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## Business interruption:

### Are your recovery assumptions still realistic?

**For many organisations, the biggest financial impact of a major disruption isn't repairing damaged property. It's the interruption to operations, revenue and customer relationships that follows.**

Traditionally, business interruption planning focused on risks such as fire, flood or other physical damage events. Today, however, disruptions are increasingly being driven by a broader range of factors, including supply chain failures, labour shortages, severe weather events and geopolitical uncertainty. As a result, many organisations may be underestimating both the complexity and duration of recovery following a significant event.

#### Today's risks don't always cause physical damage

Business interruption has evolved significantly in recent years.

A major disruption can now originate from events well beyond an organisation's own premises. A critical supplier may be unable to deliver key components. Severe weather in another region may affect production, logistics or customer demand. Labour shortages or supply chain constraints may also delay recovery.

For larger organisations operating within complex supply chains, the effects of these disruptions can be felt throughout the business, even when there has been little or no physical damage to their own assets.

The result is a growing focus on operational resilience and business continuity, rather than simply asset replacement.

### Are recovery timeframes being underestimated?

One of the most common challenges businesses face is underestimating how long recovery will actually take.

Many organisations naturally focus on rebuilding facilities or replacing equipment. However, a full recovery often involves far more than physical reinstatement.

Businesses may also need to:

- Replace specialised machinery or technology
- Re-establish supply chain relationships
- Recruit or retrain staff
- Restore customer confidence
- Recover lost revenue
- Meet contractual obligations
- Rebuild market share

Industry research has highlighted that organisations often underestimate the time required to return to normal operating and financial performance following a major interruption. An inadequate indemnity period can result in losses continuing well beyond the point where insurance cover ceases.

### The growing importance of supply chain resilience

Supply chain disruption has become one of the most significant contributors to business interruption risk.

Businesses today depend on highly interconnected networks of suppliers, contractors, service providers and technology partners. While these relationships create efficiencies, they can also introduce vulnerabilities.

Global supply chain disruptions are estimated to cost businesses billions each year, with weather events, labour shortages, transport constraints and geopolitical tensions all contributing to delays and uncertainty.

For many organisations, the key question is no longer: "How quickly can we repair our premises?"

Instead, it is: "How quickly can we restore our operations?"

Understanding these dependencies is critical when assessing both business continuity plans and business interruption insurance arrangements.

## A board-level discussion

Business interruption is increasingly becoming a strategic business issue rather than purely an insurance issue.

Boards and leadership teams routinely discuss cyber security, health and safety, workforce planning and climate-related risks. Recovery capability and operational resilience deserve the same level of attention.

Questions worth considering include:

- How resilient are our supply chains?
- What are our most critical operational dependencies?
- How long could we continue operating if a key supplier failed?
- When did we last review our recovery assumptions?
- Have our indemnity periods kept pace with business growth and change?
- Have we recently tested our business continuity plans?

Organisations that can clearly demonstrate risk management maturity, continuity planning and operational resilience are often better positioned to navigate disruptions and engage with insurers on favourable terms.

## A good time to review

Current market conditions provide an opportunity for organisations to review their insurance programmes and ensure cover remains aligned with their operational realities. At the same time, insurers are placing greater emphasis on risk quality, preparedness and resilience.

A review of business interruption cover should extend beyond policy limits and premium levels. It should challenge the assumptions underpinning recovery plans, operational dependencies and business continuity strategies.

Because when disruption occurs, the real question isn't how long it takes to rebuild.

It's how long it takes to recover.

## Is your indemnity period still fit for purpose?

The purpose of a business interruption policy is to help restore an organisation to the financial position it would have occupied had the disruption not occurred.

However, that protection is only effective if the indemnity period accurately reflects the time required to recover.

For many medium and larger organisations, assumptions made five or even three years ago may no longer be valid.



## How Rothbury can help

Reviewing business interruption cover isn't simply about selecting an indemnity period. It requires a clear understanding of operational dependencies, recovery assumptions and business continuity planning.

If you'd like to review whether your insurance programme remains aligned with your organisation's current risk profile, talk to your Rothbury broker.