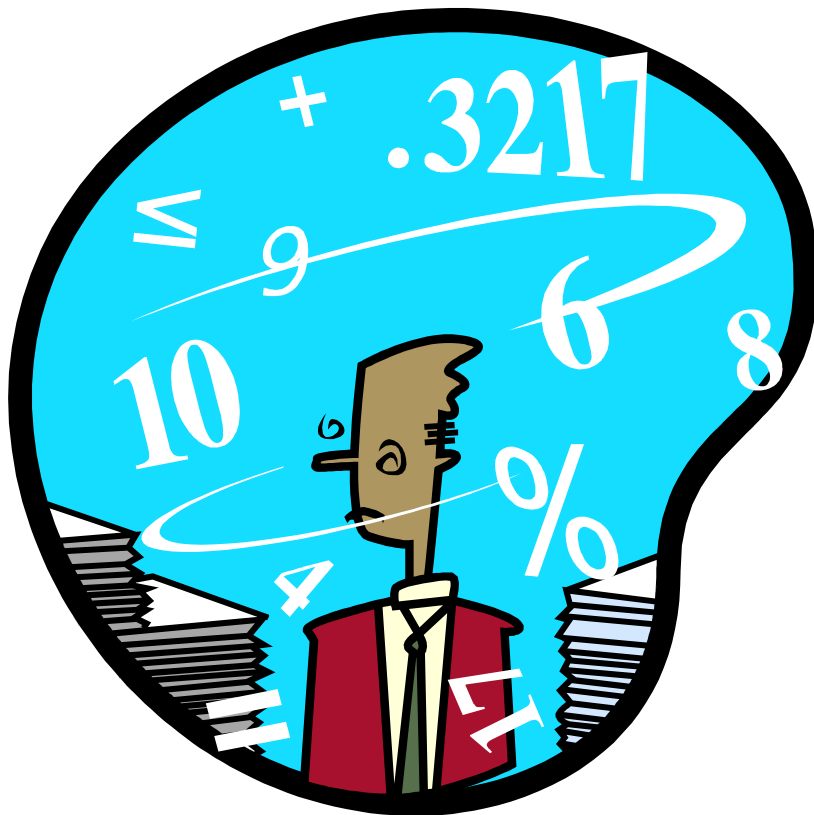


“How to Calculate Business Income Limits in 15 Minutes!”

(Give or Take an Hour or So)



Presented by

Bill Wilson, CPCU, ARM, AIM, AAM, LSMFT

Assoc. VP, Education & Research

Director, Big “I” Virtual University

Independent Insurance Agents & Brokers of America

Copyrights and Disclaimers

COPYRIGHT

Copyright 2014 by Independent Insurance Agents & Brokers of America (IIABA). All rights reserved. All information and content included in this material, including but not limited to (i) text, graphics, logos, icons or images; (ii) data and content compilations; and (iii) software, is the property of the copyright holders or their content or software suppliers and is protected by United States and international copyright laws. You may not modify, copy, distribute, transmit, display, publish, sell, or license any information from this material without the express written consent of IIABA. You may not create derivative works, or use any information or content for commercial or public purposes without the express written consent of IIABA. In addition, you may not reproduce, transmit, transcribe, store in a retrieval system, or translate into any human or computer language any part of the material in any form or by any means whatsoever without the express written consent of IIABA. Such consent may be requested by contacting Bill Wilson at bill.wilson@iiaba.net.

TRADEMARKS

The trademarks, logos, service marks, graphics, and trade dress displayed are the intellectual property of IIABA, and other applicable parties that have licensed their property and/or material to IIABA. You should assume that any product or service name is a registered mark, trademark, or service mark and the intellectual property of IIABA or a third party. You are prohibited from using any of these trademarks or service marks for any purpose, including but not limited to use as metatags on other pages or sites on the World Wide Web, without the express written permission of IIABA or such third parties. If IIABA grants such written permission, you may not use the trademarks and service marks in any manner that (i) is likely to cause confusion among customers or the public, or (ii) disparages or discredits IIABA. ***This content "Includes Copyrighted Material of Insurance Services Office, Inc. With Its Permission. Copyright Insurance Services Office. 20__".***

DISCLAIMER

This material has been designed for use in training programs for insurance industry personnel throughout the United States. It is not intended to be used as a complete reference resource on the programs and coverages outlined herein. Unless indicated otherwise, the coverage discussion herein are based on various editions of "ISO standard" policy forms. Programs, coverages, rules, and coverage interpretations presented in this publication may be different from those used by individual insurance companies writing these programs. Contact individual companies for details about their interpretations of the programs outlined herein and/or their own proprietary programs and contracts. The opinions expressed in this document are just that. No warranties, express or implied, of any kind are made, intended or inferred. The information contained herein is not legal advice, nor should it be taken as such. When such legal issues arise, proper advice should be sought, where applicable and appropriate, from qualified legal counsel.

