

# Business Interruption Insurance.

## Frequently Asked Questions

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### **What is Business Interruption Insurance?**

Business Interruption Insurance, also known as Business Income Insurance, covers the loss of income that a business suffers following a disaster, for example, a fire, an earthquake, or a flood, while the business premises are being rebuilt or repaired.

A standard property insurance policy only covers the physical damage to the business, while the additional coverage allotted by a business interruption policy covers the *profits* that would have been earned.

This extra policy provision can apply to all types of businesses, as it is designed to put a business in the same financial position it would have been in if no loss had occurred.

Most people would never consider opening a business without buying insurance to cover damage due to fire or flood, for example. But too many small business owners fail to think about how they would manage if a fire or other disaster damaged their business premises so that they were temporarily unusable. A business that has to close down completely while its premises are being rebuilt or repaired may lose out to competitors. This highlights the need for the prudent business owner to invest in cover like Business Interruption Insurance.

It is worth noting that Business Interruption Insurance is **not** generally sold separately. It is added to an existing property insurance policy, or included in a package policy. Talk to your insurance broker about adding Business Interruption Insurance to your existing property insurance policy.

### **Why should I take out Business Interruption Insurance for my business?**

If you're in business there are several good reasons why you should consider taking out Business Interruption Insurance. For a start, you never know when a disaster will strike that can effectively put you out of business. With the right business interruption cover you can be back on your feet trading as soon as possible giving your business a competitive advantage over those not insured. Business Interruption Insurance also helps pay your employees during the time your business is unable to operate and it also helps you while you rebuild or repair your damaged business premises.

Business interruption insurance is probably the most valuable coverage your business can have. It is also coverage that is frequently overlooked by businesses. This is because it is easy to forget that income cannot be produced without an operating business or the business owner mistakenly believes property insurance will cover all losses. Property insurance only covers the physical loss or damage to the location and contents of a business – it does not cover the loss of income while the location is being repaired or the continual fixed costs while the location is being repaired.

### **What does Business Interruption Insurance coverage cover?**

Business Interruption Insurance kicks in when your business cannot operate as a result of damage to the business premises. The business property is untenable as a result of the loss

and therefore operations must be shut down. Business Interruption Insurance covers the continued operation expenses, profits/losses that would have been earned had there been no loss. Coverage begins from the time of the loss and continues until the time that the business is back up and running at its pre-loss state. Business Interruption Insurance covers the profits you would have earned, based on your financial records, had the damage not occurred. Generally speaking, the amount that you will be paid out will be based on your businesses financial records in the months prior to the disaster occurring.

A business interruption policy can also cover operating expenses, or fixed costs, still being incurred like electricity, rent and staff wages which continue even though your business activities have come to a temporary halt. Some business interruption policies also cover the extra expenses of moving to and operating from another temporary location while your business premises are under repair/rebuild. Others will cover extra expenses such as reimbursement for reasonable expenses (beyond the fixed costs) that allow your business to continue operation if this is possible while your business is under repair.

### **Can I make more than one claim?**

Yes you can, but your claims will need to be for separate loss events. Talk to your insurance broker about separate loss events.

### **How long should I take out Business Interruption Insurance cover for?**

It's important that you insure your business for an appropriate indemnity period. The indemnity period is the period of time that the business interruption cover will be effective once you make a claim. Damage caused by a minor fire, for example, can normally be repaired fairly quickly and the business would be reinstated and earning its normal turnover within 6-months.

A major loss, such as a significant fire or an earthquake, could take several years to re-establish a normal business operating turnover. Indemnity periods can range from 6-months to 4-years or longer.

It's wise to choose a longer indemnity period rather than risking cheaper insurance options with shorter indemnity periods.

You are strongly recommended to discuss the business insurance indemnity period that's best for your business with your insurance advisor or broker.

### **When can I make a claim under a Business Insurance policy?**

You would make a claim under your Business Interruption policy when you have suffered loss or damage to your business assets that would directly cause a reduction in turnover, and/or an increase in the cost of working.

### **What happens when I make a claim?**

After completing the necessary insurance claim form, you will need to provide evidence of turnover reduction or increased costs of working to your insurer. Your accountant may need to assist you with compiling evidence of turnover reduction or increased costs before you submit your claim.

It's quite likely that your insurer will appoint a loss adjuster to discuss your insurance claim in detail and will then make a recommendation to the insurer for regular payments to be made to keep your business afloat.

Deductabilities can apply to Business Interruption Insurance policies and this can vary upon your insurer and the nature of your business.

Insurers will often make regular claim payments to meet businesses demand for settling extra costs of working and for maintaining turnover.

