacuation and Transportation Standards Act of 2006 passed after Hurricane Katrina, requires authorities to include pets in evacuation plans.



Most Red Cross shelters won't take pets, but will help people make arrangements with local animal shelters. The Humane Society of the United States suggests packing a disaster kit for pets that includes ID, immunization records, food, medicine, and photos.

b (INFORMED!) What form can I use to report a BI claim?

CLAIM SUBMISSION: This is the basic information needed to report your claim and start your file.

Company Name: _____ Contact: _____

Address: _____

Phone No: _____ E-mail: _____

Date of Loss: _____ Date Operations Reached 100%: _____

Date Property Repaired: _____ Date Revenue Reached Expected Level: _____

Describe What Happened: _____

Describe What You Did: _____

Property Damage Amt/Cost to Repair/Replace Property: \$ _____

(Review all disbursements during this period and attach Property Claim Worksheet.)

**DON'T RELY ON INSURANCE COMPANY ACCOUNTANTS.
HIRE YOUR OWN ADVOCATE!**

For expert BI claim preparation and presentation, call Business Interruption Consultants, Inc. at 307.433.8180, or email info@bisimplified.com. We regularly double the insurance company's offer. There is no obligation and the initial consultation is free!

**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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