INDEMNITY

You agree to defend, indemnify, and hold harmless IIABA and presenters, together with their respective employees, agents, directors, officers, and shareholders, from and against all the liabilities, claims, damages, and expenses (including reasonable attorney's fees and costs) arising out of your use of this material; your breach or alleged breach of this Agreement; or your breach or alleged breach of the copyright, trademark, proprietary, or other rights IIABA, presenters, or third parties.

William C. Wilson



Assoc. VP, Education & Research
Director, Big “I” Virtual University
Independent Insurance Agents & Brokers of America

bill.wilson@iiaba.net
www.independentagent.com/VU

Bill Wilson, CPCU, ARM, AIM, AAM has served as a trainer and speaker for various organizations, including the Independent Insurance Agents & Brokers of America and 41 of its state affiliates, the CPCU Society national convention and chapter programs, the National Association of Insurance Women (NAIW), the Southern Agents Conference (SAC), the Risk & Insurance Managers Society (RIMS), the International Risk Management Institute (IRMI), and the Society of Risk Management Consultants (SRMC).

He has conducted hundreds of technical seminars, workshops and convention presentations—from Hawaii to Rhode Island and Alaska to Florida—as well as programs on time management, presentation and public speaking skills, seminar development, and many others. He has been the top-rated presenter at several CPCU National Conventions and his programs are always highly rated by attendees. He has presented seminars or webinars to as many as 5,000 attendees in a single session.

He was the recipient of the IIABA L.P. McCord National Education Award for having the #1 ranked state insurance education program in America and has won five other national education awards, including the George M. Gottheimer Memorial Award which is presented annually to a CPCU Society member who has made an outstanding contribution to the field of insurance education, risk management or insurance consulting.

Bill has researched, developed, written, and published dozens of technical articles, manuals and CDs/audio tapes, and has authored articles in business and industry trade periodicals such as *Presentations* magazine, *American Agent & Broker* magazine, *Independent Agent* magazine, *Tennessee Insuror* magazine, *Tennessee Business* magazine, the *CPCU Journal*, CPCU Interest Group newsletters, and the *SITE Journal*.

He has been quoted as an expert in a number of mainstream publications, including *Readers Digest*, *Kiplinger's*, and *Money* magazines and the *Wall Street Journal*, and he has been cited as an expert resource/interviewee in television and radio media. He has also served as an expert witness in litigation.

And, not that it has anything to do with this program, but Bill is an avid (notice we didn't say “good”) electric guitar blues player.

The Big “I” Virtual University

The Big “I” Virtual University (VU) is an online education, reference, and research facility that is available for free to members of the Independent Insurance Agents & Brokers of America and on a subscription basis to others.

This 4,000+ page resource includes a research library with articles, white papers, charts, checklists, policy form analysis, and other documents on insurance coverages, agency management, sales, customer service, and technology.

Big “I” members can also access an “Ask an Expert” service to submit questions about insurance coverages or claims or agency management and technology issues to over 50 subject matter experts from across America. The service has responded to somewhere near 30,000 questions since its inception.

The Virtual University (VU) also includes a selection of online courses, approved for CE in many states, as well as periodically offering national webinars by top industry educators. For information on online courses, go to www.bigivu.com and for information on webinars, visit the “Education” section at www.independentagent.com.

The VU publishes a bi-weekly award-winning email newsletter that typically includes six or more articles on personal lines, commercial lines, agency management, sales, customer service, and technology. This newsletter is free – you do not have to be a Big “I” member agency to subscribe – and is distributed to more than 16,000 recipients in 70 countries around the world.

For more information, go to www.bigivu.com or email bill.wilson@iiaba.net.

- Visit the VU at www.BigIVU.com
 - Free bi-weekly email newsletter
 - Extensive research library (members and paid subscribers)
 - “Ask an Expert” service (members only)
- [Big “I” VU Webinars](#)
 - [Live](#)
 - [Recorded](#)

Recently Recorded Webinars

- Certificates of Insurance
- Cyber Risk Exposures and Insurance*
- The Additional Insured Illusion
- The NEW 2013 ISO CGL Changes
- 2012 ISO Commercial Property Changes
- NCCI Experience Rating Split Point Change*
- Commercial Crime Coverage
- CRITICAL 2013 National Flood Insurance Program Changes and Issues Every Agent Needs to Know
- ISO’s New HO Program...A Review of 2011 Changes
- 12 Personal Lines Hot Topics, Emerging Issues, Infuriating Claim Denials and Catastrophic Coverage Gaps
- Using the Best Practices Study*

* Free webinar



How to Calculate Business Income Limits in 15 Minutes

by **Bill Wilson, CPCU, ARM, AIM, AAM**

In this webinar, you'll learn a technique for "ballparking" a business income limit without using a BI worksheet. This method may be used as a tool when tentatively quoting business income coverage. The information you need is limited and often readily available.



