

Covering Your Bases The Many Benefits of Business Interruption Insurance

By COREY MURPHY, CIC

You don't have to go far to hear disturbing news of a disaster crippling a local business – a fire, an explosion, etc. All systems are down, and day-to-day business operations come to a stand still.

Then the resilient business owner announces, to the delight of everyone, that the company will continue to pay its bills and salaries until it gets back on its feet – leaving many on the sidelines questioning, 'How are they doing that?' The answer: A well-advised business manager included business-interruption insurance in the company's risk management program.

A properly designed insurance program will financially protect the business owner from events it would otherwise not be able to afford to recover from. These events could include a lawsuit stemming from the actions of one of its employees. It would most certainly include a fire that destroys the building, machines, and tools used every day to conduct business.

Most business people feel they are acting wisely in purchasing just such an insurance program, one that will financially protect the business from these crippling types of events. Unfortunately, this is a critical element of the insurance program that is often overlooked.

Your property policy will cover just that, the property of your business. It truly is a great relief to have the financial security to rebuild your building or replace the equipment that is vital to the functioning of your business. That is what comes most often to mind when people consider these types of events. However, new construction of a building can take months. While equipment can be replaced

relatively quickly, it will still take some time before a suitable replacement location can be found, if one can be found at all. In the meantime, the bills continue to come in, your employees can't afford to be out of work, so they find new jobs, and your customers turn to your competitors to take care of their needs.

How does a business recover from that scenario?

A properly designed insurance program will financially protect the business owner from events it would otherwise not be able to afford to recover from.

An insurance program that includes a business-interruption policy could provide the resources for a business to survive such a scenario. In its simplest description, a business-interruption policy is designed to pay for the net income that would have been generated if the business were not shut down. It will also provide the funds to pay for expenses – including payroll – that will continue while the business is not operating. It could be tailored to compensate the business for additional expenses that result from efforts to keep operations going or reduce the length of the interruption. The policy could also be structured to extend beyond reopening of the business to allow the clientele to be re-established.

The key coverages of a business-

interruption policy are business income and extra expense. These can be purchased as one policy or each separately. Business-income coverage is the portion of the policy that will respond to provide the policyholder the funds to pay for ongoing expenses and will provide replacement of net income. The interesting point here is that it is not necessary for the business to be making an actual profit. In this

instance, the policy will provide for the portion of the ongoing expenses that the operation of the business was contributing. The extra-expense portion of the policy will provide reimbursement of above-normal expenses for the business to continue operations. It will also reimburse necessary expenses to get the business to normal operations as soon as possible.

By their nature, some businesses won't actually have a suspension of operations. However, they would have significant additional costs to remain running. These types of businesses could purchase the extra-expense policy without including the business income section.

When reviewing a business-interruption policy there are several

things to consider. First are the causes of loss that are covered on your property policy. The business interruption policy will respond if the loss occurs as a result of a covered cause of loss on the property policy. So business owners need to make sure they review these policies together.

A second important element is the deductible. Unlike most insurance policies that have a monetary deductible, the business income section of the policy has a time deductible; typically, the wait period is 72 hours. A third critical element of the policy is in selecting the limit of insurance. It is important to consider your past financial performance, the co-insurance clause on the policy, and your actual potential loss. If the limit of insurance that is purchased does not equal the co-insurance percentage of the actual potential exposure, a reduction in the settlement could result. Fortunately, there are optional coverages that could be included that will negate the co-insurance clause.

This policy can be customized in many different ways. There are several additional and optional coverages that can be incorporated into this policy. It is important that you and your independent insurance agent spend the time necessary to conduct the proper analysis to develop the right limits and structure of a policy that will financially protect your business from a crippling disaster.

Corey Murphy is a certified insurance counselor and Vice President of First American Insurance Agency in Chicopee; (413)592-8118; cmurphy@faiagency.com