

Business Interruption

Underestimating its importance can cost more than company profits

When business owners decide to secure insurance there are many motivating factors driving decisions. For some contractual demands outline liability requirements and for others it's the thought of the cost of litigation. When it comes to property, many are motivated by a lender or mortgagee to secure coverage for a building or leased equipment. But, securing property insurance for tangible items threatened by fire or theft is only a small part of protecting asset vulnerability. One must take into account replacement of said goods and most importantly consider the cost associated with rebuilding a business back to where it was prior to the loss is a financial necessity.

Business Interruption insurance, commonly known as business income coverage, is a sub component to a property policy and is triggered by the same covered perils on the policy. What many business owners don't realize is there are a myriad of issues that need to be considered when establishing the limit or coverage need that will assist in stabilizing the business by mitigating further losses. One must take into account the potential for market share losses that can come from lost net profit over an extended period of time.

We have seen time and time again business owners carefully establishing a limit on the tangible property that supports the repair or replacement of damaged buildings or contents, but going without business income protection in its entirety and never thinking about the amount of money needed to pay for critical expenses or lost profit post loss is the intangible that many businesses never recover from.

Let's briefly review some of the critical areas that should be contemplated when establishing the limit or monies needed as follows:

- Extra Expense reimbursement for reasonable expenses beyond the fixed costs normally incurred by the business prior to the loss that allows a business to continue operations during the recovery process. These expenses can be as small as hiring a contractor to board up a hole in the building to temporary equipment and can add up quickly. This in addition to considering expediting expenses like cost of freight to obtain a critical part or tool.
- Temporary location or equipment may be needed to support the recovery process. Money to pay for non-recurring expenses to stay in business is critical.
- Fixed costs also known as ongoing operating expense and other historical expense that still exist after a loss regardless if revenue isn't normalized. It is true that expenses are reduced when a business isn't running like lower energy demands, labor costs etc., but continuing expenses like key management and personnel salaries, including overtime pay or lease payments that must be maintained need to be accounted for.
- Profits that would have been earned based on prior months performance can make the difference of business thriving during and after a claim versus merely surviving. What many don't realize is market and reputational erosions can occur which factors into the length of time of said recovery slowing the net profit returning to the place it was prior to the loss. If a business isn't open for 6 months customers will go elsewhere and this creates a potential added risk of them not returning once the establishment is reopened.

There is much to know about business income coverage which is often referred to as the life blood of an enterprise. Yet the coverage is commonly overlooked when property insurance is being secured. Here are 5 things every business owner should do immediately upon negotiating their next property renewal:

1. Work with an agent that understands risk assessment on the topic.
2. Complete a business income worksheet that supports outlining items to consider when establishing the limit.
3. Work the most catastrophic claim for your company in reverse and discern the true timeline of recovery.
4. Establish a disaster recovery plan which could require third party relationships to be formed.
5. Work with a carrier willing to separate the cost from the property pricing.

In the end buy more than you truly feel you need as it is never enough if recovery takes longer than expected due to environmental, regulatory or civil restrictions.

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