

## Coverage for Business Interruption

One of the more intriguing aspects of any comprehensive insurance program for a business is coverage for business interruption which preserves the earnings and/or cash flow capacity of the enterprise after suffering a covered property loss.

Business Interruption— or Business Income— coverage is based upon the physical integrity of the policyholder's premises—its plant and equipment or its inventory and fixtures. When a business suffers damage impacting operations, business income insurance kicks in to supplant the earnings of the business. The old saying is that business interruption insurance does for the business what the business would have done had there been no loss.

But it is important to realize what business income coverage does not do. The timeline for business income coverage is based on the time it takes to restore the productive assets or facility that have been damaged by an insured peril. So, typically, when the property is restored or should have been restored, the coverage ceases. Business income coverage doesn't provide coverage until your normal business volume is back unless you have a special endorsement for an extended period of indemnity.

Additionally, business interruption losses are usually settled long after the physical damage has been restored, so there is a lengthy period when the policyholder's cash flow may be severely restricted. Some insurance companies are loath to make advance payments on business interruption losses during this trying period.

So, although imperfect, business income coverage does provide a valuable protection to a contraction in earnings resulting from the impact of an insured peril on the operations of a business.

What are the key elements in developing a business income claim? The two predominant issues are the length of time during which the policy must respond and the forecast of business during this period. Most forecasts are an educated guess and the language in the policy goes something like "The Net Income of the business before the direct physical loss or damage occurred" or "The likely Net Income of the business if no physical loss or damage had occurred." Insurers invariably use forensic accountants to make these projections.

In every major business income claim, you can expect to meet with a forensic accountant assigned by the insurer to handle the claim. The insurer's forensic accountant relies on the property loss adjuster who handled the property loss to compute the period of restoration or the period of time that it would take a reasonable person to repair or rebuild the property damaged by the insured peril.

Then the forensic accountant will make a projection of the lost earnings using a combination of past history with a consideration of future prospects, but essentially using the trending of the past results of operations to make the forecast. This shorthand approach can often be unsatisfactory since it may not capture the true prospects of the business.

Who has a better understanding of the operations and prospects for the business than the business' management? Because SMW works on behalf of the business owner and management, a claim prepared by our professional insurance adjusters better reflects an insured's point of view and more accurately depicts the true future of the business.

Generally, there is plenty to fuss about in bringing a business income claim to a satisfactory conclusion. Moreover, one must resist the temptation to put the same template on every loss because every business is different and has its own unique characteristics. The business income claim should take into account all of the business' unique features and meld them into a sensible picture of "what would have been had there been no loss."