

ENSURE YOUR BUSINESS SURVIVES AFTER A DISASTER

BUSINESS INCOME INSURANCE CAN HELP YOUR COMPANY RECOVER AFTER A DEVASTATING LOSS.

Many businesses purchase business income insurance to protect their net income and continuing expenses after a devastating loss. Many other businesses, however, have yet to realize the necessity of this coverage, or they underestimate the advantages of carrying the right amount of coverage. Whether your business is interrupted due to a fire, tornado or other catastrophe, the financial consequences you will experience include reduced property value, lost income and extra expenses. Most businesses adequately insure their buildings, machinery, equipment, stock and other tangible merchandise, but they fail to focus on the potentially more devastating side of the risk, lost income. In determining the type of income insurance to carry and the amount of insurance needed, consider the following issues.

Timetable

In the event of a total loss, how long will it take to get your business back up and running? The answer varies for businesses in different industries. For instance, a retail business may be able to find a new space to lease and have their doors open in three or four months. A hotel may need 12 months to construct a similar building. A manufacturer may require more than 12 months if specialized equipment is not readily available. A school may need to plan for future tuitions that might be lost. A bank may be required to have their doors open immediately so little income is lost, but extra expenses are substantial.

The most accurate method for determining appropriate limits is completing a business income worksheet. This worksheet starts with total revenue and subtracts non-continuing expenses (e.g., cost of goods sold raw materials, supplies and wages), but includes all continuing expenses (e.g., lease payments, contracts and utilities) to arrive at an annual net income and continuing expenses figure.

On a gross earnings form, a coinsurance percentage is applied to assure the insurance carrier that limits are adequate. If operations can be up and running in six months, you might want to consider a 50 percent coinsurance clause, which allows you to write limits for half the annual amount. For some sophisticated operations, however, it could take up to two years to reconstruct facilities completely, so you may need more than a years' coverage.

For a simplified approach, a no-coinsurance monthly limitation form is often available. This form allows you to pick the amount of limit or recovery you want each month, with no detailed calculations required. This type of coverage has a higher rate, so it would not be feasible if you desire more than 3-4 months coverage.

Payroll

While your business is down, how long do you want to pay normal payroll? The total amount of business income calculated automatically includes 100 percent payroll. If your business is unique, you'll want to include paying all employees while operations are shut down. If you can re-hire personnel after your

operations are up and running again, you may choose to include only 90 days of payroll or eliminate it altogether.

Extra Expenses

What additional or extraordinary expenses are you likely to incur while operations are shut down? Consider the immediate expenses following a loss, along with ongoing expenses until operations are restored. If you expect substantial expenses, then you will need separate extra expense coverage or the business income/extra expense combined limit needs to be increased accordingly.

Customers

After your operations are restored, how long will it take to get back to the same customer base as before the loss? Business income coverage stops the minute operations are restored and doors are open. If you anticipate that it may take 90 to 120 days to restore income levels to the pre-loss base, then consider including extended period of indemnity coverage. This coverage extends the time period during which business income insurance pays. If 90 days coverage is needed, then the business income limits should be increased 25 percent or to an appropriate amount.

Other Considerations

What about other exposures? Also consider your potential lost income if a devastating loss affected a key supplier or customer. What income would you lose while trying to replace that supplier or customer? Consider contingent business income insurance to mitigate this potential loss. What about lost income due to power or communication lines with no direct damage to your premises? Off-premises power outage or utility interruption insurance could lessen the impact.

What if you did everything correctly, but the city codes required you to rebuild your properties to a higher standard? What if it took longer than the current type of building and thus your income loss extended longer than expected? In that scenario, building laws business income insurance could protect your business.

For many small businesses, insurance companies often include some automatic business income coverage, such as \$300,000 in some types of business owner policies. If you are on this type of policy, be sure to verify this limit is sufficient for your needs.

Business income losses are, without a doubt, the most difficult claims for insurance companies to adjust, as payment is based on how much the business would have earned had it been in operation. Careful attention to limits and coverage can keep your business thriving after you have recovered from a loss. Be prepared for a complicated process and negotiation on accounting issues, and some partial payments from the insurance company along the way. But in the end, this valuable insurance could save your business.