Know Your Limits: Considering BI Extensions

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Agenda

- Introduction
- Loss at Supplier
- Loss of Attraction / Denial of Access
- Loss of Utilities
- Summary

Question 1

What size was the largest fatberg ever discovered in a UK sewer?

A 400 tonnes, 250 metres long.

B 600 tonnes, 450 metres long.

C 250 tonnes, 100 metres long.

Supplier Extensions

Loss at Supplier: Typical Coverage

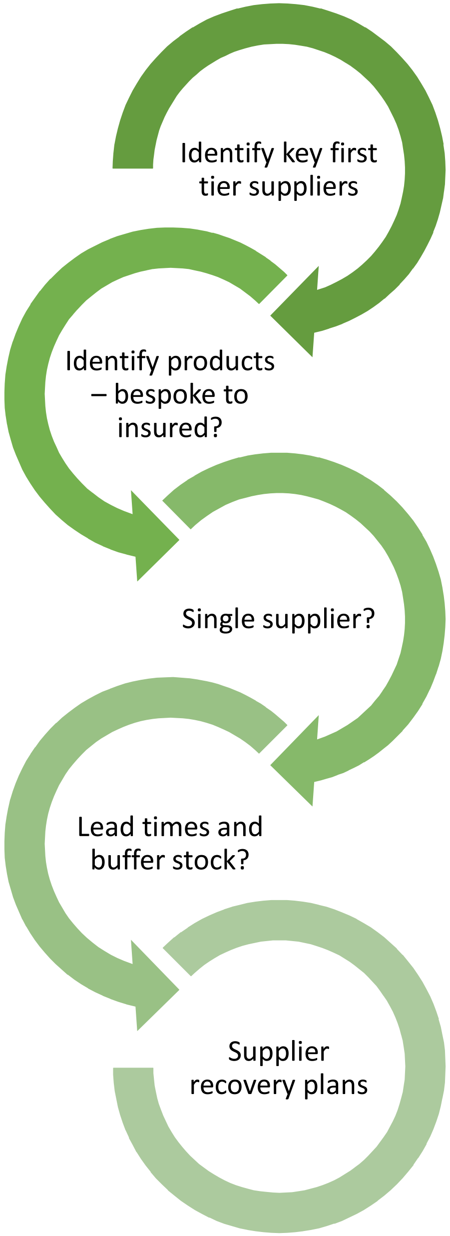
"Subject to the conditions of the policy, loss as insured hereby resulting from interruption of or interference with the business ***in consequence of damage*** *at the premises of any of the Insured's suppliers, manufacturers or processors of components, goods or materials shall be deemed to be loss resulting from damage to property used by the insured at the Premises, but excluding the premises of any supply undertaking from which the Insured obtains electricity, gas or water or telecommunications service."*

Case Study 1 – when it goes wrong

- UK manufacturer of a key packaging product sold into the global food market
- Core Gross Profit cover £25m, with a Specified Supplier Extension in place for the supplier of the key raw material at £500k
- Supplier in question provided the Insured with 80% of their annual requirement for the key raw material
- Only two suppliers of this particular (new and innovative) raw material exist in the market
- Fire at the Supplier, total loss, unable to supply anything for six months
- Global demand for the raw material outstrips supply multiple times
- Constriction in supply leads to significant losses in the millions for our Insured
- Our exercise as adjusters was simply to confirm that the £500k limit had been surpassed to allow Insurers to discharge their liability accordingly, leaving the policyholder to face significant uninsured losses.

Specified Suppliers: Setting a Limit

A loss at a supplier is unlikely to result in 100% loss at our Insured, but how do they decide the correct methodology to apply?



Consequences for the Insured

- Unusual to see a specifically calculated limit
- Potential for significant uninsured losses from limited indemnity period and low sublimits
- Suppliers could use subcontractors (their competitors) – but there is a risk of the primary insured going to a competitor
- Possible E&Os for brokers if things go wrong.

BUT

- Is the Insured even aware of their reliance on particular suppliers?

Question 2

What type of suppliers do we generally see covered in UK policy wordings?

A First tier (i.e., direct) suppliers only.

B First tier suppliers and UK-only third tier suppliers.

C All suppliers worldwide (from direct suppliers, to suppliers of suppliers).

Case Study 2 - when it goes right

- Insured distributes leaflets/letters and rely on the printers to mail merge, print and send directly to the Insured's clients.
- Core Gross Profit cover £10m, with a Specified Supplier Extension in place for the supplier at £1million
- There was a fire at the printers premises
- Printers focused their efforts on servicing their priority customers, where there were contractual agreements in place.
- Printers were unable to meet Insured's timescales for print functions, so the Insured had to incur increased cost in sub-contracting

Specified Suppliers extension – with a higher limit (£1m)

Loss of revenue

ICW

Question 3

Which methodology should be used to calculate the loss of supplier sublimit?

