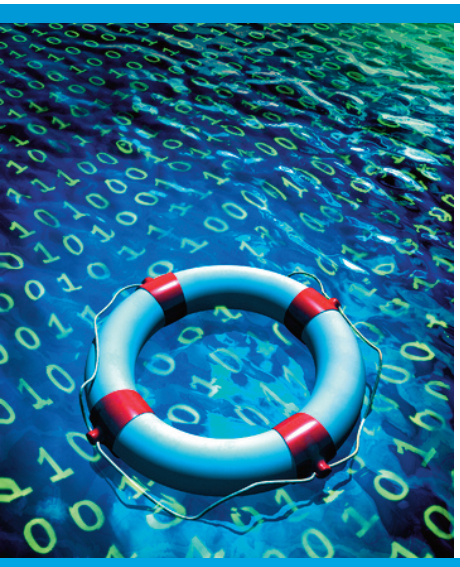

b(PREPARED!)

[the business interruption e-source]

ISSUE 13
SEPTEMBER, 2010

BUSINESS INTERRUPTION CONSULTANTS, INC.

PROTECT AGAINST SHIPMENT THEFTS

Tractor trailer thefts are on the rise. Truckloads containing $487 million of goods were stolen in the United States in 2009, a 67% increase over the $290 million of products taken a year earlier. The latest wave of thefts is different from a run of tractor trailer hijackings that occurred in the 1960s, when organized crime rings forced drivers out at gunpoint and took their trucks. According to industry officials and police, the current thefts are generally nonviolent and typically happen at rest stops when the driver is away from the truck eating or showering. Thieves often know what cargo a truck is carrying because they are usually followed from the plant.

Theoretically, once the goods are shipped, risk of loss is transferred from the manufacturer to the customer through Free On Board Plant (F.O.B.). This means the customer becomes responsible for the cargo when it leaves the shipping area. However, several executives have stated that it did not matter who was responsible for the cargo, they had to replace it in order to keep their customers happy. This raises two important issues—property and business income coverage.

(continued on page 3)

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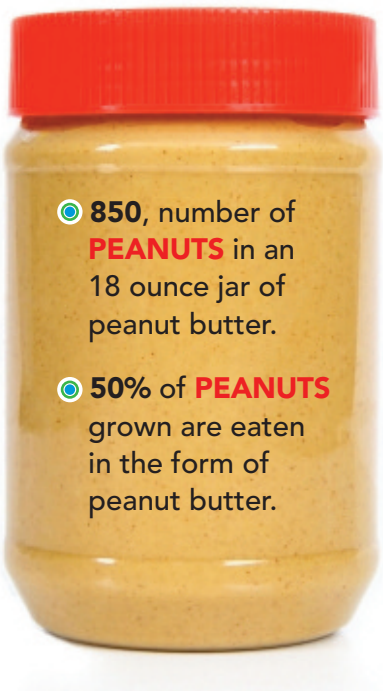
Get the Facts!

According to *Fortune Magazine*, July, 2010:



- **850**, number of **PEANUTS** in an 18 ounce jar of peanut butter.
- **50%** of **PEANUTS** grown are eaten in the form of peanut butter.
- **20 feet tall**, height of the world's largest **PEANUT** monument located in Ashburn, Georgia.
- **7 pounds**, the average amount of **PEANUTS** and related products each American consumes per year.
- **2,861**, the average number of pounds of **PEANUTS** harvested from one acre.
- **1904**, the year **PEANUT** butter was introduced to the public at the world's fair.
- **1,500**, the number of **PEANUT** butter and jelly sandwiches the average American child will eat by the time they graduate from high school.
- **40 feet long**, size of the world's largest **PEANUT** butter and jelly sandwich.

Don't settle for peanuts!

Let us help you with your claims.

CONTACT US AT:
info@bisimplified.com

(continued from page 1)

Thinking they are protecting their property, many shippers purchase the freight company's insurance for their cargo without checking the valuation method. Ask up front if the replacement is based on weight. If you are shipping light goods such as electronics, they will not be valued at their true replacement cost. If this is the case, then ask that the valuation be based on invoice or true replacement cost.

On the other hand, the business interruption component is business interruption due to loss or delay of incoming parts or machinery. For example, a printer burned down and ordered a new press. Just as the truck was coming into town, it caught on fire and the press was destroyed. The printer had to reorder another press. Six weeks later the second press was delivered, but business was interrupted for an additional six weeks. Considering that all the property damage had been repaired when the first press was due to arrive, the period of restoration was extended another six weeks.

Business owners need to talk to their insurance professionals if they have this risk in order to determine the right management tool for them. At a minimum, they need extended period of restoration and cargo coverage on their insurance policy. Being prepared is key to being protected.

Our thanks for parts of this article to Jennifer Levitz of *The Wall Street Journal*.

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

bi(FUNNY!)

[a little insurance humor]

An insurance agent was trying to teach his wife to drive when the brakes suddenly failed on a steep, downhill grade. "I can't stop!" she shrilled. "What should I do?"

"Brace yourself," advised her husband, "and try to hit something cheap."

Two agents are talking business one day and one of them asked, "How long have you been working for the company?"

