



BUSINESS INTERRUPTUS

A dive store that suffers a fire loss and cannot stay open means that the manager and staff cannot collect a paycheck. Business interruption insurance is designed to assist in this type of situation.



A Business Interruption Insurance Primer for Dive Centers

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What happens to your dive store in the event the power goes out somewhere, it gets hit by a weather-related event and has to close for several weeks, a car crashes through your front window or a disaster of any kind takes place and for some reason the doors remain shut? No income flows into the establishment, employees go unpaid, no immediate profits are made, property damage is incurred, and your accounts payable are due but there is no immediate cash flow. Certainly your business has a property damage insurance policy that will provide relief for the property damage that your business has suffered, but what about the interruption to your operations, the lost wages, the lost profits? Is your business actually prepared for this type of loss and recovery? Does your business actually have business interruption coverage?

What is Business Interruption Insurance?

The common definition of “business interruption insurance” is “insurance that provides protection for the loss of profits and continuing fixed expenses resulting from a break in commercial activities due to the occurrence of a peril.”

There are different types of business interruption insurance available to businesses. Most differ in the type of claims they cover by way of loss. Business insurance is primarily designed to replace lost income and restore the business to its pre-incident condition. The type of incident could be anything from a major catastrophe such

could be caused by nearly any event and the uninsured perils will be listed in the policy. Under both types of policies, the interruption of operations must be directly related to the damage that occurs.

There can be additional types of business interruption coverage. These can include “extra expense” coverage whereby a business can be helped with an additional expense, such as rent or lease payments for a temporary location or the costs incurred to hasten replacement equipment. Some business interruption policies combine this with the loss of business income

- 56 percent of U.S. companies have had business operations significantly interrupted because of computer hardware problems.
- 46 percent of U.S. companies have had business operations significantly interrupted because of telecommunications failure.

Put those statistics with this: Another survey of 500 owners of small businesses, defined as businesses with fewer than 100 employees and less than \$1.5 million in

These steps may seem time consuming at first, but they will save you a lot of money in the event you have a loss that could be covered under your business interruption policy. You do not want to be undervalued or overvalued.

If you suffer a loss and are undervalued, you may only recover 60 percent of the loss you need to recover and, in effect, never recover. If you are overvalued, you pay a premium upfront for something that you will never fully use.

as fire that destroyed the property to something much simpler, like a blown switch that put the store in the dark and shut down the point-of-sale system during a lightning strike.

Under most business interruption policies, some type of physical property damage must occur to initiate coverage. It must be at the business insured. For example, if access to the business property is restricted because of damage to a neighboring property, but there is no physical damage to the business property itself, the business interruption policy would not be triggered. However, if a fire in a neighboring store caused smoke or water damage in yours, it likely would be.

Some business interruption policies differ by the type of perils that can cause the coverage to take effect. The physical damage must have been caused by one of the perils listed in the policy. In the case of an “all perils” policy, the incident

coverage. Another one is “contingent business” coverage, which extends coverage to income losses resulting from property loss at a key supplier or vendor or customer location. Yet another type of coverage is called “civil authority” coverage, triggered when the government denies access to a business due to another entity’s property loss. Lastly, there is “service interruption” coverage to provide protection against loss due to disruption of utilities.

Should You Consider It? Some Interesting Statistics

At a recent conference on emergency planning sponsored by the Mission, Kansas-based SkillPath, an organization that offers business training for executives in various countries, some sobering statistics were released:

- 72 percent of U.S. companies have had business operations significantly interrupted because of power outages.

revenue, showed that three out of four respondents either do not have business interruption insurance or do not know what it is. The assumption that property damage will provide protection for your loss is a bad assumption to make.

Most small businesses can purchase business interruption protection within their property damage package as part of the blended coverage, either as an endorsement to the policy or as the general package.

How Do You Determine What Coverage To Have?

First and foremost in considering the business interruption policy or endorsement is to read and interpret the policy language. You should make sure that you fully understand what your company needs and what the policy provides:

What is the scope of the coverage?

This is usually the first provision in any insurance policy. It should detail what financial losses will be covered if your business

should close from an unforeseen incident. Review the scope of the coverage to determine whether the policy only covers revenue loss or whether it will cover more substantial losses as well. Other things might constitute loss such as inventory or damage to physical premises.

Determine what is considered a 'cause for loss' and what triggering event or incident put your business out of commission.

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This is a contractual issue between you and the insurer and is a key point under the contract. Most policies are limited to specific types of property damage.

Determine if the policy includes a 'multiple causes for loss' clause. This is beneficial in situations in which your business is damaged but the damage is not easily attributable to a specific cause. For example, your business was hit by a flood but also had building code issues.

Clarify what is considered a 'covered premise' under your policy. Some businesses operate in multiple locations. Unless specifically provided, the business interruption policy usually covers only the main building of operation, when the damage might also affect the business at a remote location.

Determine the limits of liability. Some policies will cover only the costs of inventory loss and building damage but will not cover earnings loss. Other policies may cover earnings up to a certain amount or even until you are able to reopen.