Big "I" Virtual University Webinar

3 Key Questions...



- *What policy limit is indicated?*
- *What coinsurance basis should be used?*
- *What coinsurance percentage should be used?*

To answer all three questions for a sales operation, we only need an income statement and a sales projection.

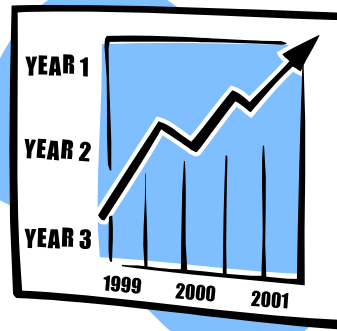
Here is a VERY simple Income Statement...



Big "I" Virtual University Webinar

Basic Income Statement

- Net sales
- Cost of goods sold
-
- Gross earnings
- **Operating expenses**
- Noncontinuing
 - **Continuing**
-
- Net profit**



Big "1" Virtual University Webinar

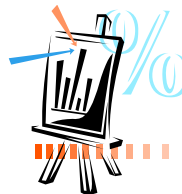
Coinsurance Basis

- Net sales
- Cost of goods sold
-
- Gross earnings
- **Operating expenses**
- Noncontinuing
 - **Continuing**
-
- Net profit**

Coinsurance basis...

Net profit + Operating expenses

...for the entire policy period



Big "1" Virtual University Webinar

Limit of Insurance

- Net sales
 - Cost of goods sold
-

- Gross earnings
 - **Operating expenses**
 - Noncontinuing
 - **Continuing**
-

Net profit



Limit of Insurance & loss payment...
Net profit + Continuing expenses
...for the period of restoration



Big "I" Virtual University Webinar

Summary

- Net sales
 - Cost of goods sold
-

- Gross earnings
 - **Operating expenses**
 - Noncontinuing
 - **Continuing**
-

Net profit

Coinsurance basis...

Net profit + Operating expenses
...for the entire policy period

Limit of Insurance & loss payment...

Net profit + Continuing expenses
...for the period of restoration



Big "I" Virtual University Webinar

Coinsurance %

- **Limit of Insurance** = Net Profit + Continuing Expenses *during the period of restoration*
- **Coinsurance Basis** = Net Profit + Operating Expenses *during the policy period*

- **Coinsurance %** =
$$\frac{\text{Limit of Insurance}}{\text{Coinsurance Basis}}$$



Big "I" Virtual University Webinar

Calculating Policy Limits

- Step 1: Determine time to rebuild or relocate
- **Step 2: Estimate profit and expenses**
- **Step 3: Select coinsurance percentage**
- Step 4: Add extra expenses



Big "I" Virtual University Webinar

Step 1

- **Determine time to rebuild or relocate**

- Size and construction of building
- Location of risk
- Weather conditions
- Time of year
- Availability of contractors and materials
- Planning, permits, etc.
- Type of business
- Production bottlenecks
- Availability of inventory
- New employee training
- Restoration of income to pre-loss levels



Big "1" Virtual University Webinar

Step 2

- **Estimate profit and expenses**

- Use CP 15 15 or proprietary worksheet
- Peak seasons
- Business cycles
- Trends (20,000+% growth)
- Other income sources



- This is the step where we'll be taking shortcuts



Big "1" Virtual University Webinar

Step 3

- **Select coinsurance percentage**
 - Net Profit + Continuing Expenses *for the period of restoration* is divided by Net Profit + Operating Expenses *for the 12-month policy period*
 - The result is a decimal, e.g., 0.53
 - This is rounded (usually DOWN) to 50%, 60%, 70%, 80%, 90%, 100%, or 125%



Big "I" Virtual University Webinar

Step 4



- **Add extra expenses**
 - Temporary premises...moving expenses, rent, renovations, etc.
 - Temporary equipment...furniture, machinery, supplies, etc.
 - Personnel expenses...temporary workers, overtime, meals, transportation, etc.
 - Others...advertising, travel, bonuses, outsourcing, collection expenses, long distance, express shipments, etc.



