

Do I need business interruption insurance?

Business Insurance

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Most people would never consider opening a business without first purchasing property insurance to cover the cost to repair or replace a building or equipment that?s been damaged due to a covered peril. But too many business owners fail to think about how they would keep their business afloat if they were forced to temporarily close. Business income (interruption) coverage also known as business income coverage (BI),

can help with operating expenses during the period of restoration, and includes:

- 1. Lost net income (based on financial records)
- 2. Mortgage, rent and lease payments
- 3. Loan payments
- 4. Taxes
- 5. Employee payroll

Business owners should make sure the policy limits are sufficient to cover their company for more than a few days. After a major disaster, it can take more time than many people realize to get ?back in business.? Business income coverage likely has a "restoration period.? This is the length of time that a policy will help pay for lost income and extra expenses while the business is being restored. Typically, there?s a 48 to 72-hour waiting period before the period of restoration kicks in. The standard property policy limits the business income restoration period to 30 days, but this period can be extended to 360 days by endorsement.

A business owner?s policy (BOP) often combines property, liability and business income (interruption) coverages for small?to-midsize businesses. Coverage purchased as a package is generally less expensive than if purchased through separate insurance policies and can help ensure proper underlying limits are in place. Normally, companies with 100 employees or fewer and revenues of up to about \$5 million or less are candidates for a BOP. Some types of businesses, such as restaurants, may be ineligible for a BOP because of the specific risks inherent in the business and may need to consider buying the individual coverages separately. An endorsement or rider can be added to a commercial property insurance policy that will extend the policy's coverage to business income (interruption) losses.

Business income (interruption) insurance *does not cover*:

- Broken items resulting from a covered event or loss (such as glass)
- Flood or earthquake damage, which are covered by a separate policy
- Undocumented income that?s not listed on your business? financial records
- Utilities
- Pandemics, viruses, or communicable diseases (such as COVID-19)

How much business income (interruption) insurance coverage is needed?

A good rule of thumb is to use a business?s gross earnings and projections to estimate future profits and determine the right amount of coverage. Remember, if business income (interruption) costs exceed the coverage limit chosen, the business owner will have to pay out of pocket for any extra expenses.

How much does business income (interruption) insurance cost?

It depends on a number of factors, including your:

- Industry
- Number of employees
- Amount of coverage
- Prior claims experience (if you?ve had to file any claims with your insurer)

The price of the policy can also vary depending on your location. For example, if the business is in an area

with a higher risk of hurricanes, the cost of business income (interruption) insurance may increase. A restaurant might have higher premiums than a real estate agency, for example, because of the greater risk of fire. Also, a real estate agency can more easily operate out of another location.

Options and endorsements to business income (interruption) coverage

Contingent business interruption insurance (also referred to as dependent properties)

Provides insurance coverage in the event the damage or destruction of **non-owned property** reduces or terminates the business owner's earnings. With COVID-19 disrupting global supply chains and sales, businesses are losing income and incurring additional expenses as a result of the interruption.

There are four types of entities that qualify as eligible dependent properties:

- 1. **Suppliers**: Those contributing locations that *supply* the business owner with the parts, materials, or services necessary to manufacture its product or provide its service.
- 2. **Buyers**: A recipient location buys/accepts the products, goods, or services of the insured business owner. This may be a business owner?s sole buyer or one that buys most of the insured?s output.
- 3. **Providers**: Also known as "manufacturing location" A manufacturing location manufactures products for delivery to a business owner?s customers under contract of sale.
- 4. **Drivers**: Also known as a ?Leader Location? These can include anchor stores (Target, Wal-Mart. Macy's, etc.), sports and entertainment venues, and other such entities that draw customers to the area.

Extra expense insurance

Business income (interruption) insurance can also include extra expense, which will cover anything beyond the normal day-to-day operating expenses that are necessary to keep a business solvent. Instances of extra expenses include:

- Renting a temporary place of business while the original place of business is being restored
- Replacement of hardware, technology and furniture
- Paying overtime for employees or hiring more employees
- Leasing equipment

Extra expense insurance can be bundled in a Business Owner?s Policy (BOP), as a separate insurance policy or as a rider to a commercial property policy.

Civil authority

This coverage ? which typically does not exceed two consecutive weeks ? applies when a civil authority (e.g., state, local or federal governmental entity) prohibits access to an insured?s premises due to a government order as a result of *physical damage* to an adjacent or nearby property, not owned or controlled by the insured, but rather the adjacent property of another.

Civil authority coverage extends business income (interruption) and/or extra expense coverage. Even when a government order prohibits or otherwise specifically restricts access to an insured premise, the policy may still require a direct physical loss before triggering coverage.

Note: In early February 2020 the Insurance Services Office (ISO) developed two new endorsement forms: ?Business Interruption: Limited Coverage for Certain Civil Authority Orders Relating to Coronavirus,? and

?Business Interruption: Limited Coverage for Certain Civil Authority Orders Relating to Coronavirus.? These forms provide coverage for actual loss of business income and extra expenses caused by a government order closing the insured?s premises or quarantining all or part of the premises and from government suspension of some modes of public transportation. If dependent properties are included in the coverage, such as a supplier?s or customer?s premises, then the coverage applies to the dependent property as well. Note that the forms were not filed with any states and are not being added to ISO?s form portfolio.

Utility services

A utility services endorsement extends business income (interruption) and/or extra expense coverage to apply to a suspension of operations caused by a disruption of basic utility services to a business?s premises such as electric, gas or water provided by public or private utility companies

There are two specific endorsements that should be considered:

- **Time element**: In the event winds break down a power line or a water main is broken, this coverage can cover losses, including loss of income and expenses, up to a predetermined time limit or until the power or water service is restored.
- **Direct damage**: This endorsement is an extension of property insurance, providing protection against damage to a business owner?s property resulting from an interruption of any of the utility services named in the policy as a result of a covered cause, such as a windstorm.

Understanding the limitations of business income (interruption) coverage

- While business income (interruption) insurance can help a business survive a disaster, there are limitations and exceptions to this type of coverage. If a business owner obtains business interruption coverage as part of a commercial property policy, the coverage will only extend to events delineated in the core coverage. If the property insurance does not cover flood damage, the business owner cannot receive business income (interruption) insurance if the company is displaced because of a flood.
- There are also time limits on business income (interruption) coverage, so business owners should be sure to discuss limitations and exceptions with their insurer or insurance professional.

Next steps:

For information on proposed government-backed solutions to help businesses affected by COVID-19 closures, please visit The Future of American Insurance & Reinsurance page.

For Triple-I coverage of the COVID-19 related insurance issues, please visit this page.

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