

# The Chartered Institute of Loss Adjusters



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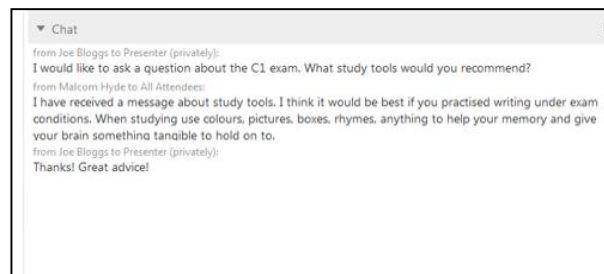
Notify colleagues that you will be in a training session



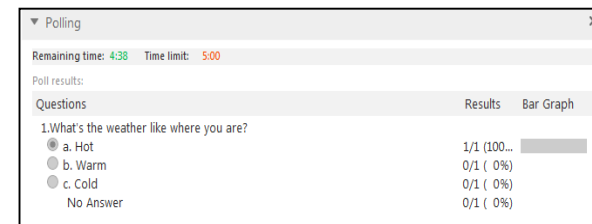
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# Spotlight on: BI and the Healthcare Industry

*CILA Business Interruption SIG*

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Webinar  
22 May 2019



# Objectives



- Highlight relevant statistics within the healthcare industry
- Understand red flags and issues which complicate a claim
- Case Study 1 – Fire at a Care Home
- Case Study 2 – Fire at a Mental Health Facility
- Case Study 3 – Interruption to a Dental Practice

## Critical Condition?

- The UK healthcare infrastructure consists of two major streams: the National Health Service (NHS) and private (self- or insurance-funded) care.
- The NHS was created over 70 years ago, and is free at the point of use and paid for out of general taxation. The NHS covers general practitioner appointments, some dental care, mental health provision and hospital care.
- Total current healthcare expenditure in 2017 was £197.3 billion, an increase in real terms of 1.1% on spending in 2016. That's c. £2,988 per person.
- In 2017, government expenditure on medical goods and preventative care fell by c.10%, with an increased focus on curative and rehabilitative care (e.g., home-based).
- Improvements in health care (e.g., diet, reduced smoking habits, exercising more) mean that people are living longer than ever. In 2017 male life expectancy was 79.2 years and females had a life expectancy of 82.9 years.

# Taking Care of Business (Interruption)



## Funding Implications

- Local authorities operate on tight budgets
- Potential to claw back funding in excess of entitlement



## Continuation of Care

- Alternative facilities need to be found quickly
- Fulfil the duty of care



## Agency Workers

- While in a manufacturing loss temporary workers likely to be laid off or unutilised in favour of permanent employees, agency workers may be redeployed



## Brexit

- With continued uncertainty and potential restrictions on free movement, risk remains that the pool of agency staff may decrease over time



# Taking Care of Business (Interruption)



## Split of public/private commitments

- Private funding is more lucrative
- Public funding is more stable
- Preserve public funding for the long term vs short term revenue mitigation



## Specialist facilities

- Secure mental health institutions, children's care and particular centres of excellence
- May also lead to a loss of specialist staff



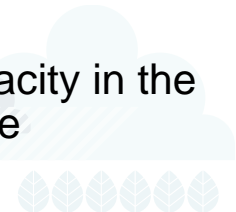
## Vulnerable Customers

- Continuing focus is on duty of care
- Moving patients to a facility 30 miles away may be cost efficient, but unworkable



## Indemnity Period

- The indemnity period should consider not only reinstatement but also the return to normal business operations
- Capacity in the home





# Case Study 1: Care Home

## Overview of Operations:

- *Care Home providing Residential and Nursing Care.*
- *Income mixture of funding by local authority and private patient fees.*
- *Capacity for approx. 40 residents at any one time.*
- *Annual turnover of approx. £1.9m*
- *Home located in a remote part of the South West.*
- *Landlord was a charity run by a board of Trustees.*
- *Part of a group operating around 25 care homes in and around the South West region.*