Big "I" Virtual University Webinar



Bubba's General Store

- Calculate Bubba's limit of insurance and coinsurance percentage
- Limit of Insurance = Net Profit + Continuing Expenses *during the period of restoration*
- Coinsurance Basis = Net Profit + Operating Expenses *during the policy period*

Limit of Insurance

- Coinsurance % = $\frac{\text{Limit of Insurance}}{\text{Coinsurance Basis}}$



Big "I" Virtual University Webinar

Bubba's Income Statement

(for the policy year beginning May 1)

INCOME

Gross Sales	\$1,300,000
Less returns	100,000
Net Sales	\$1,200,000
Cost of goods sold	<u>600,000</u>
Gross Earnings	\$ 600,000

OPERATING EXPENSES

Salaries	
Bubba	\$100,000
Others	120,000
Mortgage	80,000
Utilities	30,000
Group insurance premiums	5,000
P&C insurance	15,000
Interest expense	4,000
Advertising	20,000
Automobiles	6,000
Maintenance	5,000
Professional fees	7,000
Other	<u>8,000</u>
Total Operating Expenses	\$400,000

NET PROFIT \$ 200,000



Big "I" Virtual University Webinar

Bubba's Expenses

	ANNUAL OPERATING EXPENSES	ANNUAL CONTINUING EXPENSES
Salaries		
Bubba	\$100,000	\$100,000
Others	120,000	100,000
Mortgage	80,000	25,000
Utilities	30,000	15,000
Group insurance premiums	5,000	5,000
P&C insurance	15,000	15,000
Interest expense	4,000	4,000
Advertising	20,000	15,000
Automobiles	6,000	6,000
Maintenance	5,000	3,000
Professional fees	7,000	7,000
Other	<u>8,000</u>	<u>5,000</u>
Total Expenses	\$400,000	\$300,000



Big "I" Virtual University Webinar

Bubba's Sales Projections

<u>MONTH</u>	<u>NET SALES</u>	<u>% OF ANNUAL</u>
May	\$ 50,000	4.2
June	50,000	4.2
July	50,000	4.2
August	75,000	6.3
September	100,000	8.3
October	150,000	12.5
November	175,000	14.6
December	200,000	16.7
January	150,000	12.5
February	75,000	6.3
March	75,000	6.3
<u>April</u>	<u>50,000</u>	<u>4.2</u>
TOTALS	\$1,200,000	100.0%



Big "I" Virtual University Webinar

Step 1...Time to rebuild or relocate

Bubba says it would take 6 months.



Big "1" Virtual University Webinar

Step 2...Estimates for period of restoration

- **Estimate Net Profit**
 - What is the worst possible 6-month period?
 - Calculate Net Profit during the period of restoration
- **Estimate Continuing Expenses**
 - *Hint: They are relatively uniform throughout the year*



Big "1" Virtual University Webinar

Step 2...Estimates for period of restoration

- **Estimate Net Profit**
 - What is the worst possible 6-month period?
 - Calculate Net Profit during the period of restoration
- **Estimate Continuing Expenses**
 - Hint: They are relatively uniform throughout the year



Big "I" Virtual University Webinar

Bubba's Sales Projections

<u>MONTH</u>	<u>NET SALES</u>	<u>% OF ANNUAL</u>	
May	\$ 50,000	4.2	
June	50,000	4.2	
July	50,000	4.2	
August	75,000	6.3	
September	100,000	8.3	
October	150,000	12.5	
November	175,000	14.6	
December	200,000	16.7	70.9% of annual sales are generated in this 6 months
January	150,000	12.5	
February	75,000	6.3	
March	75,000	6.3	
April	50,000	4.2	
TOTALS	\$1,200,000	100.0%	



Big "I" Virtual University Webinar

Step 2...Estimates for period of restoration

- **Estimate Net Profit**
 - What is the worst possible 6-month period?
 - Calculate Net Profit during the period of restoration
- **Estimate Continuing Expenses**
 - Hint: They are relatively uniform throughout the year



Big "1" Virtual University Webinar

Bubba's Income Statement

(for the policy year beginning May 1)

INCOME		OPERATING EXPENSES	
Gross Sales	\$1,300,000	Salaries	
Less returns	100,000	Bubba	\$100,000
Net Sales	\$1,200,000	Others	120,000
Cost of goods sold	<u>600,000</u>	Mortgage	80,000
Gross Earnings	\$ 600,000	Utilities	30,000
		Group insurance premiums	5,000
		P&C insurance	15,000
		Interest expense	4,000
		Advertising	20,000
		Automobiles	6,000
		Maintenance	5,000
		Professional fees	7,000
		Other	<u>8,000</u>
		Total Operating Expenses	\$400,000

