

## BUSINESS INTERRUPTION INSURANCE REVIEW



Business interruption (BI) insurance provides compensation when an insurable event prevents a business from achieving its financial targets. When combined with effective business continuity planning, properly structured business interruption insurance is a cost-effective solution that goes a long way to mitigating the effects of a major business loss event.

### WHY BI IS RELEVANT TO YOUR ORGANIZATION

Given the increasing severity of losses over recent years, business interruption coverage can be a critical financial tool for protecting business performance and growth, particularly from short-term sudden impacts. Insurers' recent loss experience also has driven this coverage to be more complex and restrictive. As such, it is critical that your organization has a strong understanding of its true exposure to business interruption risk, establish an accurate values baseline, and obtain the right amount of coverage. Should you suffer a loss event, a properly valued BI exposure, along with a recovery plan and claim support team, can help minimize impact and speed recovery.

### WHO NEEDS A BI VALUES REVIEW

Organizations that:

- Are establishing, renewing, or wanting to update their property insurance coverage.
- Want to evaluate limits and sublimits.
- Want to create an organized, consistent approach to business interruption values, especially following a merger, acquisition, or expansion.
- Need to trigger internal discussions about preparedness, operational redundancies, and logistical alternatives for purposes of mitigating a potential loss.
- Find that current valuation methods do not apply to the unique aspects of their business and prove inadequate.

### WHAT QUESTIONS ARE TYPICALLY ASKED

A more thorough review of your business interruption values exposure helps answer the following questions:

- What is the maximum foreseeable loss (MFL) that my business could sustain?
- What is my Anticipated Maximum Business Interruption Loss (AMBIL), which considers variables of potential mitigation actions?

- How long would it take my business to recover from an event?
- Are there gaps in my current coverage, and what adjustments (if any) should be considered?
- Do my current internal processes, and typical BI worksheet, properly capture my risk exposure?

## GENERAL METHODOLOGY

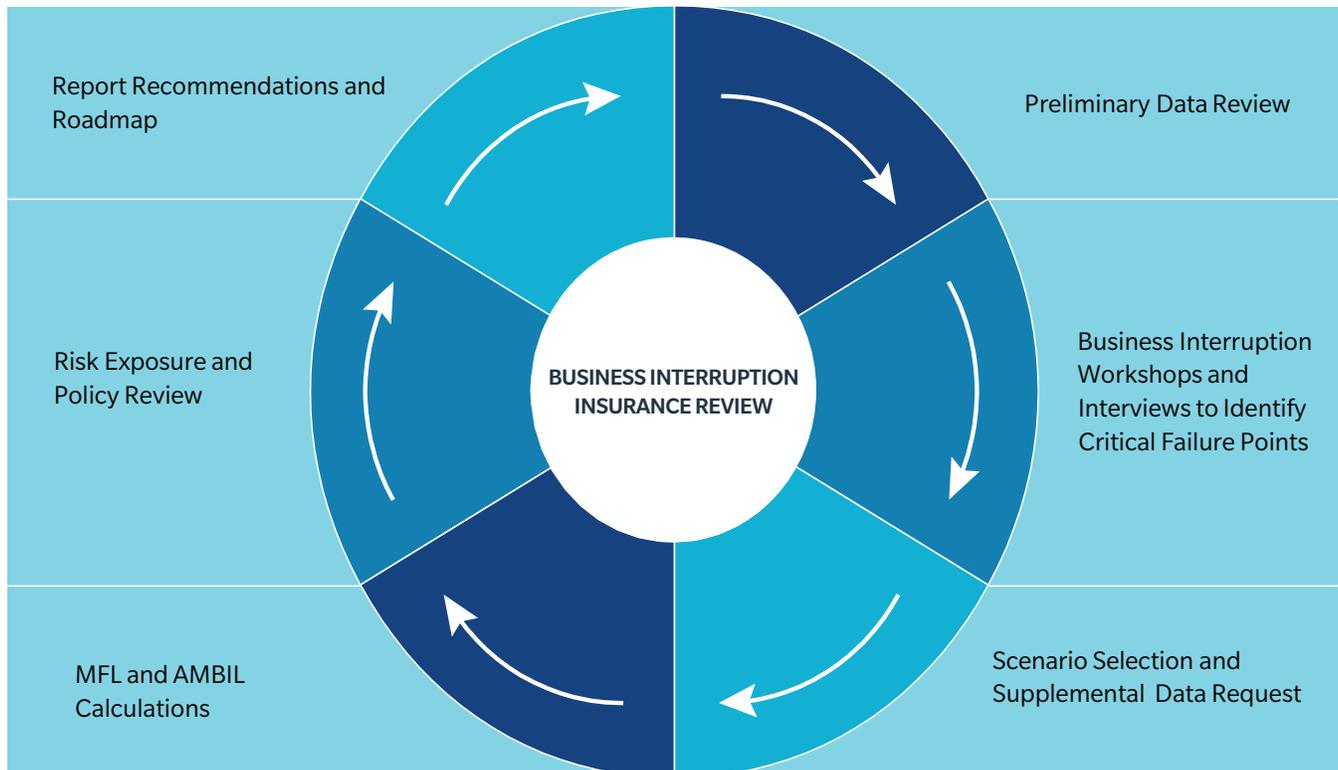
There is no one business interruption analysis and valuation model that perfectly fits all organizations. The forensic and certified accountants of Marsh Risk Consulting’s Forensic Accounting and Claims Services (FACS) Practice have decades of unmatched business interruption experience and a breadth of expertise across industries and geographies. Our phased project approach, which is grounded in thousands of claims and a deep understanding of the operational and financial dimensions of business, allows us to evaluate and test your business interruption coverage against potential loss scenarios.

