



FORENSIC ACCOUNTING SERVICES

Business interruption coverage diagnostic

Insurance premiums increasingly do not reflect the actual values at risk and business interruption exposures are often underestimated, resulting in coverage and quantum disputes when claims are made. This is particularly the case when the insured business is subject to commodity price fluctuations or has a high degree of interdependency.

Our business interruption coverage diagnostic is a cost-effective insurance review package that offers support to insured companies and underwriters in the development and modelling of maximum probable loss exposures. With a focus on financial loss elements arising from complex and catastrophic loss scenarios, the service provides an accurate reflection of the values at risk and key exposures over the maximum indemnity period.

Risk transfer pricing in a changing world

The premium cost of insurance is directly related to the level and extent of policy cover. Claims are becoming more complex and often result from loss scenarios that were not contemplated at the time the risk was being considered.

The business interruption coverage diagnostic review is conducted alongside engineering and property underwriters and is designed to give insureds, insurers and captives, independent information and financial modelling support to assist in understanding complex risk exposures and identifying an accurate maximum probable loss.

Approach

Our forensic accounting team has extensive experience with major and complex losses gained over many years across all industry groups. We have the experience to comprehensively review maximum probable business interruption loss exposures.

Our review includes:

- Analysis of maximum foreseeable loss scenarios
- Catastrophe modelling, focused on worst case outcomes
- Adequacy of declared values
- Appropriate limits and sub-limits
- Alignment of policy wording with claim methodologies
- Self-insured retentions (deductibles)
- Appropriate deductible methodologies and wording (ADV/time, value)
- Contingency plans and exposure to increased cost of working
- Business interdependency
- Contingent covers including suppliers and customers
- Commodity price fluctuations
- Seasonal uplift or fluctuations

Maximum probable loss

Catastrophic losses can have a regional or even global impact on an insured business and often this is only fully understood after the event. As a result, it can be challenging for insurers to understand the level of indemnity that reflects the values declared at policy inception and the commensurate level of premium paid.

We see business interruption claims far exceed the maximum probable loss calculated at inception. Some reasons for this include:

- Economic or operating conditions that exist at the time of the loss not fully considered or modelled
- Catastrophic impacts underestimated in particular disasters involving wide area damage
- Commodity price fluctuations not aligned with policy sub-limits
- Contingent risks not comprehensively modelled
- Risk concentrations of key suppliers and/or customers not fully considered
- Internal business interdependencies not comprehensively evaluated

How it works

Initially, we will develop a client-specific brief outlining the scope to be included in the business interruption coverage diagnostic review. We will then assist with information gathering including all relevant financial, operational and business details.

To facilitate the process, it is preferable to conduct a workshop with the broker and the insured. Loss scenarios are developed in conjunction with all stakeholders. Our forensic accounting team provides detailed financial models to reflect the likely outcome of the various scenarios adopted. We focus on worst case outcomes from catastrophic losses.

We will review specific policy conditions relating to business interruption recovery. This will include sub-limits, indemnity periods, self-insured retentions, increased costs of working and deductibles.

If appropriate, we will engage with industry specialists in relation to specific risk exposures such as commodity price variations, estimated rebuild times and loss of attraction anticipated across the maximum indemnity or interruption period.

The information is rationalised and a comprehensive report containing our detailed models and recommendations is provided.

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To learn more about our forensic accounting services, contact:

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