A Percentage of the Insured's sales

B Percentage of the Insured's purchase costs

C Neither – the limits proposed by insurers are fine

Loss of Attraction / Denial of Access

Typical Coverage

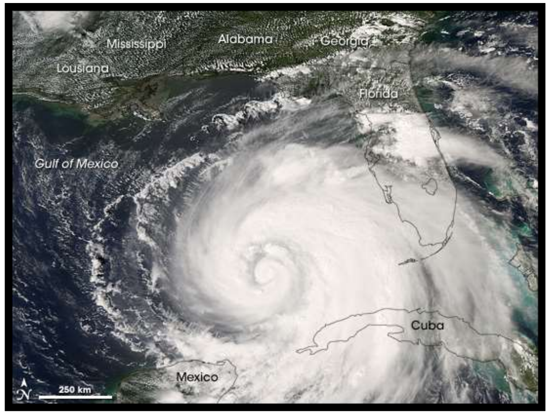
"Damage to Property in the vicinity of the Premises by any of the insured Perils which
A) hinders or prevents the use of the Premises or access to them
or
B) causes a fall in the number of customers attracted to the vicinity of the Premises whether the Property being used by the Policyholder for the purpose of the Business shall be damaged or not,

excluding any loss as a result of Damage which prevents or hinders the supply of electricity, gas, water or telecommunications services."

May also reference:

- A radius
- The shorter indemnity period or sublimit

Events which could result in DoA / LoA claims



Case Study 1 – when it goes wrong

- A hotel located in London claimed for loss of revenue following the Borough Market Attacks in 2017
- The Insured made a claim under their Terrorism policy. The policy required the loss of income to flow from property damage – within a 5 mile radius.
- The hotel was within the 5 mile radius but damage was minimal and unlikely that guests cancelled a trip on the basis of the minor damage. It was more likely to be a fear of travel post loss.
- The claim was not covered, because the loss of income did not flow from property damage.
- ‘Non damage’ wording was required to engage cover.

Question 4

In this case, would having non-damage Denial of Access cover have assisted the Insured?