## PHASED PROJECT APPROACH

The graphic below provides a visual of our phased project approach to a BI values review from beginning to end. The individual steps can be tailored to fit the scope and objectives of your particular organization.

## GOALS

Our goal is to provide you with an annual exposure analysis that is tailored to your specific operations and that is consistent and transferable across your organization. Additionally, we strive to provide insight into your exposures based on the potential mitigating factors for actual loss situations. Our work will provide benchmark values that can be utilized when an actual loss is sustained, and for adjusting insurance coverage limits, whether you are under- or over-insured. Lastly, we want to provide you with a methodology and model that can be used year after year and adjusts for changes in your operations and organizational footprint.



## OTHER BENEFITS

Our analysis takes into consideration factors that are often overlooked in more traditional values, high-level BI worksheets, and other approaches such as:

- The identification of risk exposures for damages to your suppliers and customers, known as your contingent BI risk.
- The impacts of other business interruption-related factors, such as ordinary payroll, impact of finished goods, “pure” extra expenses, mitigation costs, business seasonality and trends, and actual versus theoretical periods of indemnity.

In addition, we are able to call upon the vast resources and experience of Marsh, providing you with an unparalleled combination of insurance placement, accounting, engineering, business continuity, supply chain, and industry-focused professionals with understanding of potential and actual losses and the business interruption insurance marketplace.

## OUTPUT

We will tailor our analysis and outputs to your organization. However, a typical summary report includes:

- An executive summary of key recommendations.
- An organizational profile and key financials that can be shared with insurers.
- Outline of agreed scenario(s) considering mitigation efforts with estimated impacts and recovery periods.
- Financial flows, impacts, and external dependencies.
- Optional commentary on existing business continuity plans.
- Policy wording review and recommendations.
- Appendices with all calculations.

With this detailed BI exposure analysis, a well-developed recovery plan, and a highly experienced claim support team, you should be well positioned to effectively minimize the impact of a business interruption event and speed your business recovery.

## CASE STUDY

### CHEMICAL COMPANY GAINS INSIGHTS AND PREMIUM REDUCTION WITH FACS BI INSURANCE REVIEW

#### The Challenge

A multibillion dollar chemical company client was entering its property insurance renewal period and its new risk management team was uncertain about its business interruption (BI) insurance coverage levels. The team discussed its coverage concerns with its Marsh client executive. They quickly realized that a BI calculation would be a complex process as the company not only had numerous divisions with operations worldwide, but had ones specialized in various chemical processes for which production stages occurred in multiple locations.

#### The Solution

With a recommendation from the client executive, Marsh Risk Consulting’s (MRC) Forensic Accounting and Claims Services (FACS) Practice was engaged to assist with the BI insurance valuations. After analyzing various client locations, the FACS team traveled to those sites most crucial to the company’s operations in order to gather data and perform further analysis. With the assistance of key client personnel, FACS gathered the necessary raw data and performed a detailed analysis of the BI values by location and business unit.

FACS discovered that the client had been calculating the sales price at each production stage and totaling these figures to calculate its BI values. This resulted in figure redundancies and produced artificially high BI values. In addition, the client had not verified its calculated values against its financial statements, which would have highlighted any discrepancies. FACS performed this comparison with the newly calculated BI values and confirmed that the values were consistent with the client’s divisional profit and loss statements, annual report, and 10K.

#### The Result

FACS presented its findings to the client in an easy-to-understand format. After reviewing the information, the client used the FACS-calculated BI values for its property policy renewal, which translated into a reduction in its insurance premiums. The client was so pleased with the results, that it retained FACS to perform the analysis annually. It further expanded the analysis to include contingent BI values interdependency issues, which resulted in more precise BI values, a streamlined renewal process, and further improved insurance premiums.



## ABOUT MARSH RISK CONSULTING

Marsh Risk Consulting (MRC), a business unit of Marsh LLC, is a global consulting organization comprised of more than 800 issue- and industry-specific experts in more than 40 countries around the globe, who understand risk from our clients' perspective. We also have some of the best claims recovery people in the business, who have managed some of the largest and most complex claims in history.

For more information about business interruption insurance reviews and other solutions from MRC and Marsh, visit [www.marshriskconsulting.com/fas](http://www.marshriskconsulting.com/fas), or contact your local Marsh representative.

Marsh is one of the Marsh & McLennan Companies, together with Guy Carpenter, Mercer, and Oliver Wyman.

This document and any recommendations, analysis, or advice provided by Marsh (collectively, the "Marsh Analysis" are not intended to be taken as advice regarding any individual situation and should not be relied upon as such. The information contained herein is based on sources we believe reliable, but we make no representation or warranty as to its accuracy. Marsh shall have no obligation to update the Marsh Analysis and shall have no liability to you or any other party arising out of this publication or any matter contained herein. Any statements concerning actuarial, tax, accounting, or legal matters are based solely on our experience as insurance brokers and risk consultants and are not to be relied upon as actuarial, tax, accounting, or legal advice, for which you should consult your own professional advisors. Any modeling, analytics, or projections are subject to inherent uncertainty, and the Marsh Analysis could be materially affected if any underlying assumptions, conditions, information, or factors are inaccurate or incomplete or should change. Marsh makes no representation or warranty concerning the application of policy wording or the financial condition or solvency of insurers or reinsurers. Marsh makes no assurances regarding the availability, cost, or terms of insurance coverage. Although Marsh may provide advice and recommendations, all decisions regarding the amount, type or terms of coverage are the ultimate responsibility of the insurance purchaser, who must decide on the specific coverage that is appropriate to its particular circumstances and financial position.