



# b ``` (PARED!) ```

[ the business interruption e-source ]

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BUSINESS INTERRUPTION CONSULTANTS, INC.

## INDEPENDENT LOCATIONS

### QUESTION:



I have a habitation risk with twelve separate apartment locations and a statement of values for each location. All named insureds on the policy have the same owner with independent entities for each location. One location burned down and the tenants were sent to empty apartments at

another location. I do not think there was a loss of income since the tenants moved and continued to pay rent, but the manager of the destroyed location wants to submit a claim for lost rents. Does he have a claim?

### ANSWER:

The insured owned multiple locations and because of the recession, the alternate location where the tenants were relocated was empty. The insured had no proof the apartments in that building could have been rented. There was essentially no revenue loss, since the tenants continued to pay rent.

This claim went to appraisal and the public adjuster raised the issue of separate limits saying this meant the loss to the damaged building should be measured without respect to the other building's revenue, even though the revenue was shifted from one building to

another. If the insured was correct, the insured would receive a windfall, which is precluded. There is effectively no actual loss of income sustained by the named insured in this instance. Understand that the issue revolves around the actual loss sustained clause to the named insured.

In the above case, all named insured locations have the same owner. However, a more complicated example occurs when there are individual entities listed on the policy and each entity has separate partners. A loss at one of the locations would cause one partnership to lose revenue and another to gain, but all the named insureds combined would have no loss. An internal shifting of funds would be required to make it equitable for all parties involved.

Finally, there was a chain of retail stores where one store was damaged by a tornado. As a result, customers went to the other local store in the chain. The damaged store lost sales, while the undamaged store gained sales. The insured would not collect unless they could prove they lost more sales than they made up at the undamaged store.

In these examples, there was no loss of income. Please note that the intent of business income insurance is to enable the business to do what it would have done had there been no loss. Extra expenses—yes; business income losses—no.

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# b. (FUNNY!) [ a little insurance humor ]

## INSURANCE CLAIM STATEMENTS:

The indirect cause of the accident was a little guy in a small car with a big mouth.



The guy was all over the road. I had to swerve a number of times before I hit him.  
I pulled away from the side of the road, glanced at my mother-in-law and headed over the embankment.  
I was on my way to the doctor with rear end trouble when my universal joint gave way causing me to have an accident  
I told the police that I was not injured, but on removing my hat, found that I had a fractured skull.

## GET THE FACTS!



### 2011 DISASTER LOSSES COST INSURERS \$116 BILLION

On March 28th, Swiss Re stated that natural disasters in 2011, including the earthquake in Japan and floods in Australia and Thailand, cost the global economy \$370 billion and set a new record for economic losses from catastrophes. Swiss Re said insured catastrophe losses increased from 2010 by more than 100 percent to \$116 billion. In December of the previous year, Swiss Re estimated that the losses would total \$108 billion. In January Munich Re, the world's largest reinsurer, estimated that the insurance industry would pay \$105 billion for the natural disasters. According to Swiss Re, the earthquake in Japan accounted for more than half of the economic losses for 2011, and the \$35 billion in insured damage made the quake the most costly in history.

*Swiss Re, Reuters, Chicago Tribune, Page N/A, March 28, 2012*

### DISASTERS PUSH LLOYD'S OF LONDON INTO RED

On March 28, Lloyd's of London reported a pretax loss of 516 million pounds for 2011, compared with a profit of 2.2 billion pounds the previous year. The annual loss was the first reported by the insurance market in six years and is attributed to a series of natural catastrophes, including the earthquake and tsunami in Japan, earthquakes in New Zealand, and floods in Thailand and Australia. The insurance market made payouts totaling 4.61 billion pounds for disasters last year, more than twice the catastrophe claims of 2.12 billion pounds the previous year. At the same time, **Lloyd's announced that its top executives will receive salary increases of as much as 20 percent as part of a general compensation reform that will also reduce their maximum potential bonuses.**

*Adam Jones, Financial Times, Page N/A, March 28, 2012*

### ATTENTION SMOKERS!

Smoking may cause long term damage not just to the lungs, but to the brain as well. In a study of more than 21,000 people who were followed for 23 years, those who smoked more than two packs of cigarettes a day in midlife were 157% more likely to develop Alzheimer's disease and 172% more prone to vascular dementia in older age than nonsmokers. The reason? Smoking impairs blood vessel function which may contribute to Alzheimer's.

