SANDERFORD & ASSOCIATES, P.A.

Certified Public Accountants

Forensic Accounting & Loss Measurement Consulting

INTRODUCTION

The topic of this newsletter is on Business Interruption Loss issues when you have overlapping events such as but not limited to Wind Damages vs. Oil Spill Damages. Our last newsletter was on how the Period of Restoration from a hurricane loss may be impacted by the Gulf Oil Spill and can be downloaded or viewed from our website at www.sanderfordcpa.com.

BUSINESS INTERRUPTION LOSS ISSUES WHEN YOU HAVE OVERLAPPING EVENTS

Many issues will arise, in addition to the affects on the period of restoration, if we have a hurricane that affects the Gulf States as the Oil Spill cleanup will not be completed for several more months.

When measuring a Business Interruption Loss, most policies include a section "Loss Determination" The Loss Determination section of the policy outlines how the Business Interruption Loss should be measured. The Loss Determination section of the policy, in summary, refers to the net income of the business before the direct physical loss, the likely net income of the business if no physical loss or damage had occurred and operating expenses necessary to resume operations. Therefore, the current trends in the business should be considered in the Business Interruption Loss measurement. The likely net income and continuing expenses for the Gulf States policy holders has changed as a result of the Oil Spill that began on April 20, 2010. Business Interruption Losses that involve a short period of restoration from Civil Authority or minor damages should not be overly complicated as several months have passed since the Oil Spill began. Therefore, recent financial information that includes the affects of the Oil Spill on the business can be utilized in measuring the Business Interruption Loss for these short time element losses. Furthermore, the period of restoration on these types of Business Interruption Claims will end before the Oil Spill Cleanup is completed which will eliminate most issues with these type loss measurement calculations.

The Business Interruption Losses where the period of restoration continues for several months with overlapping events becomes complicated. One of the major issues will be allocating the loss of income between Wind Damages vs. Oil Spill Damages. Another issue will be determining the likely net income if the Oil Spill is cleaned up before the period of restoration ends. Determining when the business returns to normal during the extended period of coverage will also be a challenge.

One method of allocating the Business Interruption Loss between Wind Damages vs. Oil Spill Damages is through the Sales Analysis. A sales trend analysis is often utilized to project the sales that the policy holder should have generated during the period of restoration had the loss not occurred. The sales trend analysis for businesses in the Gulf States will be impacted since the first event (oil spill) will have an affect on the projected sales during the period of restoration for the second event. The sales trend analysis utilizes the same months from prior years and increases or decreases the prior year's sales amounts for the growth or decline factor. This method of sales projection also takes into account seasonality in the insured's business. An analysis of the insured's projected sales and actual sales will be necessary in order to take into account the affects that the Oil Spill has had on the business. One way to allocate the Business Interruption Loss is on a percentage of sales. The way to allocate the Business Interruption Loss on a percentage of sales is to prepare the sales projection on the trend analysis from April 20, 2010, through the date of loss for the second event. This calculation will reflect the projected sales during this time period as if the Oil Spill had not occurred. One would then compare the insured's actual sales from April 20, 2010, through the date of loss for the second event to the projected sales for the same time period. This comparison will reflect the lost sales as a result of the Oil Spill. Once this amount has been determined you can calculate the lost sales from the Oil Spill as a percentage of the projected sales. If the insured's sales from April 20, 2010, through the date of loss of the second event declined by 40.00% then you would allocate 40.00% of the Business Interruption Loss to the Oil Spill Damages and 60.00% to the Wind Damages.

If the Oil Spill is cleaned up before the period of restoration associated with the second event ends then determining the likely net income for the remaining period of restoration will be challenging. One method of measuring the Business Interruption Loss in this circumstance would be to revert to the insured's historical financial records prior to the first event (Oil Spill). These historical financial records could be utilized in the loss measurement calculation from the date that the Oil Spill Cleanup was completed through the remaining part of the period of restoration for the second event. However, the Business Interruption Loss calculation may be overstated in this situation as some businesses will not return to normal for months or years after the Oil Spill Cleanup is completed. The basis of this calculation assumes that the business would return to normal immediately after the Oil Spill Cleanup is completed as it is based on historical financial information without the affects of the first event (Oil Spill).

Most Business Operation Policies of Insurance have an extended period of coverage after the period of restoration ends to allow the business to return to normal. The extended period of coverage can be up to 30 days, 60 days, 90 days, or longer. The extended period of coverage ends when the business returns to normal or the maximum time period has expired. Determining when the business returns to normal from the second event (Wind Damages) when the business is still being affected by the first event (Oil Spill) will not be an easy task. One method that can be utilized to determine when the business returns to normal under these circumstances would be to utilize daily sales for the same time period last year and factor in the growth or decline percentage to arrive at the projected daily sales. Once the results of this calculation are known the one would reduce the projected sales by the Oil Spill percentage discussed above. Once the results of these two calculations are known then you would compare the projected daily sales to the actual sales. Once the actual sales during the extended period of coverage exceed the projected sales then the extended period of coverage ends. If the actual sales do not exceed the projected sales then the extended period of coverage would end when the maximum time period expires under the policy of insurance extended period.

The above information is not intended to be all-inclusive. Furthermore, the above information is presented as a learning tool and is general in nature.

OUR FIRM

Sanderford & Associates, P.A. is celebrating fourteen years of doing business in the Tampa Bay area. Our practice is limited to forensic accounting services for the insurance industry including but not limited to the verification of insurance claims, loss measurement calculations and expert testimony. Additional information is available at www.sanderfordcpa.com

OUR SERVICES

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- Net Income or (Loss) & Continuing Expenses
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- Loss of Rental Income
- Extra Expenses Verification
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- Business Personal Property

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- Out of Sight Inventory Measurements

- Price Testing Verification & Obsolescence Analysis
- Physical Inventory Counts
- Automatic Seasonal Increase Analysis

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Litigation Consulting

Expert Testimony

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Fraud / Arson

- Financial Motive Analysis
- Arson for Profit Analysis
- Concealment Analysis
- Financial Condition Analysis