TERRITORY

From the standpoint of the territorial scope of the policy, an insurer argued that the policy's CBI coverage provision required both physical property damage and loss of business to have occurred within the policy's territorial limits, concluding that, because the damage allegedly causing the business loss occurred in Singapore (outside policy territory), there was no coverage. The parent company responded that the only relevant loss was the financial loss, which occurred not at the company's Singapore facility, but at the location of the company in Arizona, which, undisputedly, was included as a named location in the policy; that is, the loss was said to be covered because it occurred not only within the territorial limits of the policy, but also at a scheduled location.

From the court's perspective, the CBI language was unambiguous and clearly provided coverage for the loss sustained by the company in Arizona. Referring to the policy, the court stated that the insurer "will pay for loss resulting from necessary interruption of business conducted at Locations occupied by the Insured and covered in this policy." The loss covered, the court explained, was not physical damage to property, but a "financial shortfall" and that shortfall had to occur within the territorial limits of the policy. The court, however, also stated that coverage was not totally open-ended, since it was required that the financial shortfall be caused by direct physical damage or destruction to real or personal property of direct suppliers. However, the limitation, the court went on to say, stopped there; that is, the policy was silent about where the direct physical damage or destruction must have occurred. The court therefore concluded that if the insurer had desired to place a territorial limitation on where "direct suppliers" must be located, in order for coverage to attach, it could have included explicit language to that effect. In fact, as pointed out by this court, the policy did include an explicit territorial restriction in its "Time Element—Gross Earnings" provision.

CALCULATION

In order to calculate the exposure, identify the percentage of gross margin or gross profit from the supplier or customer, and then calculate the percentage of a year to replace them. For example, 30% of a company's annual gross profit of $50 million comes from Mico Metals Corporation, or $15 million times four months, or 33% of a year to replace them, which equals $5 million.

SUMMARY

Fierce competition and a difficult economy create an imperative for a company to use every source of advantage. For many, holistic supply chain risk management remains one advantage yet to be tapped to its fullest potential. We need to impress upon companies the need for them to own and manage their risk, understand the exposures, and harden the supply chain. With knowledge of their exposures, tailored supply chain insurance solutions can be initiated. Businesses should have a broad master global insurance policy including Difference in Conditions, Business Income with extended period of indemnity, CBI, and extended CBI, if it is available.

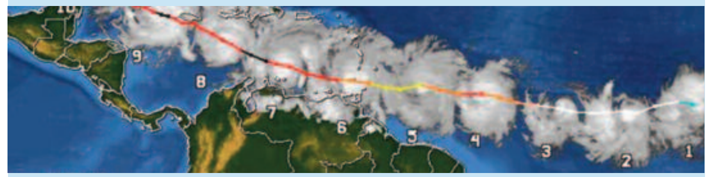
Remember, CBI insurance is revenue protection and will not cover inventory. Also, it is necessary for businesses to consider all perils, not just flood or earthquake, including manmade, economic, and political exposures, as a strike can be as interrupting as a fire. The event may be something as simple, and at some companies potentially crippling, as the projected truck driver shortage in the United States that is expected to reach 111,000 in 2014.

Exposure identification and calculation is such a problem for so many businesses, that in order to simplify the process, Business Interruption Consultants developed a CBI Worksheet with detailed instructions. You supply the numbers; we do the calculations.

Visit www.BusinessIncomeWorksheets.com or www.BISimplified.com for the CBI Worksheet.

be (pre PARED!)

Business Continuity Planning is in some ways easier with a forecasted event such as a hurricane. Data and paper records can be backed-up offsite and systems can be shutdown without data loss. Relocation and protection of raw materials, finished goods, equipment, supplies and vital records can be done well before damaging winds or flood waters arrive.



However, a regional event such as a hurricane may impact a wide area that encompasses more than one company-owned facility. Planning must address all facilities potentially impacted by the storm. Competition for resources, including contracted back-up sites, may be keen forcing some users to relocate great distances to available back-up data centers or worksites.

A Business Continuity Plan must be based on a Business Impact Analysis that identifies the potential impacts from damage to or loss of all facilities within the path of a hurricane. Strategies must be developed to ensure continuity of critical functions, processes, and services. Sufficient resources, outside of the area impacted by the storm, must be available in the face of competition—even competition from government authorities. Following Hurricane Katrina in 2005, generators brought into storm damaged areas by private businesses were redirected by public officials and never reached their intended facility.

THE CONTINGENCY PLAN—GET STARTED!

Contact Business Interruption Consultants, Inc. today to develop a Business Contingency Plan or schedule a Business Interruption Appraisal.* Be certain you are well prepared for the next disaster. Contact us at: info@bisimplified.com.

*See archived June/July 2010 newsletter.