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With You Today

ANDREW LASSMAN, CPA, CFE
Manager, Forensic Insurance & Recovery
(210) 419-3284
alassman@bdo.com

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Agenda

1. Purpose
2. Process
3. Measurement
4. Challenges

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Purpose

The primary goal of business interruption insurance is to make the insured whole following a loss incident.

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Purpose of Business Interruption Insurance

- Put insured in same financial position as if no loss occurred.
- Insurer shares risk with insured for specified time period in exchange for an insurance (or risk) premium.
- Risk shared for specified time period:
  - Period of Indemnity / Liability / Restoration
  - Extended Period of Indemnity
  - Specified Cutoff
  - Due Diligence & Dispatch
- Must tie to physical damage from an insured peril per terms & conditions of policy.

5 BUSINESS INTERRUPTION BOOTCAMP - RIMS SOUTH TEXAS

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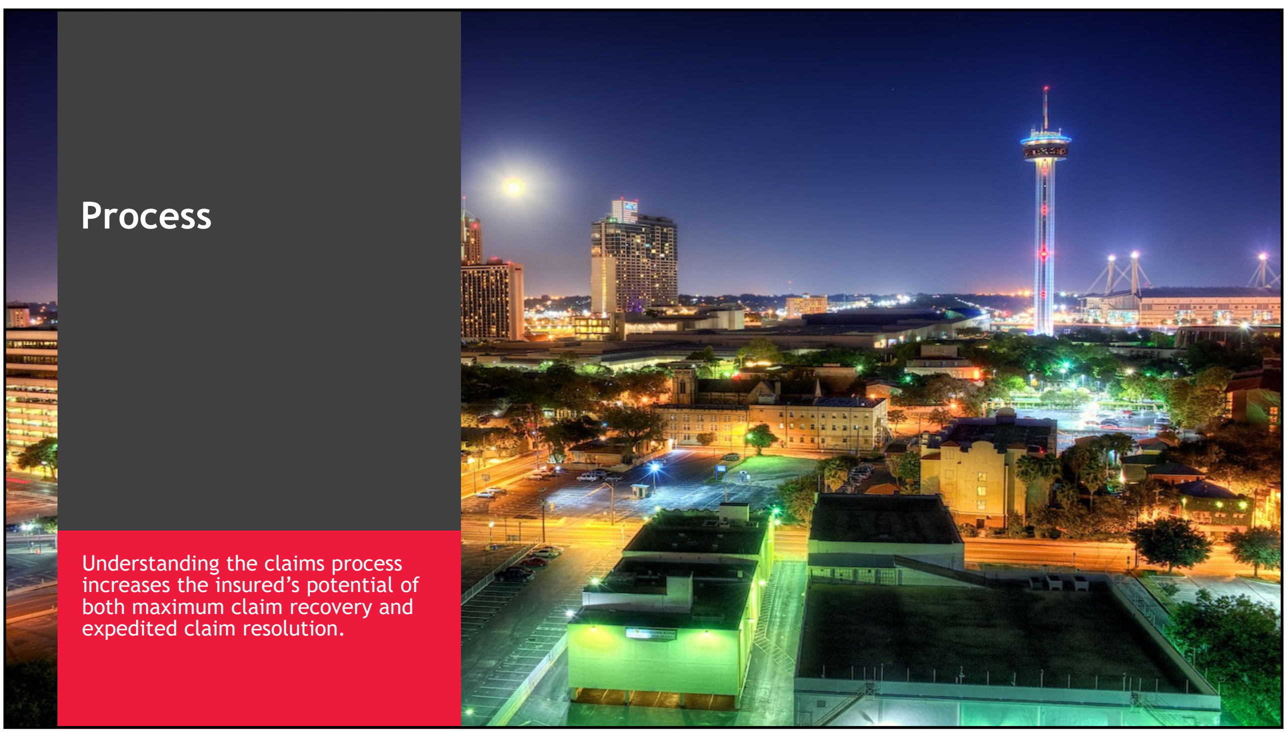

Process

Understanding the claims process increases the insured's potential of both maximum claim recovery and expedited claim resolution.

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Claims Process Timeline

Before Loss → Claims Timeline

Pre-Loss	Phase 1	Phase 2	Phase 3
Review policy provisions	Assemble core team	Respond to info requests	Prepare to negotiate
Review statement of values (consider market conditions)	Establish communication & documentation protocols	Secure advance payments (if applicable)	Resolve claim with the insurers
Build cross-functional relationships	Secure "buy in" from adjustment team	Reconcile differences with adjustment team	
	Submit preliminary loss estimate	Submit updated "current" loss estimates	

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Claims Process Tips

- Make a complicated problem simple!!
- Do not expect quick resolution.
- Take collaborative approach with adjuster.
- Know when, who, and how to bring in support.

