

➤ **Business Interruption Insurance**

When you operate a Business, in the event of loss *due to an insured peril*, your business could also be subject to various types of business expenses and loss of income. These expenses are not automatically covered by the insurance policy, to protect against these losses you must purchase Business Interruption insurance. There are three main types of Business Interruption Insurance: Profits, Gross Earnings and Extra Expense.

➤ **Profits Business Interruption Insurance** – covers the business' loss of income until the business is back to the same Financial position as it was prior to the loss. The Indemnity period can be extended for longer periods, depending on the exposure of the business and how long it would take them to get back up and running and get back to the same profitability level. 12 months is the most usual, however, you can also purchase 18 month and 24 month Period of Indemnities. To obtain this coverage a Company needs to prepare a Profits Worksheet to determine the required limit of insurance. After a loss, if the adequate limit was not insured, there can be a co-insurance penalty applied to the loss. As this coverage is the most extensive, pays the longest and for highest amounts, it also follows therefore that it is the most expensive.

➤ **Gross Earnings Business Interruption Insurance** – more economical than Profits coverage, Gross Earnings covers the business' loss of income until the business is back up and running. Similar to the Profits coverage, the business must complete a Gross Earnings Worksheet to determine the limit to be insured – and if the proper limit was not insured, there can be a co-insurance penalty applied to the loss. This coverage is more the middle ground in both coverage and premium.

➤ **Extra Expense Business Interruption Insurance** – Extra Expense Insurance only covers the expenses the company incurs to get back up and running and does not cover Loss of Income at all. This insurance typically has lower limits and, with its more limited coverage, Extra Expense also has the most reasonable premium.

Business Interruption is a very important part of an effective insurance program for your business. We believe that all Business' should have some type of Business Interruption coverage. If you are interested in seeing a more detailed example of Business interruption type loss, please let us know and we will provide.

If you should have any questions, or for a quote on Business Interruption Insurance
– do not hesitate to “Collis”.

An Example of Business Interruption Coverage Application

The Importance of Business Interruption Coverage: An Example

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The value of Business interruption insurance is best illustrated by example.

Steve's Flower Shop – An Example

Steve's Flower Shop rents a commercial space in a downtown area. Steve's income is derived primarily from purchasing wholesale live flowers and creating arrangements and selling those arrangements at retail. Steve's shop has coolers to preserve the arrangements, an area to create the arrangements, and a retail space for customers. Steve's rent and utilities are his highest expense. To save costs and increase profits, Steve's purchases its wholesale flowers in bulk through a local distributor with a long-term contract. Let's say Steve's clears \$500 per day. Of that amount, \$350 is cost for utilities, rent, wholesale product, supplies, and etcetera. Steve's makes \$150 per day which is acceptable to Steve – this is his retirement business after years as an overworked business lawyer.

Then... the storm comes. Steve's shop is wiped out. The commercial space is uninhabitable. The coolers are gone. A shipment bound for a customer is gone and the stock is gone. Steve submits a claim to his property insurer. Within a few days, the insurer has put Steve in touch with a contractor and has cut a check to Steve to replace the equipment.

The contractor, owing to a lack of supplies in the devastated area, cannot begin work for two weeks. The cooler company cannot deliver new coolers for two weeks. Once work begins it will be another two weeks until operation can resume. Steve's will be out of business for one month.

Steve must make his rent and utilities payment – these payments do not stop because of disaster. To keep his wholesale contract, Steve must place a minimum order with his supplier. Steve's is still incurring \$300 per day in expenses. Steve cannot sell any flowers. Steve's will still have \$9,000 in expenses for the month and no income for that month out of operation. Put in terms of profits, it will take Steve's two to three months of profit just to zero out the loss in expenses.

It is even grimmer if Steve depended on the \$4500-5,000 of profit as his sole source of personal income. Steve still must pay personal expenses – with no income. Can Steve even survive the three months to cover this one month of lost income?

If Steve's had Business Interruption Insurance...

If Steve's Flower Shop had Business interruption insurance, then the insurance would cover the amount lost due to the interruption based upon the time, quantity, and value of the lost production. Steve would submit a claim based upon his business records showing that he "would have" had \$15,000 in sales with \$10,500 in expenses and a profit of \$4,500. Steve's Flower Shop would have this amount covered in addition to the property coverage replacing the physical location.

If Steve's had "Extra Expense" Coverage...

If Steve's can still get wholesale flowers, then Steve's may be able to open up temporarily at another location. Steve finds another location that charges additional rent for the short term rental. Steve can rent a cooler. Steve has to drive further to make deliveries. But, Steve's can get up and running in a few days. With "extra expense" coverage, the extra expenses of increased rent, cooler rental, and increased delivery costs would be covered in order to get the business up and running. In fact, the insurer may help to get this done because extra expense is typically much cheaper for the insurer to pay than a full business interruption loss.

The example here is over simplified. However, it is reflective of the reality of most small businesses. Many small businesses fail after a disaster. The businesses fail, not because of a lack of property insurance, but because the business could not recover from the loss of income.