# Case Study 1: Care Home

## **The Case:**

- *Fire at a geographically remote Care Home providing Residential and Nursing Care.*
- *Total loss.*
- *All residents had to be re-located whilst rebuild was completed.*
- *Some were able to be relocated to other homes within the Insured Group.*
- *Some were lost immediately due to there not being acceptable alternative homes.*
- *Some who remained within the group were lost as the months progressed.*
- *Staff were relocated where possible to other homes within the group.*

## Poll

**Question 2** – What do we think might be a suitable Maximum Indemnity Period (MIP) for a Care Home policy?

- (A) 12 month MIP
- (B) 24 month MIP
- (C) 36+ month MIP

# Case Study 1: Care Home

## *Interruption Features*

- *Geographically remote location*
- *Demographic of customers*
- *Relatively slow progress from landlord*
- *Care Home Inspectorate*

## *Claim for ICW*

- *Included interior design consultant.*
- *Part allocation of salary for a key Group HR employee.*
- *Marketing spend.*
- *Staff recruitment costs.*

## Case Study 1: Policy Cover

- *Gross Revenue* - **£6m**
- *AICOW* - **£100k**
- *Maximum Indemnity Period* - **36 months**

## Case Study 1: Summary Financials

- *Annual turnover (prior year)* **£1.9m**
- *Consistent growth rate over prior two years* **2.5%**

## Poll

**Question 3** – Based on annual turnover of £1.9m achieved in the prior year and a consistent positive trend of 2.5% expected to continue for the next five years, is the Gross Revenue Sum Insured at £6m over 36 months MIP adequate?

- (A) Yes
- (B) No
- (C) Maybe / I don't have a calculator

## Poll

**Question 4** – Based on the information we have heard on this case, which of the following ICWs do you think were accepted?

- (1) Marketing spend in support of re-opening
  - (2) Recruitment costs in support of re-opening
  - (3) Interior design consultancy
  - (4) Contribution to HR employee salary
- 
- (A) 1 and 2 only
  - (B) 1, 2 and 4 only
  - (C) All of them
  - (D) None of them

# Case Study 1: Adjusted claim

## Loss of Revenue

- *Loss of Revenue during closure period - £500k over 22 months*
- *Loss of Revenue post reopening - £345k over 9 months*

## ICW

- *Marketing spend in support of re-opening £20k*
- *Recruitment costs in support of re-opening £23k*
- *Interior Design Consultancy – not covered*
- *Contribution to HR employee salary – not covered*



## Case Study 1: Issues

- *Loss of Revenue – impacted by customer profile, landlord, Care Inspectorate, geographic location of risk.*
- *Savings – significant savings in wages together with savings in rent and overheads.*
- *Increased Costs – marketing and recruitment costs paid.*
- *Increased Costs – Consultancy and HR costs not covered.*
- *Recovery – Solicitors appointment to look into potential recovery action against the landlord delays, ultimately it was determined that there was no case to answer.*
- *Vulnerability of patients – customers of a Care Home business are in the large, elderly and infirm and present a unique challenge from a claim handling perspective.*

# Case Study 2: Mental Healthcare

## Overview of Operations:

- *The home is divided into two types of care: supported living (where patients live independently but with contact time from healthcare staff), and full time in-patient care.*
- *The home is funded by a mix of private payments by patients or their families, and local authority funding.*
- *Local authority funding is provided up front at the start of April every year. The financial results of the home are circulated to funders on a monthly basis. These form the basis of funding decisions in the next fiscal year.*
- *Funding can be clawed back should patients be under hospital care (therefore only requiring outpatient visits from the home), or if they leave the property.*

# Case Study 2: Mental Healthcare

## **The Case:**

- *Major fire resulted in complete destruction of the property.*
- *Patients had to be moved to neighbouring facilities.*
- *Some patients left the healthcare provider altogether.*
- *Reinstatement of facility took around 12 months. Due to funding changes, the entirety of the building was reinstated as a independent living facility.*

## **Key Points:**

- *Patients were moved to alternative facilities or other homes on the night of the fire.*
- *Workers used their own cars / assets to move patients where possible.*
- *Some patients left the group because of the distance of the new facilities from their family members.*
- *This had an impact on the perception of the facility to its funders.*

## Case Study 2: Policy Cover

- *Gross Revenue (and ICW)* - **£2m**
- *AICW* - **£Nil**
- *Maximum Indemnity period* - **18 months**