A Yes

B No

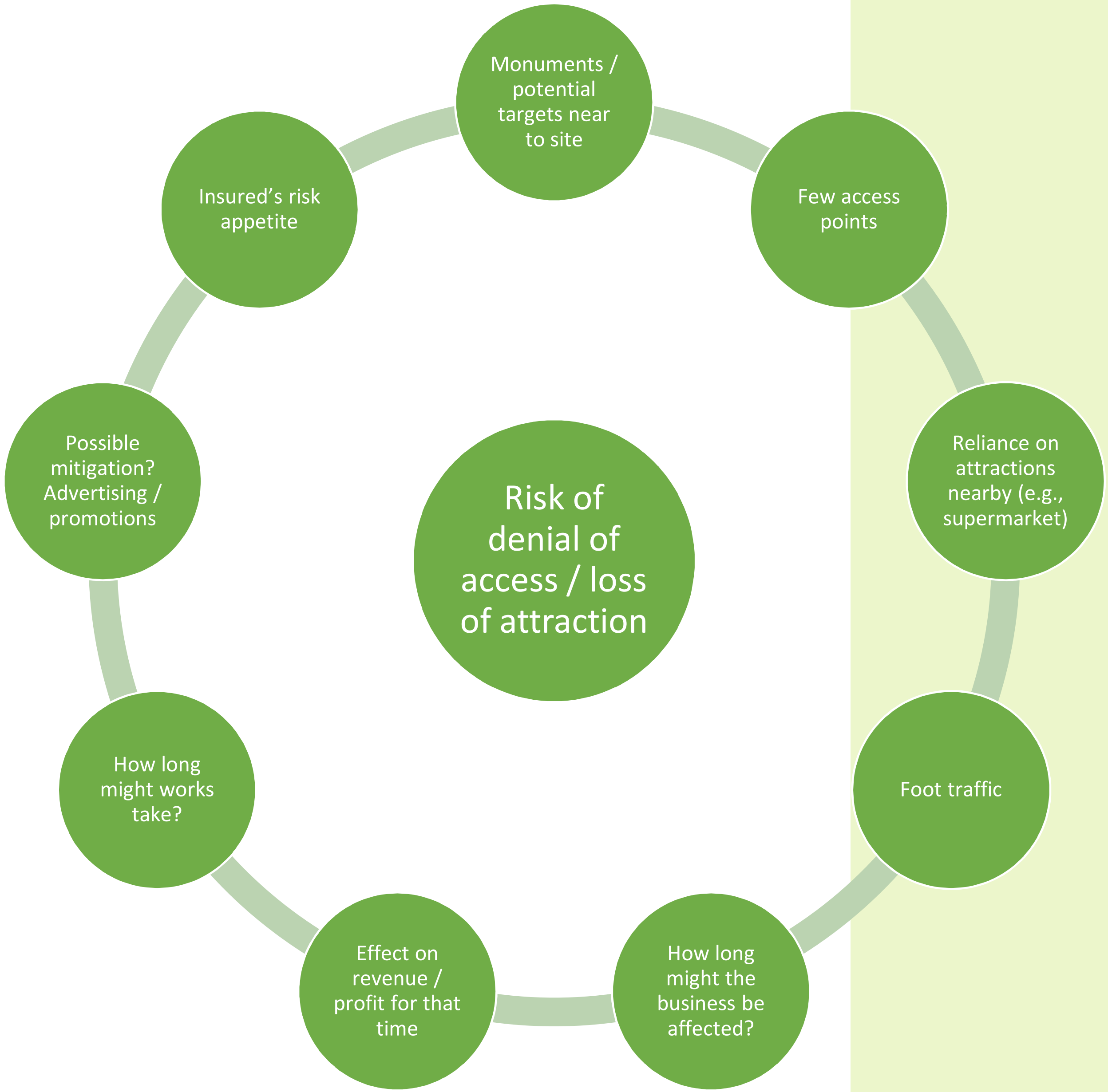
C Not sure

Pitfalls in these claims

- Proving the loss of attraction.
- Parametric insurance – the future of LoA claims?
- Very low sublimits and use of aggregates.
- Non-damage DoA is not a standard extension (or just relates to public authority closure).
- Can Insureds beyond the 1 mile radius be affected?
    - Is this radius a fair approach to the cover?

Setting a limit

How does an insured set an appropriate limit for DoA / LoA?



Case Study 2 - when it goes right

- A shopping mall was partially damaged by fire.
- Insured was a retailer who was undamaged but experienced reduced footfall after the mall reopened.
- Most of the retailer's stores are based in the High Street or mall locations.
- Relied on follow-on trade from the supermarket which was damaged by fire and closed for several months.
- LoA cover of £1m in one occurrence. 18 month MIP per policy.
- Cover was based on gross profit in larger stores who would likely suffer LoA. This was limited as unprofitable stores on a longer term basis would be shut down.

Question 5

In your experience are policy limits adequate for these types of claims? If not, should standard wording (e.g. radius/short indemnity periods) be amended?

A. Limits inadequate – but Insureds should be challenging the wording.

B. Limits inadequate – and the standard wording should be changed.

C. Limits are adequate – it is fit for purpose.

Failure of Public Utilities

Loss of Utilities: Typical Coverage

"failure in the supply of water, gas or electricity supplied by a supplier operating and based in the European Union to the business premises for ***more than 24 consecutive hours*** *caused by insured damage, other than loss or damage caused by flood or earth movement,* ***to any land based premises of the supply authority or the terminal feed to the business premises*** *or to underground pipes or underground cables conveying such services from the supply authority to your premises."*

Case Study 1 – when it goes wrong

- Leisure Centre suffered a loss following a leak on the mains water supply to the building. The leisure centre had to be closed whilst repairs were taking place resulting in loss of revenue.
- The leak occurred within the surrounding grounds but outside of the building.
- The policy provided cover on a Gross Revenue basis for £5m, with a Failure of Utilities Clause in place at £100k
- Failure of Utilities provided cover for:

> *"any water works or pumping stations of any public supplier...... **in the vicinity of the premises** which prevents or hinders the use of or access to the premises **excluding damage to property of any supplier** which prevents or hinders the supply of services by any electricity, gas, water or telecommunications supplier to the premises."*

- Do Insurers consider the leak from the pipe to be damage to water works?

Consequences for the Insured

- Technicalities of the wording.
- Methods of measurement of this sublimit.
- Differences between telecommunications and other utilities cover?
- Reference interaction between other insurance, e.g., cancellation insurance.
- Do loss of utilities tend to last more than 24 hours?

Question 6

"Loss as insured by this Section resulting from interruption of or interference with the Business in consequence of destruction, damage or loss caused by any Event covered under Section 1 Trade Contents to property at any Electricity Station or Sub-Station, Gas Works or Water Works of the Public Supply Undertaking from which the Insured obtains electric current, gas or water.

Excess: 24 hours."

A loss happens at 10am Monday morning, but the interruption does not start until 10am Thursday morning. When measuring a business interruption claim under this wording, does it require us to deduct:

A Deduct the first 24 hours from damage.

B Deduct the first 24 hours from interruption.

C It depends.

Summary

- Understanding the risks to the business is key for Insureds.
- Adjusters also have a duty to inform Insureds as to the reasons for underinsurance, and advise if appropriate.
- Can arise in many types of claims – not just standard PDBI.
- Ongoing developments in blockchain / parametrics may assist in limiting risk and setting limits.

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