

Planning for the interruption of business due to catastrophe

What is business interruption insurance?

As we all witnessed on Sept. 11, 2001, catastrophes can happen suddenly. When the property of a business is destroyed, or access to business property is denied, there follows two potential consequences. One, business operations cannot resume, in whole or in part, until the property is restored. And, two, some or all of the operations can continue only by the acquisition of another location. Business interruption insurance is designed to help in both situations; “business income coverage” for lost income and the payment of continuing expenses if operations cease and “extra expense coverage” if operations can continue at a substitute location.

What triggers business interruption insurance?

Standard insurance policies cover the property located at the business premises that is physically damaged by a covered cause of loss. The business owner selects the “cause of loss” from the perils covered by the policy at the time the policy is written. If the policy does not cover the cause of loss, the business interruption coverage will not cover the business interruption due to the cause of loss. However, in the event of the more difficult perils of terrorism, although damage to the insured property is located somewhere other than on the insured’s premises, the business interruption loss is not insured under the basic coverage.

How are coverage limits established?

It is not a simple process, which you hear about inadequately when you emerging from catastrophe. In order to determine the limit for business income coverage, you must project the income and expenses of the business and identify the maximum amount of time it will take to restore your premises and the “period of restoration.” For example, the coverage limit would be determined by the extraordinary costs you are incurring to maintain operations at a substitute location. You must maintain accurate financial records and properly support your claim to receive these coverages.

How do I recover lost income if civil authorities deny my access to my business premises, even though none of my property has been damaged?

The standard business interruption policy automatically covers four weeks of business income loss when access is prohibited by a civil authority. However, the damage that resulted in the civil authority action must occur within a one-mile radius of the insured business premises. For additional premium, the time limit can be extended up to 180 days; and some insurers also may extend the radius limit.

What if my property has not been damaged and I have not had access to it, but my business on which my business depends is damaged by a covered cause of loss?

Suppose you were a lower Manhattan restaurant that got 80 percent of its lunch business from the World Trade Center. If “dependent property coverage” were purchased, the restaurant would recover lost income from the disruption of its business. This same coverage could likewise apply to a supplier of products or services, or a purchaser of products or services, that a business depends upon for continued operations. The difficulty is that you must specifically identify by location, ahead of time, the premises that your business is dependent upon.

Our biggest concern is communications—what if our communications are disrupted by a covered cause of loss?

“Utility services coverage” can be purchased to protect your income, for example, in the event your phone lines are disrupted at your premises or in the event a specified supplier that you depend upon suffers a loss of power to its plant.

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If the building my business leases was to be damaged right now, I would forfeit a very favorable lease. How can I protect against this loss?

There is “leasehold interest coverage” available that is designed specifically to recover much of the loss that can result from the termination of a favorable lease triggered by damage to the business premises.

What if I’m still losing income after my property has been restored?

On standard policies, business income coverage automatically is extended 60 days after the property is restored (or should have been restored). For additional premium, this extension can be increased up to 730 days.

For the best advice on your specific commercial insurance options, contact our agents.

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