*Canadian Cardiovascular Congress*

### COASTAL CROSSROADS: HURRICANES AND THE SHIFTING NATURE OF CATASTROPHIC LOSS IN THE UNITED STATES

This power point report by Robert Hartwig, president of the Insurance Information Institute (I.I.I.), and Steven Weisbart, senior vice president and chief economist of I.I.I., was presented before the National Hurricane Center Conference. It analyzed the shifting patterns in U.S. insured catastrophe losses and showed that in recent years non-tropical events such as thunderstorms and tornados have been the main cause of insured loss, supplanting tropical storms and hurricanes. The presentation compared historical and recent distributions of catastrophe losses by type of disaster and included a review of federal disaster declarations from 1953 to 2012 in the U.S. and state by state, noting that in both 2010 and 2011 records were set. A section reviewing U.S. catastrophe loss trends by frequency and severity showed that trends are headed upward. An analysis of severe weather by state and by type of event in 2011 and to-date in 2012 concluded the report.

*Robert Hartwig and Steven Weisbart, Insurance Information Institute, Special Report, 37 slides, March 27, 2012*



# Be *pre* (PARED!)

**Hurricane season is here. It's not too early to get prepared for a disaster. Have you reviewed your preparedness plans? Here are some 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 for 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 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 a disaster?
19. What is the employee notification system?
20. How long will it take to replace key personnel, equipment, or materials?
21. If material or equipment is one of a kind, should you acquire duplicates?
22. Should you develop a personnel cross training program?
23. What will you do if you lose your utilities?
24. What will you do if you lose access to your premises?



## PLAN AHEAD...

**We would welcome the opportunity to help you Be Prepared and Be Protected™.**

The longer you go without taking the necessary steps to increase preparedness, the sooner you will have to stop calling them natural catastrophes, and start calling them man-made disasters. Be proactive. For assistance in writing or reviewing your Contingency Plan, contact Business Interruption Consultants. Email us today at: [info@bisimplified.com](mailto:info@bisimplified.com) or visit us at: [www.bisimplified.com](http://www.bisimplified.com).

# b (INFORMED!)

[ answers to frequently asked questions ]

## WHAT DOES COINSURANCE OR MONTHLY LIMIT OF INDEMNITY MEAN IN AN INSURANCE POLICY?

Coinsurance is the way insurance companies make sure you are carrying the proper limit of insurance so you will not be penalized. For example, a business income limit of \$1 million with a 50% coinsurance means the 100% (annual) business income amount is \$2 million. If the 100% amount becomes \$3 million, the insured would have to carry \$1.5 million or pay one third of every claim.

Monthly limit of indemnity provides a proportional limit of insurance for each month in the selected period. For example, a \$100,000 insurance limit with a 3 month period would pay a maximum of \$33,333 for each of the first three months of a loss. The benefit is no coinsurance; the detriment is that you are pre-settling the loss to be no more than three months.

## IS CIVIL AUTHORITY A COVERED CAUSE OF LOSS?

In most standard insurance policies it is a covered peril, but you have to read your policy to be certain.



## SURVEY:

Would a BI worksheet app for your mobile phone be of benefit?

What part(s) would be a helpful tool or resource?

Please let us know what you think:  
[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.

CONTACT US AT: [info@bisimplified.com](mailto:info@bisimplified.com) [ [www.bisimplified.com](http://www.bisimplified.com) ]

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