

# BE INFORMED!

What are the six common areas of business income claim disputes that can be resolved with patient explanations, policy knowledge, pictures, and receipts?

1.	2.	3.	4.	5.	6.
General Cause of Loss	Period of Indemnity	Lost Amount of Business Income	Discontinuing Expenses	Co-Insurance Calculation	The Deductible

- 1. General cause of loss** specifies what actually caused the damage (wind, fire, flood, etc.). Is it covered on your insurance policy?
- 2. Period of Indemnity** identifies how long sales were lost and when you returned to "normal". In some cases, your policy covers you beyond rebuilding or repair of the damage. Check your policy for an "extended period of recovery". Is your business seasonal? Did you lose any contracts, new business, or repeat business?
- 3. Lost amount of business income** is the "sales" you would have had if there was no disaster, during the period of time it takes to return to full operations or reach your projected sales, whichever comes first. Did you regain any of the lost sales after you recovered? The accepted calculation method is to subtract discontinuing expenses from the net sales that have been projected through the recovery period. Remember, you are not trying to reach the income level you had before the disaster, but rather, reach the income level that is projected to be at the end of the recovery period.
- 4.** Most forensic accountants use a formula (which may not be accurate) for calculating the **discontinuing expenses** as a percentage of sales that need to be subtracted from gross sales. Make certain any deductions for discontinuing expenses are accurate and that those expenses actually did decrease.
- 5. Co-insurance calculation** is the penalty amount of the claim that is deducted for not insuring to value. It is based upon your business income amount, not gross sales. For example, if you purchase 50% coinsurance and your business income amount at the time of loss is \$10 million, then your insurance policy limit should be \$5 million. Yet if your insurance policy limit is actually \$3 million, you will be paid only 60% of the claim (3/5).
- 6. The deductible** will vary. It may be a number of days, normal business hours, percentage of sales, or a dollar amount, and there might be a maximum for certain perils such as wind or flood. Also there may be no deductible or it may be included in the total policy deductible. Choose the deductible that works best for you. This value will be subtracted from the amount of the claim the insurance company owes you.

Remember, the key to a successful recovery is to be prepared, know what to do, and how to calculate the financial impact of a disaster on your business. Also, make sure the entity has its own advocate to ensure it receives the full amount of the claim. For expert claim preparation and presentation, call Business Interruption Consultants, Inc., 307.433 8180. The initial consultation is free!

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