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Business Interruption Insurance Coverage Terminology

Understanding these terms might be useful when discussing business interruption insurance with your insurance agent.

Named perils. If the policy has "named perils," then the incident must be one that is caused by those specifically listed.

All perils. If the policy is an "all perils" policy, it could be caused by nearly any peril and the uninsured perils will be listed in the policy. Under both types of policies, the damage that occurs must be directly related to the necessary interruption of the operations.

Extra expense. There can be additional types of business interruption coverage. These could include coverage whereby a business could be helped with an additional expense such as rent or lease payments for a temporary location or the costs incurred to hasten replacement equipment.

Contingent business. Some of the business interruption policies combine this with the loss of business income coverage. "Contingent business" coverage extends coverage to include income losses that result from property loss at a key supplier or vendor or customer location.

Civil authority. A type of coverage called "civil authority" coverage extends coverage when the government denies access to a business due to another entity's property loss.

Service interruption. "Service interruption" coverage provides protection against loss from disruption of utilities.

How Much Interruption Coverage Does My Company Need?

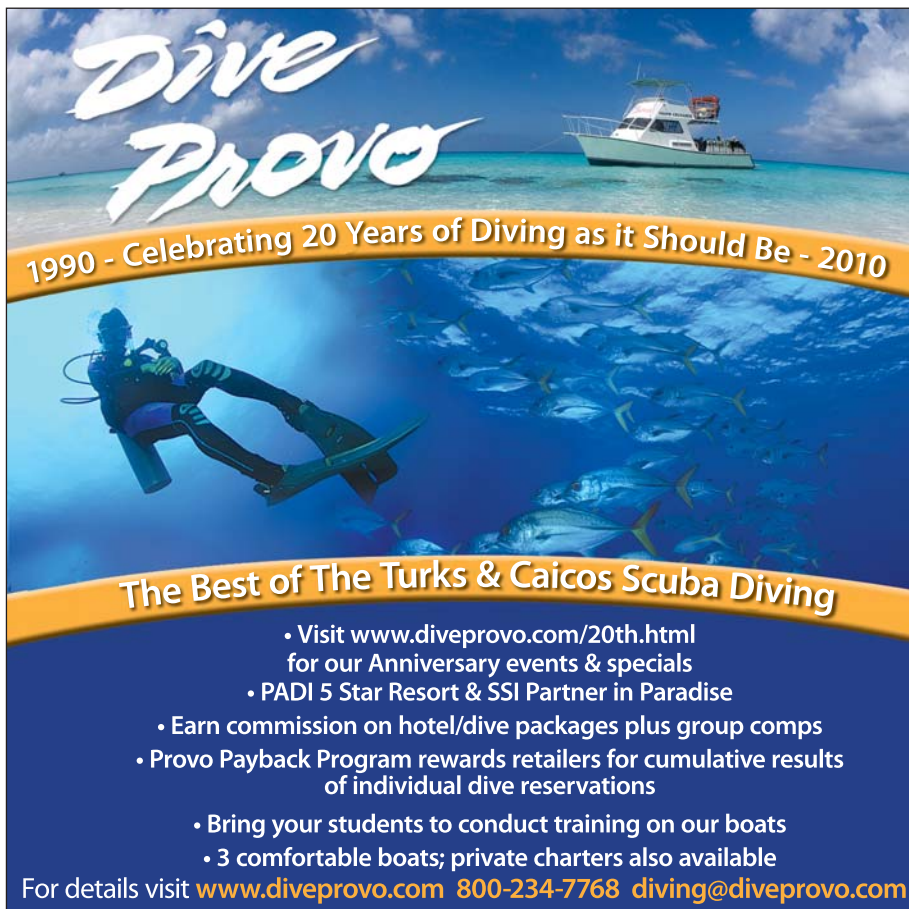
One of the most important aspects of the business interruption policy is the protection afforded for economic loss during the interruption period. The difficult question is determining the amount of business interruption insurance your company may need. It is hard to predict how long your company may be closed or for what reason. Here are some suggestions for determining how to assess the amount of coverage your company may need:

In the case of a natural disaster or an unexpected debilitating event, such as fire, the business may be shut down for at least a year. Hopefully you will be up and running way before this, but especially in the wake of a widespread disaster, rebuilding may be more difficult than you think. Assess the types of coverage you think you will need to keep you afloat (i.e., business income, extra income, civil authority and/or contingent business interruption coverage). You may purchase these separately or in any combination.

Review your annual financial records and obtain a general knowledge of your annual net profit. Your insurance company will need it but you should also assess how much profit you make (or could lose) per year. Purchase enough business income coverage to cover at least this amount of revenue.

Request an appraisal of your office building or other operating location. The amount of money it would cost to rebuild from scratch should assist in determining the amount of extra expense coverage needed in the policy.

Undertake a detailed inventory, not only of the product stock, but also of the equipment in the office. This can also be



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used to calculate how much extra expense coverage is needed.