ANNUAL NET PROFIT \$200,000 x 70.9% = **\$141,800** during the period of restoration



Big "1" Virtual University Webinar

Step 2...Estimates for period of restoration

- **Initial Limit of Insurance** = Net Profit + Continuing Expenses *during the period of restoration*
- Initial Limit of Insurance = **\$141,800**
+ \$ _____
= \$ _____



Big "I" Virtual University Webinar

Step 2...Estimates for period of restoration

- **Estimate Net Profit**
 - What is the worst possible 6-month period?
 - Calculate Net Profit during the period of restoration
- **Estimate Continuing Expenses**
 - Hint: They are relatively uniform throughout the year



Big "I" Virtual University Webinar

Bubba's Expenses

	ANNUAL OPERATING EXPENSES	ANNUAL CONTINUING EXPENSES
Salaries		
Bubba	\$100,000	\$100,000
Others	120,000	100,000
Mortgage	80,000	25,000
Utilities	30,000	15,000
Group insurance premiums	5,000	5,000
P&C insurance	15,000	15,000
Interest expense	4,000	4,000
Advertising	20,000	15,000
Automobiles	6,000	6,000
Maintenance	5,000	3,000
Professional fees	7,000	7,000
Other	<u>8,000</u>	<u>5,000</u>
Total Expenses	\$400,000	\$300,000 X 6 mo./12 mo. = \$150,000



Big "I" Virtual University Webinar

Step 2...Estimates for period of restoration

- **Initial Limit of Insurance** = Net Profit + Continuing Expenses *during the period of restoration*
- Initial Limit of Insurance = \$141,800
 + \$150,000
 = **\$291,800**



Big "I" Virtual University Webinar

Step 2...Estimates for entire policy period

- **Estimate Net Profit**
 - This is the Net Profit for the entire year, or **\$200,000**
- **Estimate Operating Expenses**
 - This is simply the total for the entire year, or **\$400,000**



Big "1" Virtual University Webinar

Bubba's Income Statement

(for the policy year beginning May 1)

INCOME		OPERATING EXPENSES	
Gross Sales	\$1,300,000	Salaries	
Less returns	100,000	Bubba	\$100,000
Net Sales	\$1,200,000	Others	120,000
Cost of goods sold	<u>600,000</u>	Mortgage	80,000
Gross Earnings	\$ 600,000	Utilities	30,000
		Group insurance premiums	5,000
		P&C insurance	15,000
		Interest expense	4,000
		Advertising	20,000
		Automobiles	6,000
		Maintenance	5,000
		Professional fees	7,000
		Other	<u>8,000</u>
		Total Operating Expenses	\$400,000
NET PROFIT	\$ 200,000		



Big "1" Virtual University Webinar

Step 2...Estimates for entire policy period

- **Coinsurance Basis** = Net Profit + Operating Expenses *during the policy period*
- Coinsurance Basis = \$200,000
+ \$400,000
= **\$600,000**



Big "I" Virtual University Webinar

Step 2...Final calculations

- **Coinsurance %** = Limit of Insurance / Coinsurance Basis
- Divide \$291,800 by \$600,000 to get 0.49
- Select 50% coinsurance
- However, since we rounded UP, the limit should be increased to avoid a coinsurance penalty, so multiply 50% X \$600,000 to get a **limit of \$300,000 at 50% coinsurance**
- Add extra expenses



Big "I" Virtual University Webinar

The Big “I” Virtual University

www.bigivu.com

- Visit the VU at www.BigIVU.com
 - Free bi-weekly email newsletter
 - Extensive research library (members and paid subscribers)
 - “Ask an Expert” service (members only)

- [Big “I” VU Webinars](#)
 - [Live](#)
 - [Recorded](#)

- Questions and comments:
bill.wilson@iiaba.net

Recently Recorded Webinars

- Certificates of Insurance
- Cyber Risk Exposures and Insurance*
- The Additional Insured Illusion
- The NEW 2013 ISO CGL Changes
- 2012 ISO Commercial Property Changes
- NCCI Experience Rating Split Point Change*
- Commercial Crime Coverage
- CRITICAL 2013 National Flood Insurance Program Changes and Issues Every Agent Needs to Know
- ISO's New HO Program...A Review of 2011 Changes
- 12 Personal Lines Hot Topics, Emerging Issues, Infuriating Claim Denials and Catastrophic Coverage Gaps
- Using the Best Practices Study*

* Free webinar



Big “I” Virtual University Webinar