AN INTRODUCTION TO BUSINESS INTERRUPTION INSURANCE FOR BUSINESS OWNERS

Whilst life comes with a lot of uncertainty, living in fear that something may go wrong should never be the answer. There is, however, great wisdom in staying prepared.

Business Interruption (BI) insurance was introduced to respond to unexpected scenarios that a business encounters.

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BI insurance covers the loss of income or increased costs that a business suffers if normal trading is restricted for a period of time, due to an unforeseen incident.

In a time where business interconnectedness and global activity is the norm, business interruption has become a top risk companies face*.
Do I need Business Interruption insurance?

Unfortunately, it is common place to see businesses fail due to suffering a serious claim with no/insufficient BI coverage to fall back on. If you are unsure as to whether BI insurance is right for your situation, consider the following questions:

"Would my business be able to finance fixed costs, including employee salaries, despite a reduction in turnover caused by temporary business closure?"

"What about the loss of profit for the period of the downtime? Would my business be able to afford the additional costs necessary to continue trading effectively?"

Even those who do purchase business interruption should carefully consider the costly consequences of underinsurance. Underinsurance is a major challenge within the insurance industry and a recent report revealed that 43% of business interruption policies were underinsured by an average of 53%.

When purchasing BI insurance, common problems tend to involve:

Type of Cover: There are three main types of BI coverage available to businesses - Loss of Gross Profit, Loss of Gross Revenue, Increased Cost of Working. The incorrect basis of coverage could lead to a claim not being indemnified in the manner which you would expect it to be.
Sum Insured: The sum insured is the level of cover in place. A main cause of underinsurance is a miscalculated figure and a misguided estimation of how far ahead provision should be made for. The term Gross Profit carries different definitions within insurance and accountancy, which can also add to the confusion!

Indemnity Period: The period should start at the date of the loss (giving rise to the interruption to the business) and represents the maximum period (i.e. the worst foreseeable scenario) which the business is affected as a result of the damage. Here, business owners tend to cite 12 months, when in reality, the recovery phase can be much longer. An over-optimistic expectation can trigger an inadequate policy.

When speaking with your broker, carefully scrutinise factors such as company activities and associations, locations you operate from, and the seasons/trends within your industry that may cause you to become more prone to hazards. This can help you mitigate risks efficiently and identify the appropriate level of cover required.

A report by Zurich highlighted failure to carry out regular valuations/assessments as the main cause of underinsurance; be intentional about reviewing your policy during regular intervals, considering any new/emerging risks.

Businesses are confronted with risks every moment, everywhere. Yet, there are options available to make sure your business has the best chance of surviving, no matter the storms that may come.

Please feel free to contact me if you have any questions regarding Business Interruption insurance or if you would like to discuss your existing policy.

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