

Analyse and Identify

Business Interruption (BI) Review

Calculating the potential loss of profit or revenue, and the time it can take a business to recover following an insured event is a complex process. Having incorrect BI sums insured can be costly and, in extreme cases, can threaten the very existence of a business.

What is Business Interruption (BI) insurance?

Business Interruption (BI) insurance has been developed to protect businesses from loss of profit or revenue, including any additional expenditure incurred in maintaining the business, following an insured loss or damage to property and goods.

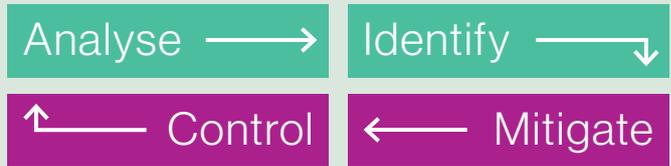
Simply replacing the damaged or destroyed property does not replace the profit that would have been earned had the interruption not taken place. BI insurance is designed to cover the gap in income from the time of the interruption to the time business returns to normal.

What is a Business Interruption review?

A BI review provides an accurate assessment of the potential for loss of revenue and/or increased cost of working following a material damage or loss.

The review includes detailed investigations to predict the potential BI outcome following an incident. Loss scenarios are also inserted into financial models to provide insured and insurers with a clear picture of how a loss would be calculated based on the insurance coverage available.

The review can extend beyond premises owned or occupied by the insured to include those of suppliers or customers where cover extends to include them and will also examine service providers, for example electricity, gas, water or network connections.



Case study:

A food retailer with over 350 convenience stores and supermarkets had over 50% of its products flowing through a single distribution centre. The loss of the distribution centre would have a severe impact on the company's ability to trade.

Following recommendations from the BI review, the organisation signed an agreement with a national distributor to by-pass their own distribution centre in the event of an incident.

The new centre would ensure that the business could continue to trade, re-stocking stores incrementally, reaching approximately 90% of deliveries within 12 weeks; in addition to the other 50% of products already being distributed.

Further benefits were realised as a result of the BI review, including:

- Areas of loss exposure were better understood and quantified
- 20% reduction in insurance premiums negotiated
- Critical assets identified and contingency plans formulated to protect the business
- Increased awareness in the business of commercial issues surrounding major loss events

What are the benefits?

A BI review will establish true risk exposures before any loss occurs so any issues around inadequate or under insurance can be identified and resolved. A BI review will provide:

- A realistic assessment of possible losses in the event of an interruption
- An assessment of the adequacy of current insurance protection
- An accurate basis for negotiation of insurance cover
- Advice on how the business may be made more resilient to loss

What will the BI review deliver?

A BI review can outline:

- An overview of the organisation's business activities and locations
- An assessment of the gross profit at risk (based on definitions in the insurance policy)
- An assessment of exposure to loss at a supplier or at a key customer
- A brief overview of the IT and communications facilities and the ability to recover them
- Interdependencies between locations owned or operated by the organisation
- How well an organisation has prepared for any disaster
- An estimation of the time taken to reinstate the business to its pre-loss position
- A financial analysis of additional costs of working incurred during the interruption period
- A calculation of the potential loss of gross profit and additional costs of working, based on realistic loss scenarios
- An assessment of the adequacy of insurance cover and any recommended changes to it

How does a BI review work?

Data gathering

A customised questionnaire can be used for multi-site operations for quick acquisition of data. Otherwise data gathering may be done on a face-to-face basis.

Overview of the operation (site visits)

Willis Towers Watson specialists will visit major locations, which create revenue or administer the organisation to understand overall business processes in order to make an assessment.

Review of the management accounts

A review of the headline financial data will help to establish the gross profit at risk according to the insurer's definitions.

Review of systems and communications

Specialists assess the organisation's dependency on its IT and communications facilities and how quickly these can be restored following an incident.

Review of other risk factors

Other factors which may affect the business include:

- Loss of utility supplies to site
- Denial of access to site
- Supplier and customer dependencies
- Fines and damages
- Advanced profits
- Inter-Group dependencies

Review of disaster preparedness

A review of crisis management and disaster recovery plans will be made to assess how quickly normal trading levels can be restored.

Risk Management for a Complex World

At Willis Towers Watson we deliver risk management solutions through a connected team across the globe. We align our industry expertise and competence to your risk requirements.

Willis Towers Watson takes a fresh, logical approach to risk management; connecting our industry insight and analytical capabilities through our risk advisors, engineering specialists, and risk transfer and placement brokers.

We look holistically at your business. Our solutions are designed to not only link functions but also connect between the asset, business, people, security and other risks to provide you with the control and mitigation support you need.

Other value added services include:

- RAPID – Risk Assessment Probability and Impact Diagnostic
- Business Continuity Management (BCM)
- Audit – Willis Blue
- Strategic Risk Management
- Risk Partner
- Training
- Health and Safety Risk Management
- Fleet Risk Management
- Claims Defensibility Review
- Risk Engineering Surveys

For further details, please contact your local
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