

The 8 Biggest Business Interruption Mistakes and How to Avoid Them.

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Statistics

- Four out of five businesses that fail to reopen after a large loss do so due to problems with their business interruption coverage.
- It won't happen to me. In the year 2000, there were 6,547 commercial fires in Canada resulting in \$136,915,926 worth of property damage.
- Typically the Business Interruption component of a loss represents 30% of the total claim, although it can run much higher.

The 8 Mistakes

1. Underestimating the amount of insurance required.
2. Failing to consider the impact of co-insurance
3. No established off site backup procedure
4. Not reviewing your lease with your broker
5. Unfamiliar with policy exclusions & limitations
6. Underestimating Period of Indemnity required
7. Using wrong form of coverage
8. Failure to negotiate during the claims process

#1. Amount of Insurance Required

- Many insureds fail to complete the worksheet accurately, if at all.
- It will take longer to rebuild or move than you think.
- Too much reliance on current P&L statement. Expenses continue, disappear or new ones created.
- Failure to look two years out.

Loss Timing Example

- Policy Period July 1, 2004 – 2005.
- Loss date May 1, 2005.
- Period of Indemnity May 1, 2005 – 2006.
- If business is growing quickly this can be a problem.
- Extra coverage can be purchased. Any premium due to an over estimate will be returned.

#2. Impact of Co-insurance

- 100%, 80%, 50% or None.
- Applies to partial losses only.
- Penalizes business for under insuring the total by reducing your payout in proportion to the amount of underinsurance.

Co-insurance Example

- Gross Profits Form – 100%
- Loss \$500,000
- Amount of insurance purchased \$1M
- Amount of insurance required \$1.5M
- $$\frac{500,000 \times 1,000,000}{1,500,000}$$
- Business receives \$333,333 of \$500,000

#3. Off Site Backups

- Claim will be based on most current financial data you can provide.
- Easy and cost effective risk management.
- Cornerstone of any disaster plan.

#4. Lease Review

- Items such as Leasehold Improvements can put your business offside with co-insurance.
- Leasehold valuation includes those made by prior tenant.
- Use replacement cost.
- Your rights and obligations with respect to the lease after a fire.

#5. Exclusions & Limitations

- Business Interruptions losses arising from Equipment Breakdown.
- Power losses occurring outside your property lines.
- Flood and Earthquake.
- Complete shutdown vs partial

#6. Period of Indemnity

- One year is standard.
- May not be enough particularly if Gross Profits Form is being used.
- Can be extended.

#7. Wrong Form of Coverage

- Can you be out of business for an extended period?
- How long will you be closed?
- Where will your customers go?
- Will they return? If so when?
- Do you have other branches or offices that can handle your customers?
- Are you dependent on one supplier or customer for a large percentage of your business?

#8. Negotiation

- Inventory and equipment values tend to be fixed.
- If you can save an insurance company money they will consider covering uninsured losses (e.g. renovation costs on a new building).

After a Loss

1. Call the broker or agent, who needs to involve the insurer immediately;
2. Make decisions in the company's best interest, regardless of whether they fit into insurance coverage;
3. Assign an account number to the loss so that all costs can be captured;
4. Provide the insurer with access to the people that know the impact of the loss and what needs to be done to restore operations;
5. Determine the potential loss of sales, which the insurer will need to estimate loss reserves;

After a Loss – Cont.

6. Identify extra expenses that could reduce loss of sales, including the cost of continuing production at current site, moving to a temporary location, using other company facilities, contracting out work and paying overtime/ bonuses;
7. Evaluate what must be done to get back into business, either at the current location or a temporary location. Also, determine what products are most important to get back into production and identify the extra expenses already being incurred;
8. Gather all documents to submit the business interruption claim;
9. Continue to provide all necessary and relevant documentation to the insurer.