

# WE ARE CLOSED TEMPORARILY.

## BUSINESS INTERRUPTION MEASUREMENT CONSIDERATIONS IN A POST-COVID-19 WORLD

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The 2020 hurricane season saw us exhaust the modern English alphabet in terms of named hurricanes. In the same year, we also saw an even higher number of wildfires, explosions, and tropical storms.

While each event was certainly different in terms of impact, 2020 – and now 2021 – can claim one common element: COVID-19. As forensic accountants, one of our roles is to ensure we've accurately considered all scenarios and the impact

they may or may not have had on the loss in question.

With this in mind, below are three key issues that need to be considered when assessing a business interruption claim in the wake of the Coronavirus.

### REVENUE/TURNOVER<sup>1</sup>

Many aspects of the world's economy are still on hold as various governments continue with stay-in-place orders to help

slow the virus' spread. As we work with our clients to help quantify claims, we continue to see a wide variety of issues across all industries, some of which are noted on the next page's graphic.<sup>2</sup>

### CONSIDERATIONS FOR SAVED & INCREASED COSTS

Individual expenses are frequently evaluated to determine the degree to which certain expenses continue, diminish, or

cease during a given period of indemnity. Because of COVID-19, it's crucial to understand that certain expenses may not behave as anticipated.

For example, if a loss occurred sometime after March 2020, labor could be less than in years prior with no relation to a given loss because the insured may have issued layoffs and/or furloughs. Conversely, other expenses may have increased such as freight and materials costs as a result of the impact on the global supply chain. Thus, it is imperative that we understand the nature of all expenses and how they may or may not affect the loss.

#### PERIOD OF INDEMNITY

Traditionally, understanding the revenue trends before, during, and after the loss helps ensure that the measurement accurately encompasses the true nature of the damage while still accounting for changing market conditions.

In some cases, particularly with policies that afford coverage for an extended period of indemnity, revenues will return to pre-loss, "normal" levels subsequent to reinstatement. In a way, we might expect the revenue trends to follow the repair schedules.

However, these scenarios may not be the case with COVID-19. Regardless of the repair completion date, revenues may still appear off-trend when compared to pre-loss levels.

While certain industries have undoubtedly benefited from the effects of COVID-19 (e.g. internet retailers, virtual conferencing companies, paper mills, and delivery services to name a few), the typical experience we have noticed at MDD is an overall lack of comparability between pre-COVID-19 revenue experience and the experience of an entity during this pandemic.

To combat this, forensic accountants must take great care to understand a business' opportunities and challenges when evaluating expected earnings but for an

	<p><b>Pharmaceutical</b></p> <ul style="list-style-type: none"> <li>&gt; Supply shortages as generic and branded drug companies rely on sourcing materials from India and China</li> <li>&gt; Clinical trials affected as approximately 20% of studies are performed in China</li> <li>&gt; Focus shifted to production of masks, ventilators, sanitizer, etc.</li> </ul>
	<p><b>Food &amp; Beverage</b></p> <ul style="list-style-type: none"> <li>&gt; Reduced consumption and issues with supply chains</li> <li>&gt; Scarcity in stores and stockpiling due to panic</li> <li>&gt; Supply of ingredients and raw materials affected</li> <li>&gt; French trade group ANIA, reported that F&amp;B companies have experienced a 22% loss in turnover worldwide</li> </ul>
	<p><b>Paint &amp; Coating</b></p> <ul style="list-style-type: none"> <li>&gt; Facing a recession</li> <li>&gt; Major manufacturers were closed and certain projects were suspended</li> <li>&gt; Shutdown of supporting sectors</li> <li>&gt; Industry shortages in alcohol, photoinitiators, dyes and pigments</li> <li>&gt; Customer closings which have affected demand</li> </ul>
	<p><b>Personal Care &amp; Cosmetics</b></p> <ul style="list-style-type: none"> <li>&gt; Suffering from decreased sales due to the closing of stores globally</li> <li>&gt; Labor shortages and decreased demand have caused shutdowns in production</li> <li>&gt; Supply chain impacted due to halted factory work from China</li> </ul>
	<p><b>Global Air Travel</b></p> <ul style="list-style-type: none"> <li>&gt; International airports closed to foreign air traffic</li> <li>&gt; Cancelled flights/airplanes retired</li> <li>&gt; Reduced capacity on commercial flights</li> </ul>

insured loss during these unique times.

Since the World Health Organization's declared COVID-19 as a global pandemic on March 11, 2020,<sup>3</sup> MDD has been retained to assist in quantifying thousands of losses. The insight we have gained from these events has been invaluable. We will continue to use this knowledge to ensure everyone understands the nuanced nature of the current market and help the insured get back to business as usual.



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<sup>1</sup> Source for Bullet #2 in Global Air Travel - <https://www.businessinsider.com/coronavirus-havoc-forces-airlines-to-retire-iconic-planes-sooner-2020-3>

<sup>2</sup> Source for Bullet #4 in Food & Beverage Industry - <https://manufacturingtomorrow.com/article/2020/06/im2-pact-of-covid-19-on-the-process-manufacturing-industry-2020/15487>

<sup>3</sup> <https://www.cdc.gov/nchs/data/icd/Announcement-New-ICD-code-for-coronavirus-3-18-2020.pdf>