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Measurement

Every policy and fact pattern is different, so there is no one-sized-fits-all way to measure a loss. But there are common approaches policyholders can follow.

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Two Forms of Loss Measurement

- Gross Earnings
  - Lost Revenue – Discontinuing (Variable) Expenses
  - US Form
  - Period of Indemnity: Ends after repairs finished, with potential EPOI extension
  - “Extra Expense” capped by sublimit stated in policy

- Gross Profit
  - Lost Net Income + Continuing (Fixed) Expenses
  - UK / European Form
  - Period of Indemnity: Ends after pre-specified period, usually 6 to 36 months
  - “Increased Cost of Working” capped by economic limit stated in policy

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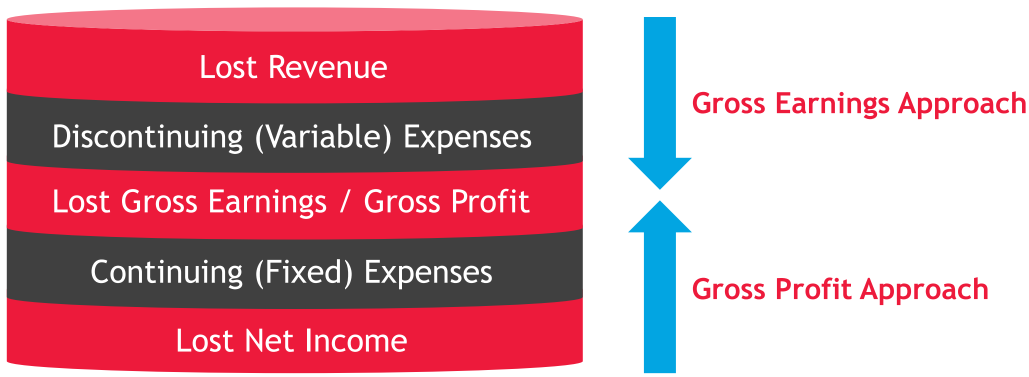
Loss Measurement Illustration



Simple Loss Measurement Example

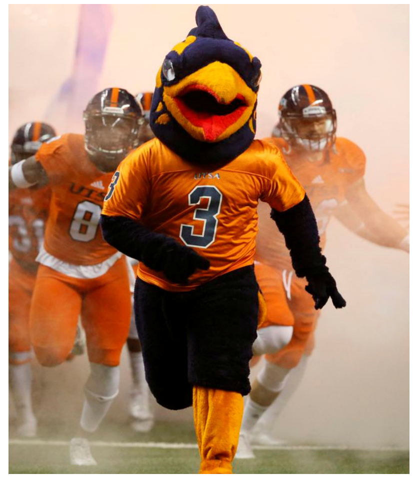
Lassman Automotive
Plant Fire
Date of Loss: January 1, 2023

Preliminary Loss Estimate

Description	Production Units	Total Amount
Budgeted Truck Production	1,000	
Historical Budget Accuracy	95%	
Projected Truck Production	950	
Actual Truck Production	250	
Lost Truck Production	700	
Average Selling Price Per Truck		$ 45,000
Average Variable Cost Per Truck		15,000
Average Margin Per Truck		30,000
Lost Truck Margin		**$ 21,000,000**

Other Loss Measurement Considerations

- Ordinary Payroll
  - Retain employees to avoid layoffs
- Extra Expenses
  - "Reasonable and necessary extra expense incurred during period of indemnity"
  - Examples: Security services, leasing temporary warehouse
- Expenses to Reduce Loss / Cost to Avert
  - "Costs incurred over and above normal operating expenses to reduce loss during period of indemnity"
  - Examples: Expedited freight, incremental hourly overtime, leasing temporary production facility
- Claim Preparation Fees
  - "Reasonable fees payable to insured's accountants"
  - May need pre-approval from insurer



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Challenges

Challenges arise on almost every claim. Be prepared to support your positions and know when to compromise.

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Ten Common Claim Challenges

- Makeup / Mitigation
- Correct Base Period
- Market Conditions
- Contingent Business Interruption
- Budget / Forecast Reliability
- Concurrent Causation
- Period of Indemnity
- Number of Occurrences
- Employee Compensation
- Multiple Locations

Thank You!

Contact Info:
Andrew Lassman
alassman@bdo.com
(210) 419-3284