

Introduction to Business Income Insurance A Simplified Overview

By Robert M. Swift, CPCU, CIPA, CBCP

Business Income (BI) insurance is the most complicated and misunderstood insurance product. As a result, seventy percent of businesses suffering major property damage are out of business within three years because they did not have a tested Contingency Plan or the proper financing to see them through the period of recovery. Each year businesses and insurance companies are losing millions of dollars and litigation becomes an ugly factor.

There are three areas of concern: Since businesses are in denial, the underwriter is not receiving the proper premium for the total exposure, agents and brokers are losing income and being sued because the insured did not read their policy, and the insured is not getting paid what they expected.

Agents, underwriters, and insureds need to do their part to produce a policy that is properly valued and adequately protects the organization's real exposure. Since protection is the goal, thorough preparation is key.

At the same time, everyone is confused and irritated by the required Business Income worksheet. Underwriters do not receive one, agents get caught in the middle and sometimes must complete one, and insureds complain the worksheet is cumbersome and does not fit their business. The result: No BI worksheet in file. We want to resolve these issues by identifying the most common problem areas in the policy and provide solutions to consider.

Let us begin with semantics. While the two terms, **Business Income** and **Business Interruption** are often used interchangeably, they mean different things. Business Interruption is what happens to a business (fire) while Business Income is the insurance coverage organizations buy to replace their lost income and pay the additional expenses during their recovery period.

about the author

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is a business interruption specialist with more than thirty years' experience worldwide in the

insurance and risk management field. His extensive services include Business Income consultations and appraisals as well as insurance policy review. Through his company, Business Interruption Consultants, Inc., he has developed a unique, Web-based BI resource, www.BISimplified.com, that focuses on Contingency Planning, includes sixteen automated, industry-specific worksheets with detailed instructions, a comprehensive analysis of the Commercial Property and Business Income insurance policy, and a Claim calculation section.

Mr. Swift is an accredited instructor for the Institute for Business Continuity Training and is in demand by numerous professional organizations as a frequent public speaker. He is a member of the CPCU Society, the Disaster Recovery Institute, the Risk and Insurance Management Society, the National Society of Insurance Premium Auditors, and a past member of the Insurance Institute of London.

INSURANCE CONTRACT:

Commercial Property and Business Income

First of all, there must be direct physical damage to the described property which impairs operations and causes a loss of income. The period of restoration (recovery) is the claim payment period and stops when income reaches its expected level. However, some policies state that the period of restoration ceases when you are able to resume operations, for example, turn on your machines or pick up the telephone. **This latter type of policy wording does not factor into the recovery period the time it takes to reach projected sales.**

Business Income coverage pays for **actual lost business income or lost FUTURE sales during the recovery period.** However, many of the insurance company accountants deny there are ever lost future sales because they state businesses will make it up. WRONG! However, the business must be able to substantiate their loss using sales forecasts with historical accuracy, specific lost contracts, expected sales, etc. You must be very careful to differentiate between deferred sales and lost sales. Also, there is a clause in the policy that limits the amount of loss payable for multi-year sales contracts that are cancelled within the recovery period. For example, you have a three year contract with Ford Motor Company and a fire interrupts your business. If Ford Motor Company cancels the contract, you may claim only the amount of income lost during the recovery period or one of three years. This really catches a lot of businesses by surprise and costs them millions of dollars.

Business Income is an important component of the insurance process. Compare it to the keystone of an arch: If it is missing, collapse is imminent. Businesses that overlook this critical component are facing a crisis should a disaster occur. The "keystone" must be selected carefully and this means a thorough evaluation of the insurance policy. It is important to encourage insurance buyers to carefully read the entire policy to determine their rights, duties, and what is and is not covered. This places the liability on the buyer and forces them to assume responsibility for their own appropriate risk management. With proper planning, their uninsured losses will be painlessly and easily avoided.

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