And finally, have a sense of how much revenue stream would be lost if your business was unable to receive product from your main supplier or if your main customers were unable to purchase from you. Both situations could be covered under contingent business interruption insurance coverage, provided the reason was related to damage at the associated business's property, and significant to halt the business operations.

These steps may seem time consuming at first, but they will save you a lot of money in the event you have a loss that could be covered under your business

interruption policy. You do not want to be undervalued or overvalued. If you suffer a loss and are undervalued, you may only recover 60 percent of the loss you need to recover and, in effect, never recover. If you are overvalued, you pay a premium upfront for something that you will never fully use.

How to Assess How a Business Interruption Policy Protects for Fire Loss

One of the most common areas of interruption in the retail industry is loss due to fire and fire-related hazards. It can easily devastate a business, placing it into ruin both physically and financially. A dive store that suffers a fire loss and cannot stay open means that the manager and staff can

not collect a paycheck. Business interruption insurance is designed to assist in this type of situation. But how do you go about assessing how much is needed in case of a devastating fire loss?

Also consider a contingency business interruption clause for your policy to protect you in the event that a fire causes substantial damage to the property of one of your suppliers or customers where, you, too, will lose income. A contingent business clause protects you if you cannot buy or sell your product. Your agent or broker should be well-versed in how to obtain these and provide advice for your property damage insurance package. Among other things you will need to:

Assess what expenses you would need to cover. You can purchase a named peril policy that will cover building damage and



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Checklist: How to Assess How a Business Interruption Policy Protects for Flood Loss

Floods and flood-related problems are common in some parts of the United States and other countries. In the Atlanta area last year a series of floods damaged many small businesses. Many are rebuilding, but because there are so many the process is slow and the interruption is long for the establishments. Be aware that not all business interruption policies cover flood-related interruptions.

- ✓ Before your business is hit by a flood, you should assess your policy to determine how it protects the business in the event of such a disaster.
- ✓ Determine what your business interruption policy considers a flood and what causes are covered.
- ✓ See if your policy is an "all risk" policy or a "named peril" policy. Although an all-risk policy is the most common form of business interruption policy, it often excludes natural disasters, including floods. A named peril policy protects your finances when damage is specifically named in the policy, which could be a flood.
- ✓ Purchase extra flood insurance if your business interruption insurance has the natural disaster exclusion or will only cover income loss.
- ✓ Check if your insurance policy has a waiting period for business income losses.
- ✓ Request an extended period of indemnity in your policy. This will allow you time to recoup income losses that continue after you reopen. In a flood zone, this is particularly important because your business will not likely begin regenerating a steady flow of patrons and revenue when it reopens so you need the insurance to cover a month or so after the reopening period.

rebuilding costs specifically due to fire, but not from other causes. You can also carry business interruption insurance that will help pay for you and your employees' salaries during rebuilding.

Understand and clarify if your policy has a waiting period. This waiting period functions like a deductible, except that instead of paying a percentage out of your pocket, the insurance company does not cover the cost of damage incurred for a defined period of time after the fire. This can be critical to your recovery, for even a few hours of waiting can ruin the recovery.

Determine if you need 'extra expenses' clauses in your policy. This affords protection for income lost when damage affects the daily operations but is not enough to completely shut down operations. Typical business interruption insurance only triggers if the business is completely closed.

Do you have 'loss of rents' insurance if your business income relies on other people renting the property? Should a fire occur on the premises of one of the rental properties, this type of insurance will determine a payment amount based on the number of canceled leases.

How to Compare Business Interruption Policies When Considering a Purchase

Like any other insurance, every business owner wants the best value for the premium dollars spent, the best claim service and essentially a hassle-free experience when it comes to the claim. Below are some simple steps to consider when comparison shopping for business interruption policies:

- Be aware and know the claims process for the business interruption insurance.
- Be familiar with all the language regarding the terms and conditions for assessing property damage.
- Assess whether the dollar amount of the coverage adequately covers salaries

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and rent, and if the premiums are competitive with other companies.

- Compare the potential insurer's policy regarding extra expense insurance. In a disaster or other event that closes your business, different policies may contain clauses that reimburse for normal operating expenses provided during the post-disaster restoration period, while others may have a waiting period.
- See the cumbersome documentation requirements regarding continuing expenses. The extra expense insurance alone may provide all the coverage necessary without the purchase of business interruption insurance.
- Beware of a policy that has only minimal coverage.
- See if the policy contains an extended period of indemnity clause. A policy that only provides coverage for losses until you open your business is not a very realistic approach to assisting you effectively. Most effects of a disaster carry over beyond the time that your business reopens.
- Compare the policies for off-premises power coverage. See if it covers business interruption due to damage to your service providers.
- Do you need a co-insurance clause? Compare the costs-versus-benefit trade-off.

It is especially important for dive retailers to keep and maintain detailed records that reveal the profits, income, flow of business, upturns, downturns, salary history, revenue projections and the like. Most business interruption losses have some measure of subjectivity in them and the more data that is maintained, the easier for the insured to demonstrate the loss to which it is entitled. Select the right coverage, the right period of time, the amount of loss to be covered, and hope that no disaster ever hits your business.


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