

WE WOULD LIKE SOME FEEDBACK FROM OUR READERS ON THIS CONTROVERSIAL TOPIC:

# b. (INFORMED!)

[ answers to frequently asked questions ]

## What is MONTHLY LIMIT OF INDEMNITY?

**FOOD FOR THOUGHT:** Please share your experiences about this coverage for a future, more in-depth article.

It is a commonly used endorsement that provides a chosen monthly percentage of the business income limit to be paid. 33% provides one third of the limit each month for three months, 25% gives one fourth of the limit each month for four months, etc. There is no coinsurance penalty, but the problem is that this endorsement also limits the loss period to the time frame chosen and the amounts are not additive. In other words, use it or lose it. So, if someone chooses 33% and their loss of income extends to five months, they have no protection for the last two months.

To further illustrate, a \$100,000 business income limit with 33% monthly limits would be \$33,000 per month:

	Total lost	Policy pays:
Month 1, lost	\$ 45,000	\$33,000
Month 2, lost	\$ 27,000	\$27,000
Month 3, lost	\$ 38, 000	\$33,000
	<b>\$110,000</b>	<b>\$93,000</b>

Many industry experts would have you believe that the missing \$17,000 carries over into the fourth month, but that is not what the policy says. Businesses lose a lot of money because of this confusion.

Since most insurance companies' rates only go down to 50% (six months) of the annual business income risk, the monthly limit of indemnity is used to provide less than that 50% of the annual business income risk. It also eliminates the coinsurance penalty used with the standard rates.

According to Insurance Services Office form cp 00 30 06 07, *BUSINESS INCOME (AND EXTRA EXPENSE) COVERAGE FORM*, page 8 of 9:

### 2. MONTHLY LIMIT OF INDEMNITY

a. the additional condition, coinsurance, does not apply to this Coverage Form at the described premises to which this Optional Coverage applies.

b. The most we will pay for the loss of Business Income in each period of 30 consecutive days after the beginning of the "period of restoration" is:

1. The Limit of Insurance multiplied by.
2. The fraction shown in the Declarations for this optional coverage.

### EXAMPLE:

When:

The limit of insurance is: **\$120,000**

The fraction shown in the Declarations for this Optional Coverage is: **¼ (25%)**

The most we will pay for loss in each period of 30 Consecutive days is: **\$30,000**

[ **\$120,000 X ¼ = \$30,000** ]

If, in this example, the

Actual amount of loss is:		We will pay:	
Days 1-30	\$40,000	Days 1-30	\$30,000
Days 31-60	\$20,000	Days 31-60	\$20,000
Days 61-90	\$30,000	Days 61-90	\$30,000
<b>TOTAL</b>	<b>\$90,000</b>	<b>TOTAL</b>	<b>\$80,000</b>

### The remaining \$10,000 is not covered.

This does not say there is still \$10,000 available from days 31-60 to use in a subsequent month.

Some experts infer that this loss example was only for 90 days and if it had gone longer, then the extra money would be available in subsequent months. The example does not say this was a 90 day loss, only that a 90 day monthly limit was chosen, so we should expect this example to apply to any duration of loss.