# Case Study 2: Heads of Claim

## *Loss of Revenue*

- *Loss of Revenue - **£900k for patients during the reinstatement***
- *Indemnity Period was over a funding renewal at 1 April*
- *Understand the impact on funding at sites where patients were moved*
- *Correspondence with funders regarding a patient who subsequently left the facility*

## *Increased costs*

- *Fuel costs where staff used own vehicles to transport patients*
- *Redundancy Costs of facility managers who were not required*
- *Seasonality and the variability of seasonal workers skewed the pre-loss average*

## Poll

**Question 5** – Should the increased costs of £200 for fuel used by members of staff to transport patients be accepted?

- (A) Yes
- (B) No
- (C) It depends

## Poll

**Question 6** – If yes, would you consider such costs to be covered under:

- (A) Increased Costs of Working
- (B) Additional Increased Costs of Working



## Case Study 2: Issues

### *Impact of Loss Event:*

- *Savings – some senior staff were made redundant as they were not required at other homes.*
- *Increased Costs – staff used their own vehicles to transport patients to other facilities to continue care. No AICOW cover but was accepted as ICW.*
- *Requirements of funding group – state funding is dependent on the “performance” of the home during the previous year.*
- *Vulnerability of patients – some patients needed specialist care before, during and after the event. Therefore needed more analysis of the financial statements and further considerations during the claim.*

# Case Study 3: Dental Practice

## Overview of Operations:

- *The Insured occupied a large ground floor annexe of a Medical Centre*
- *Dentist had been practising at the surgery for over 20 years*
- *Dentist employed eleven members of staff*
- *Achieving turnover of approximately £500k pa.*
- *75% of the income was derived from NHS patients, with the remaining 25% being private fee work*
- *Insured also received funding for vocational training*

# Case Study 3: Dental Practice

## **The Case:**

- *Flooding at a dental practice following torrential rain in June 2016.*
- *Practice closed for several months and Insured moved back into premises in January 2017.*
- *Temporary mobile units erected with fully kitted dental rooms, waiting area and WC.*

## **Key Points:**

- *Claim for loss of NHS income (UDAs) and private fee work*
- *Loss of Vocational Training status*
- *Two months to focus efforts on clawing back UDA shortfall, before UDA year end on 31 March.*

## Case Study 3: Policy Cover

- *Loss of Income & Extra Expense* - **£1.5m**
- *Maximum Indemnity period* - **24 months**

## Case Study 3: Heads of Claim

Head of Claim	Amount (£)
Loss of Income	
UDA income	50,000
Private Fee income	25,000
Vocational Training	150,000
Extra Expense	103,000
<b>Total Business Interruption Claim</b>	<b>328,000</b>

## Poll

**Question 7** – The VT contract is an annual contract which was ‘lost’ within the 24 indemnity period. As the whole year’s contract was lost in the indemnity period the full contract value for the 2 years (i.e. 24 months) should be accepted.

- (A) True
- (B) False

## Case Study 3: Heads of Claim

Head of Claim	Claim (£)	Adjustment (£)
Loss of Income		
UDA income	50,000	0
Private Fee income	25,000	7,000
Vocational Training	150,000	135,000
Extra Expense	103,000	103,000
Savings		
Cost of sales (private work/vocational training)	0	(39,000)
Rent	0	(14,000)
<b>Total Business Interruption</b>	<b>328,000</b>	<b>192,000</b>



## Case Study 3: Issues

### *Impact of Loss Event:*

- *Loss of Revenue – no impact to NHS income as practice was within its percentage tolerance in respect of annual UDAs*
- *Loss of Revenue – loss of private fee work. Focus on revenue stream for Private treatments by adding new patients and promoting this service more.*
- *Loss of Vocational trainer status - practice focussed on the UDA catch up and adding to the amount of Private treatments undertaken, to the detriment of the VT contract*
- *Extra expenses – cost of hiring temporary units and additional staffing costs were paid for*
- *Savings – savings in rent as well as cost of sales (private work and vocational training)*

# Summary of BI Issues

- Non-economic costs
- Timeline of reinstatement and indemnity periods
- Requirements of the Insured
- Vulnerabilities of their patients and families
- Funding implications



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