

# MARSH



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## **Business Interruption** Do universities need revenue cover?

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# Business Interruption Insurance

## RECAP of KEY ASPECTS OF COVERAGE

- MD Proviso
- Protection of cash flow/income statement
- Restoration of lost revenue and / or
- Indemnification of additional costs incurred to:
  - avoid a loss of revenue and / or
  - restore normal business operations
- Limited to a stipulated period of time (Indemnity Period)
- Cover may extend to damage to property beyond the campus



# Overview of Process

# Steps to determine

## Identify “threats” & possible incident

- Identify critical resources that would be affected/damaged by any possible event
- Understand key risks and threats to the business regardless of probability
- Determine incident causing MFL
- Identify areas of business affected and the effects across the business

## Identify reaction & assess effect on business

- Review contingency planning and assess likely response to an incident/interruption
- Consider alternatives and their impact in loss mitigation
- Determine timeframe for responses with consideration to potential constraints
- Assess physical recovery and period for operations to return to “normal” levels

## Evaluate reaction costs & quantify consequential loss

- Evaluate and cost the identified response actions, mitigating potential claim
- Construct the financial model of estimated loss of gross earnings, considering cost savings
- Assess management’s tolerance to value at risk, and the business’ ability to support financial loss impact

## Ensure adequacy of policy & cover

- Comparison between financial risk and current cover limits, sub-limits, declared values and deductibles
- Review the policy type, schedule wording, extensions, exclusions, periods, and other clauses, for adequacy

Properly insured in the event of a loss

Ongoing consultation with insured, broker, advisors and other key parties

# A. Identify threats & possible incident

- Identify critical *resources* to University
  - Owned assets
  - Non-owned property
  - Upstream (supplier)
  - Utility assets
  - Downstream (customer)
- Considerations
  - Geographic location
  - Multiple buildings
  - Dependencies between assets

## A. Identify threats & possible incident

- Identify areas of business that could be affected by each resource
  - Revenue streams associated with each asset

# Example revenue streams

- Government Funding
- Domestic Student Fees
- International Student Fees
- Research Funding
- On campus commercial enterprise eg bookstores, student boarding, canteens, function hire, commissions
- External commercial enterprise incl royalties, consulting etc
- Other incl philanthropy etc
- Rental income

## A. Identify threats & possible incident

- Identify areas of business that could be affected
  - Revenue streams associated with each asset
  - Interdependency

# Example revenue streams

- Government Funding
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- Other incl philanthropy etc
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## A. Identify threats & possible incident

- Identify areas of business that could be affected
  - Revenue streams associated with each asset
  - Interdependency
  - Direct and indirect

# A. Identify threats & possible incident

- Determine incident causing MFL/MPL
  - Understand key risks and credible threats to the university

*Consider testing:*

- *Assume key controls working*
  - *Assume key controls fail*
- Consider >1 scenario?

## B. Identify reaction & assess effect on university

- Review BCP and
- Identify/assess likely response to the incident/interruption
  - Compliance issues
  - Short-term vs long-term
  - Involve major functions incl
    - Operations
    - Finance
    - Academics reps

# Example mitigation strategies

- Building extensions on other undamaged locations
- Construct temporary structures
- Convert existing space
- Transfer students to alternative university
- Purchase services from outside vendors
- Relocate versus rebuild (if justified)
- Replace versus repair (if justified)
- Use other insured locations
- Extend university year

## B. Identify reaction & assess effect on university

- Consider alternatives and their impact in loss mitigation
  - May not always be the most obvious
  - Higher cost may bring longer term benefit
  - Loss circumstances may require a different response
  - Public relations
  - Potential external factors
- Determine timeframe for responses
  - Consider potential constraints

## B. Identify reaction & assess effect on university

- Assess physical recovery and period for physical operations to return to “normal”
  - Normal to underestimate
  - Local vs General area damage
  - Compliance/ new codes restrictions
  - Time of year
  - Same type of loss may have various recovery periods

## C. Evaluate reaction costs & quantify consequential loss

- Evaluate and cost the identified response actions
  - Realistic duration
  - Consider higher than normal cost

## Additional cost examples

- Temporary classrooms
  - Rental of demountables
  - Rental of facilities from local businesses
- Hotels/temporary living
- Food services
- Daily living expenses
- Mobile phones/calling cards
- Transportation
- Security
- Postage and mailings
- Casual labour
- Overtime payroll
- Maintenance department
  - Contractors

## C. Evaluate reaction costs & quantify consequential loss

- Construct financial model of estimated
  - Loss of revenue
  - Cost
  - Savings

# How to value potential revenue losses?

- Relate connected revenue streams to:
  - Loss of resources
  - Mitigation strategies

# How to value potential revenue losses?

- Short-term vs Long-term
  - Short-term
    - Student activities (food service, boarding refunds etc)
  - Longer term
    - Tuition fees, room/boarding, government funding
  - If there is a loss of students, economic impact may go beyond the period of restoration as the university will lose the student for the remainder of the course

# How to value potential revenue losses?

- Review revenue stream drivers
  - Eg Student numbers
- Size and season of loss:
  - Can damage be rectified within year
  - Timing compared to enrolment?
- Other external factors
- Direct vs Indirect
- Research

## Research – Actual examples

- Accidental destruction of specially cloned pine trees
- Fire in laboratory damages a mass spectrometer
- Valuable research papers accidentally thrown away
- Research work lost as a result of IT failure
- Flood water contaminates biological research
- Loss of controlled temperature environment due to power spike
- Damage to commercial research:
  - Insects (pest control company)
  - Cement strength

# Research – What is at risk?

- Material value of research
- Current & future government research grants
- Current & future commercial /private research grants
- Royalties / Revenue from external sources incl consulting
- Commercial opportunities for external sponsor
- Employment opportunities for students
- Student fees / revenue (Loss of attraction)
- Academic staff (Loss of attraction)

## Research – What is at risk?

- Use of associated facilities
- Collaboration opportunities / Loss of credibility
- Reputation
- Hierarchy within specialised field / prestige
- Other research opportunities

## C. Evaluate reaction costs & quantify consequential loss

- Consider management's tolerance to value at risk, and the business' ability to support financial loss impact

**Whether revenue is covered or not....**

## D. Ensure adequacy of policy & cover

- Comparison between financial model and current cover limits, sub-limits, declared values (if applicable) and deductibles
- Review the policy type, schedule wording, extensions, exclusions, periods, and other clauses, for adequacy

**So.....is revenue cover required for universities?**

**.....It depends!**

Questions?

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