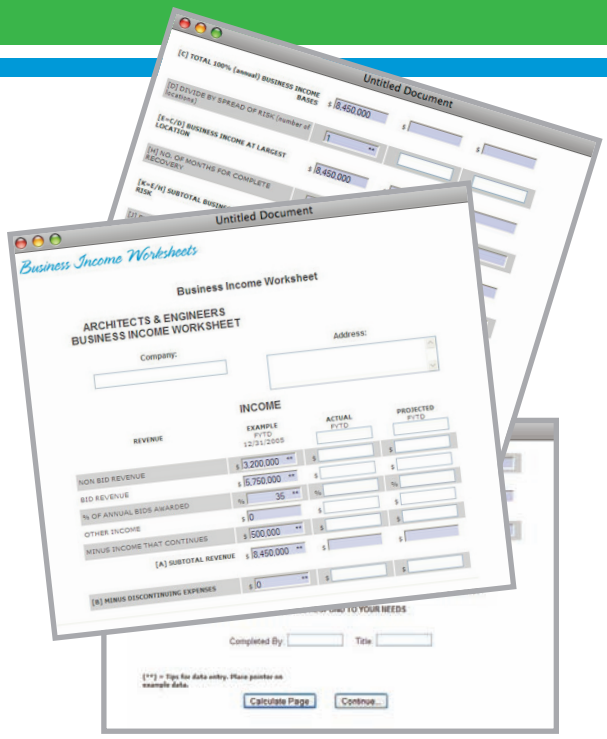
Replied the other agent, "Ever since they threatened to fire me."

"You ought to feel highly honored," said the businessman to the life insurance agent. "So far today, I have had my secretary turn away seven insurance agents."

"Yes, I know," replied the agent. "I'm them."

(INFORMED!)

[about Electronic Business Income Worksheets]



Frequently asked questions about BI Simplified's Electronic Business Income Worksheets.

How do I get started?

It's simple! Select a BI worksheet from the list that is specific to your business and fill in the blanks. Pop-ups answer your questions and keep you on track. Push a button, and the calculations are done for you, including extra expenses. The summary page breaks it all down for you. Just sign, date, and submit.

Do I have to complete every line?

No, only fill in the rows that are appropriate for the business.

What if I get a negative number?

You did not include all your income and/or subtracted too much of your expenses. Follow the instructions exactly.

How do I choose my period of restoration?

Use your contingency plan to determine this. If there is no plan, try to estimate how long it will take to recover operations and market share, as well as how long your customers will wait for you to bring your product or service to market.

Why do I subtract interest income?

This is not income from operations. The insurance contract states this in its definition of business income.

May I subtract depreciation?

No. This is usually a continuing expense. There has been a lot of discussion over the last century about this and the insurance industry has made not deducting depreciation standard practice.

What are discontinuing expenses?

These are the operating expenses that discontinue when the business is shut down. For example, materials and supplies, but also sometimes will include utilities, subcontract costs, maintenance, cafeteria, etc.

What are extra expenses?

These are the expenses incurred in addition to normal operating expenses. For example, the rent at the old location was $100/sq. ft., but in the temporary recovery location it increased to $125/sq ft., then the additional $25 of rent is the extra expense. It would also include paying overtime not usually paid, increased transportation costs, etc.

What is inventory at sales price?

This is for manufacturer's finished stock only and represents the sales price less discounts and allowances. This is not Business Income coverage; it is property coverage.

What if I am operating at a loss?

Make sure the coverage limit pays for continuing expenses, and then subtract the loss from the continuing expenses. For example, $10,000 of continuing expenses with a $2,000 loss equals an $8,000 BI limit.

What if I have no income?

Buy an insurance policy specifically for this business, such as non-profit, R&D, start up, coming out of bankruptcy, etc. It is imperative to make sure the policy will respond properly, and the calculation is for whatever the continuing expenses would be.

What if I am a R&D company?

Make sure the policy is written to pay lost or deferred milestone payments and continuing expenses, including payroll. The standard business income policy will not respond because since there is no operating income, there is no loss of income.

How does a municipality calculate exposure?

Determine the revenue generating services that would be discontinued and for how long. These organizations need a great deal of contingent business income coverage for major employers and consumers of services in the municipality.

Are mortgage payments part of continuing expenses? I read somewhere only the interest portion is a covered expense.

All financial obligations are a continuing expense. A mortgage is a financial contract obligating the mortgagee to pay a monthly amount to the mortgagor (with the property being used as collateral for the loan). The whole amount is due or the property can be foreclosed upon and lost. This is a normal business expense paid out of income and should be part of the Business Income calculation.

Why doesn't my agent do this for me?

It is not their job and they have not been trained to do this. The business owner is the one who has to make the business decisions regarding recovery strategy and plans.

For quick, accurate worksheet completion, ask your insurance agent to set up an account on BISimplified.com and offer our BI worksheets and other great advantages to you as a value-added service.

b(PREPARED!)

How do we convince upper management to develop a Business Contingency Plan (BCP)?
Explain that corporate governance, as well as several federal laws, require businesses to protect their people and their property.

Who will help us get started?
Professional associations should provide assistance as a service to its membership, especially since they are comprised of homogeneous businesses. You can also hire an outside vendor and use web resources.

What is the first step?
Appoint a contingency planner and committee and/or hire an outside vendor.

What is a strategic plan?
This identifies such things as will you rebuild, go somewhere else, or even change your operations after a disaster. The purpose is to take advantage of a disaster and turn it into an opportunity to make the organization more efficient and competitive into the next decade.

What is a business impact analysis?
It is a separate review of each functional unit in the organization. If the company were to suffer a disaster, it determines what the impact would be on each unit and how that portion affects the whole organization.

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.*

How do we identify the risks we face?
Complete a ***risk assessment analysis*** which identifies natural and man-made hazards, and then assigns the likelihood of each disaster occurring to the company.

How do we protect our employees?
Complete and test life safety procedures including evacuation and "lockdown". Practice fire drills, ensure the premises are safe, and screen applicants carefully. Also, organizations should have drug-free and safe workplace programs.

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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