### **Are there things Business Interruption Insurance does not cover?**

Yes. As a business owner you need to be aware that Business Interruption Insurance does not cover everything and some types of risk are specifically excluded. You will need to discuss with your insurance advisor or broker what these are but common examples of risk that is not insured by Business Interruption Insurance include things like a computer virus, certain criminal acts such as theft by you or one of your employees, some notifiable diseases, faulty workmanship design, any type of seepage, moisture penetration or contamination, acts of terrorism, nuclear contamination and war. Before taking out Business Interruption Insurance discuss the things that are specifically excluded in your policy with your broker to avoid disappointment later on for things you thought your cover included.

### **How long does Business Interruption Insurance cover last?**

This will depend on the insurer you buy your policy from. However generally speaking, Business Interruption Insurance coverage extends until the end of the business interruption period. Most insurance policies define this period as starting on the date of the covered risk and the damaged property is physically repaired and returned to operations under the same condition that existed prior to the disaster.

### **What if I can operate my business at a temporary location rather than suspend operations?**

If your business premises are damaged as a result of a covered loss but you can operate at a temporary location, you will probably need to buy extra expense coverage. Extra Expense coverage will cover your costs above and beyond your normal operating expenses for you to continue operating your business at a temporary location. Among other things, it also covers the cost of relocating your business to the temporary location. Extra Expense coverage is a compliment to Business Interruption Insurance. For your protection, it is wise to purchase both kinds of insurance coverage but talk to your insurance advisor or broker first.

### **What if my business is interrupted due to a loss at my supplier but my own premises are ok, what happens then?**

If your supplier can't operate their business because they are shut down for some reason, that is a situation out of your control. To protect your business you will need to buy a coverage called Contingent Business Interruption. It will provide coverage when you have to suspend your business operations as a result of a covered loss to your independent supplier. Talk to your insurance broker about this type of business interruption coverage.

### **As a landlord what happens if my building is untenable?**

The coverage you would buy is called loss of rents. This is business interruption coverage for apartment and office buildings that covers the rents you would have received if your building had not suffered a covered loss and were tenable. You will need to talk to your insurance advisor or broker about this type of business insurance.

## **What can I claim for under my Business Interruption Insurance policy?**

Provided you have proper cover, you can claim for items such as:

- loss of insured profit
- loss of rent
- loss of revenue
- payroll
- wages and wages in lieu of notice
- redundancy pay
- claims preparation costs
- book debts
- rewriting of records
- additional increased costs of working

In addition, some business interruption policies may automatically include insurance cover for eventualities such as:

- prevention of access to your business as a result of property damage
- danger to human life, or injury to any person, or murder or suicide of any person
- closure of your business by any authority, for example, for defects in drains or the escape of fumes or hazardous materials.

## **How do I determine how much business insurance cover I need to protect my business?**

There is no hard and fast rule about the amount of cover you will need. Most insurers will be able to provide you with a simple worksheet that enables you to tick the various boxes to assess your individual business insurance cover needs. Completing the worksheet with your accountant or insurance broker will generally ensure that you are purchasing the right amount of coverage to suit your business. If in doubt, talk over your business insurance needs with your insurance broker or your accountant.

## **Are there any circumstances where my Business Interruption Insurance stops?**

Yes and you should talk to your insurance broker about these. Generally your cover will cease if your business is wound up, carried on by a liquidator or receiver, or you cease to trade. Your cover may also cease if the risk of damage to your business or property is increased and you know about the increased risk but do not immediately bring it to the attention of your insurer.

## **Am I covered if something happens to my premises that I didn't know about?**

Generally you are expected to inform your insurer if your circumstances change such as your risk of loss increasing. If you do not tell your insurer about the new risk you may prejudice your cover. However, if something happens that means the risk of loss is increased and it was done without your authority or your knowledge, provided you inform your insurer immediately you find out about the new risk your business insurance cover still applies.

## **Can I get Business Interruption Insurance if I don't have fire sprinkler or smoke alarm systems installed in my premises?**

Some business insurance policies require you to have these safety systems installed and in good operating order before you qualify for any business insurance cover. Operating fire resistant and smoke stop doors are also required in some policies while others require you to have operating security alarm systems outside of work or trading hours before your business qualifies for cover. It would pay to discuss your individual situation with your insurance broker or advisor before buying your business insurance cover.

### **What if I encounter problems with my Business Interruption Insurance?**

If you experience any difficulties understanding your Business Interruption Insurance policy, or you are unsure about any aspect of what it covers or you don't understand the wording of your contract, it would pay to contact your insurance broker immediately for advice. Don't sign up to anything before you are certain you understand the implications of your policy and what it covers you for, including what your obligations are under the contract.

Remember, your business interruption policy is a legally binding document. If you lie or make false declarations on your contract you risk making the policy void meaning you will not receive any compensation for losses incurred under your policy.