



# b ``` (PARED!) ```

[ the business interruption e-source ]

ISSUE 4  
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BUSINESS INTERRUPTION CONSULTANTS, INC.

## HOW PREPARED ARE YOU?

Answer the questions Yes or No. Get a score. See where you stand.

1. Have you completed a Risk Analysis?
2. Have you completed a Business Impact Analysis?
3. Have you completed a Business Income Worksheet?
4. Do you have a fully tested Business Contingency Plan?
5. Have you practiced your Contingency Plan?
6. Do your employees know where to go and whom to call in an emergency?
7. Do you have a Crisis Management Team?
8. Do your suppliers and customers know what to do in case of an emergency?
9. Have you talked to your landlord about providing other premises?
10. Do you have a formal succession plan?
11. Do you have an Incident Command Center?
12. Does the Crisis Management Team know the location of the Command Center?
13. Is your Incident Command Center furnished?
14. Do you have an updated list of employees, as well as the phone numbers of outside professionals and vendors you will need?
15. Do you have a formal call tree or 800 number?
16. Do your key employees have radios/satellite phones?
17. Do your key employees have emergency kits?
18. Does everyone know how to shut down and secure their work area?
19. Have all your employees practiced using a fire extinguisher?
20. Do you have a "clean work area" rule?

Check your score: YES = 1 Points NO = 0 Points

17 - 20 points: You will probably survive. 14 - 16 points: You might survive, but will lose marketshare.

11 - 13 points: You will lose marketshare and you will have to spend excessive out-of-pocket monies.

8 - 10 points: You will be lucky to survive. 0 - 7 points: You are out of business! **Consult our website.**

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# INSURANCE CLAIM PARALYSIS

We have all seen it. Some have experienced it, or know someone who has, and it is likely to strike one of us next. What is it? It is **Insurance Claim Paralysis (ICP)**. This phenomenon occurs when a disaster hits our business and we freeze. We do not know what to do and we are scared that taking the wrong approach will cause the insurance adjuster to deny our claim.

This dilemma can create two typical types of behaviors—inactivity and hyperactivity: **Inactivity** is true paralysis in that we do nothing. **Hyperactivity** is “running around like crazy” making decisions and fixing damages without any real plan and no documentation. We are beside ourselves to get the damage fixed as soon as possible so we can return to normal.

I visited two offices in a downtown metropolitan city that had suffered a disaster and they were completely the opposite in their response to the damages. One office was at a standstill, there was broken glass and debris everywhere, wet furniture and rugs, no work being done, and everyone was wringing their hands and moaning, “What should we do?”

The other office looked like the disaster missed them until I noticed the plywood on their windows. They met me with a claim folder full of pictures, receipts, and actions taken to recover from the disaster.

Since no one can predict when the next disaster will strike, how can you avoid “ICP”? According to FEMA, “Every year emergencies take their toll on business and industry in lives and dollars. But something can be done.

Business and industry can limit injuries and damages and return more quickly to normal operations if they plan ahead. Whether you operate from a high-rise building or from an industrial complex; whether you own, rent or lease your property; whether you are a large or small company, you must prepare.”

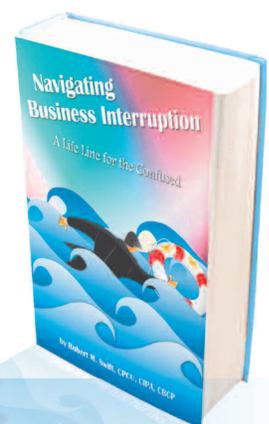
Having a sound disaster recovery plan will allow the policyholders to recover as quickly as possible and therefore be paid the proper amount. ***Do your part and avoid Insurance Claim Paralysis!***

For more detailed information, refer to the Contingency Planning Section on our website at:  
[www.BISimplified.com](http://www.BISimplified.com)

## LOOK FOR OUR BOOK!

We are excited to announce our newest upcoming addition to the Be Prepared! arsenal: ***Navigating Business Interruption, A Life Line for the Confused.***

This complete business interruption training guide will be available next spring, so add to your “must have” list. More detailed information available soon!



**COMING NEXT SPRING!**

WE WOULD LIKE SOME FEEDBACK FROM OUR READERS ON THIS CONTROVERSIAL TOPIC:

# b. (INFORMED!)

[ answers to frequently asked questions ]

## What is MONTHLY LIMIT OF INDEMNITY?

**FOOD FOR THOUGHT:** Please share your experiences about this coverage for a future, more in-depth article.

It is a commonly used endorsement that provides a chosen monthly percentage of the business income limit to be paid. 33% provides one third of the limit each month for three months, 25% gives one fourth of the limit each month for four months, etc. There is no coinsurance penalty, but the problem is that this endorsement also limits the loss period to the time frame chosen and the amounts are not additive. In other words, use it or lose it. So, if someone chooses 33% and their loss of income extends to five months, they have no protection for the last two months.

