

A Guide to Helping Your Clients Understand **Business Income** and **Extra Expense Coverage**

Business Income Coverage Overview

Business Income or Business Interruption coverage can be one of the most misunderstood of all property coverages. The more a business owner understands the details of this coverage, and what is necessary for a full indemnification of loss of income and expense, the better the opportunity to have little to no effect from an incurred loss.

This guide provides a general overview of Business Income and Extra Expense Coverage to help you easily communicate the coverage to your clients.

Business Income coverage (sometimes referred to as Business Interruption coverage), is protection against loss of income or profits, in which a business has suffered a property loss or damage from a covered peril, such as a fire, natural disaster, theft or vandalism. This covers the time when the business is shut down until the property is repaired or replaced. Business Income coverage can include extra expense coverage as well.

A typical property policy will cover the cost to repair or replace buildings or equipment, but it will not cover the loss of income a business is likely to experience during the time period from the occurrence of the loss to the resumption of the business operation. In addition, the business may incur extra expenses during this time after a loss, such as rent, utility payments, taxes and mortgage payments.

Business Income insurance is put into place to protect against this revenue, or income loss and should enable the business owner to recover the proper dollars as if there was no effect to the business income stream.

Writing Business Income Coverage

There are some important points to consider and review with your client prior to writing this type of coverage.

- Be sure to review the carrier forms and type of Business Income coverage necessary for the particular kind of business operation.
- Inform the insured that they must resume operations as soon as possible, either at the same location or another location, or the coverage could be denied.
- Understand the characteristics of the operation, such as:
 - Can it easily be moved to another location to resume operation?
 - Are there bottlenecks in their operation where a small physical loss can cause the operation to shut down and lead to a larger loss?
- Identify the business income “stream” of the operation and how a loss will interrupt the business, and how vulnerable the business is to an interruption.



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Restoration Period

Business Income coverage is intended to compensate the business owner for lost income during the “period of restoration”. This period begins when the direct physical damage occurs and ends at the time the damaged property should be repaired, rebuilt or replaced.

The coverage then pays for the loss to anticipated net profit as well as ongoing expenses during this period of restoration. The standard property policy limits the Business Income restoration period to 30 days, but this period can be extended to 360 days by endorsement.

Determining the Amount of Coverage

Calculating Business Income

The Business Income policy pays the “actual loss of business income sustained” during this period of restoration. Where real and personal property values can be set as far as proper limit of insurance, the proper selection of business income values, or limits, is more difficult.

A business owner can complete a [Business Income Worksheet](#) that can show past, current and future profit and losses as well as the same for income and expenses. The selection of the amount of limits for business income would be the anticipated income/expenses for the selected period of restoration, or referred to as the maximum indemnity period.

Reporting Business Income

Often an all risk carrier will allow reporting of less than 100% of the annual values. A DIC carrier would prefer to look at the full annual values due to the exposure to a catastrophic peril.

Also, a DIC carrier normally does not blanket Business Income coverage for a multi-location risk. They assess each location on a separate basis as each pertains to the CAT perils covered. Thus there is a need for stated Business Income limits for each location.

Planning for Business Interruption

A well prepared client can save significantly when an unexpected loss occurs. Below are a few tips your clients can use to ensure their income will be protected.

Business Disaster and Recovery Plans

Commercial businesses should operate with a Business Continuity Plan which includes an action plan for catastrophic disasters, or the likelihood of their business being shut down. The better the plan, the better the chance of full recovery from a catastrophe.



The plan should include phases for before, during and after a loss. In addition, consideration should be given to how much of the business is exposed to the catastrophe. For example, is the location next to a body of water that regularly floods or is the business location in a critical earthquake zone?

Keep Accurate Records

Business Income coverage can be very “technical” when determining the amount of benefits to be paid under lost income since it is often difficult to predict the future income or profit of a business. This makes it necessary for a business to keep accurate records of prior year’s income and profit results, as well as store a set of records offsite in case the primary set is destroyed during the loss.

Business Income coverage can be tailored to the needs of the specific business depending on the actual type of revenue or income that is relative to that business. As well, coverage can have provisions to cover a business that has seasonal income fluctuations.

Questions?

If you have any questions, please feel free to contact your ICW Group Underwriter. We appreciate your business and are confident that this information help your client understand and select the proper coverage for this area of insurance protection.