

*The Chartered Institute  
of Loss Adjusters*

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# Gross Profit

*Are we all still getting it wrong?*

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# Dec Linked Policies



- Not subject to average, but 133.33% limit
- 33.33% uplift only relevant at the time of a claim, Significant levels of under (non) declaration
- Reason for under declaration is irrelevant
- Insurer's only sanction is the nuclear option
- Impact of Insurance Act 2015
- The current losers are the p/h's that get it right

## Past Surveys

	In what proportion of policies is the Declaration too low?	For those too low, how severe is the shortfall?
2008	37%	50%
2009	52%	63%
2012	40%	45%
Average	43%	53%

- 62.5% of policies on a D/L Basis
- 2009/10 BI GWP c£700m
- Net shortfall c £100m



## 2016/17 Survey

	<b>In what proportion of policies is the Declaration too low?</b>	<b>For those too low, how severe is the shortfall?</b>
2008	37%	50%
2009	52%	63%
2012	40%	45%
2017	44%	44%
Average	43%	50%



# Basis of Cover



	<b>Gross Profit</b>	<b>Gross Revenue</b>	<b>ICW Only/other</b>
	%	%	%
2012	60	25	15
2017	62	27	13

<b>Declaration Linked</b>
%
62.5
47.4

# Overall Summary

	<b>Declaration Linked</b>	<b>Under Declared</b>	<b>Inadequacy</b>	<b>Overall Premium Error</b>
	%	%	%	%
Previous average	62.5	43	53	14.2
2017	47.4	44	44	9.2



# Underlying Causes

*Significance scale 1-6 (1 very significant)*



Misunderstanding Insurance Definition of GP	2.16
Misunderstanding Basis Period to be Declared	3.00
Insufficient explanation of how BI cover works	3.04
Unrealistic expectation of Cost reductions	3.13
Proportionately increasing GP for longer MIP's	3.44
Declaring amount after a 'secret' EML calculation	3.50
Declarations not requested	3.53

# Underlying Causes

*(Significance scale 1-6, 1 very significant)*

P/h allowing insufficient time pre renewal to discuss	3.61
Failure to anticipate seasonality (qv 12 month MIP)	3.68
Significant under estimate of growth	3.70
Lack of p/h focus as Insurance fails to excite	3.90
Imposed restriction on cover (eg overseas H/O)	3.93
Overly long list of UWE to minimise price	4.00
Overly long list of UWE - overconfidence in BCP	4.00





# Underlying Causes

Significance scale 1-6, (1 very significant)

Disclosure of financial detail perceived as intrusive	4.29
Overly long list of UWE – bad thing won't happen	4.59
P/h anticipating specific event to insure against	4.62
Failure to anticipate specific events (eg Olympics)	5.50



# Key Observations



- Inadequacy of MIP driven (second most significant problem after inadequate GP) by:
  - Lack of understanding
  - Inadequate broker advice
  - Overly optimistic assumptions about ability to recover
  - Desire to contain Costs
- BI not properly understood, and therefore avoided/not addressed sufficiently, albeit in reality NOT complex
- Sufficiency of knowledge, especially among brokers

## Two final Observations

- Will the Insurance Act impact? – 47% Yes (25% No)
  - BI not properly understood, and therefore avoided/not addressed sufficiently, albeit in reality NOT complex
- Basis periods for Declarations:



	%
Last 12 months	44
Last set of Statutory Accounts	14
Accounts most co-terminous with policy period	14
GP anticipated in pp	25
Other	3
	<hr/> 100 <hr/>

## The Scale of Naughtiness

Declaration Issue	HISTORIC FACT	Policy Declaration Requirement			
		12 months pre renewal/inception	Last set of Statutory Accounts	Accounts most nearly coterminous with policy period	GP anticipated in policy period
		INADVERTENT		FUTURE ESTIMATE	
Unexpected industry upturn results in Declaration being low					
Policyholder has inadvertently failed to appreciate that the policy definition differs from the meaning in their accounts.					
Policyholder understands that there is a different definition of Gross Profit in the accounts compared to the policy, but deducts costs beyond the Specified Working expenses listed in the policy, anticipating that many costs will reduce (but leaving the policy definition unaltered)					
Policyholder fills out returns required by their broker without appreciating the importance or relevance of them					
Broker, as the policyholder's agent passes on a calculation deducting costs significantly beyond the Specified Expenses in the policy (policyholder oblivious)					
Policyholder has assessed the BI exposure (as they see it) and insured that amount, without reference to the policy wording (the 'secret' EML)					
Policyholder insures an amount based on the premium they can afford, without reference to the policy wording					
Policyholder decides to declare only 75% of the amount they know should be declared, on the basis that there is an uplift of 133.33% on the happening of a claim					
		DELIBERATE			



# RIMS – 2017 Survey

[https://www.rims.org/RiskKnowledge/RiskKnowledgeMain.aspx?article\\_key=00E56DD9-66FB-4513-B654-BB0FE760C58E](https://www.rims.org/RiskKnowledge/RiskKnowledgeMain.aspx?article_key=00E56DD9-66FB-4513-B654-BB0FE760C58E)



## RIMS – 2017 Survey

- 68% of BI values reviewed annually (but 10% never)
- 41% complete time element worksheets (but confusing and difficult to complete)
- Many respondents advised that they don't take BI cover (or extra expense only)
- MIP: 35% 12 months, 14% exceed 24 months; (EPI – 46% longer than 90 days)
- Cover – 47% Gross Earnings, 32% Gross profit: rest unsure
- Challenges – basis clauses (47%), Information requested by Insurers not available (44%)

From “RIMS Business Interruption Survey 2017”. Visit “Risk Knowledge” at [www.rims.org](http://www.rims.org) to access the full results.



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