To further illustrate, a \$100,000 business income limit with 33% monthly limits would be \$33,000 per month:

	Total lost	Policy pays:
Month 1, lost	\$ 45,000	\$33,000
Month 2, lost	\$ 27,000	\$27,000
Month 3, lost	\$ 38, 000	\$33,000
	<b>\$110,000</b>	<b>\$93,000</b>

Many industry experts would have you believe that the missing \$17,000 carries over into the fourth month, but that is not what the policy says. Businesses lose a lot of money because of this confusion.

Since most insurance companies' rates only go down to 50% (six months) of the annual business income risk, the monthly limit of indemnity is used to provide less than that 50% of the annual business income risk. It also eliminates the coinsurance penalty used with the standard rates.

According to Insurance Services Office form cp 00 30 06 07, *BUSINESS INCOME (AND EXTRA EXPENSE) COVERAGE FORM*, page 8 of 9:

### 2. MONTHLY LIMIT OF INDEMNITY

a. the additional condition, coinsurance, does not apply to this Coverage Form at the described premises to which this Optional Coverage applies.

b. The most we will pay for the loss of Business Income in each period of 30 consecutive days after the beginning of the "period of restoration" is:

1. The Limit of Insurance multiplied by.
2. The fraction shown in the Declarations for this optional coverage.

### EXAMPLE:

When:

The limit of insurance is: **\$120,000**

The fraction shown in the Declarations for this Optional Coverage is: **¼ (25%)**

The most we will pay for loss in each period of 30 Consecutive days is: **\$30,000**

[ **\$120,000 X ¼ = \$30,000** ]

If, in this example, the

Actual amount of loss is:		We will pay:	
Days 1-30	\$40,000	Days 1-30	\$30,000
Days 31-60	\$20,000	Days 31-60	\$20,000
Days 61-90	\$30,000	Days 61-90	\$30,000
<b>TOTAL</b>	<b>\$90,000</b>	<b>TOTAL</b>	<b>\$80,000</b>

### The remaining \$10,000 is not covered.

This does not say there is still \$10,000 available from days 31-60 to use in a subsequent month.

Some experts infer that this loss example was only for 90 days and if it had gone longer, then the extra money would be available in subsequent months. The example does not say this was a 90 day loss, only that a 90 day monthly limit was chosen, so we should expect this example to apply to any duration of loss.

# Get the Facts... THE EXPERTS AGREE:

- A Company that experiences a computer outage lasting more than 10 days will never fully recover financially. 50 percent will be out of business within five years.<sup>1</sup>
- An estimated 25 percent of businesses do not reopen following a major disaster.<sup>2</sup>
- 70 percent of small firms that experience a major data loss go out of business within a year.<sup>3</sup>
- Of companies experiencing catastrophic data loss:
  - 43% of companies never reopened.
  - 51% of companies closed within 2 years.<sup>4</sup>
  - 80% of companies that do not recover from a disaster within one month are likely to go out of business.<sup>5</sup>
  - 75% of companies without business continuity plans fail within three years of a disaster.<sup>6</sup>
  - Companies that aren't able to resume operations within ten days (of a disaster hit) are not likely to survive.<sup>7</sup>
  - Of those businesses that experience a disaster and have no emergency plan, 43 percent never reopen; of those that do reopen, only 29 percent are still operating two years later.<sup>8</sup>



**b** (FUNNY!)  
[ a little insurance humor ]

An underwriter arrives one half hour late at a certified training center for a one hour timed certification test. "You'll never finish the test on time," the proctor coldly states.

"Just give me the test," replies the underwriter. "I'll finish it."

The time limit comes and passes and the underwriter still has not yet completed the test. Finally, a half hour after the test time limit, the underwriter takes his test to the proctor who is correcting a large stack of tests.

"You cannot turn that in," states the proctor. "You knew there was a time limit."

"Do you know who I am?" replied the underwriter.

"No," says the proctor.

"DO YOU KNOW WHO I AM???" the underwriter says more forcefully.

"No, and I really don't care," replies the proctor, slightly annoyed.

"Good," says the underwriter, who quickly shoves his test into the middle of the stack the proctor is correcting and runs out the door.



## WE WELCOME YOUR INPUT!

Send us your comments, questions and jokes to be published in upcoming issues.

CONTACT US AT: [info@bisimplified.com](mailto:info@bisimplified.com) [ [www.bisimplified.com](http://www.bisimplified.com) ]

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