



Business Interruption Coverage and Extra Expenses

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Agenda

- What is Business Interruption Insurance?
- Describe the features common to most business interruption forms
- What is covered under business interruption?
- What are "extra expenses"?
- Cover a few key terms in BI Insurance
- Loss determination



“

“When it comes to Business Interruption, 50% of the policyholders out there are under-insured and the other 50% are over-insured. So you either do not have enough coverage or you are paying too much money for your policy.”

– A wise man

”

What is business interruption insurance?

- A form of commercial property insurance coverage that reimburses business income lost as a result of an event that interrupts the operations of the business, such as, fire or a natural disaster
- Business interruption insurance (BII) pays for income lost because of the interruption of business or the extra expense necessary to keep the business going after a loss
- Simply put, it is there to make a property loss as seamless to your income statement as possible



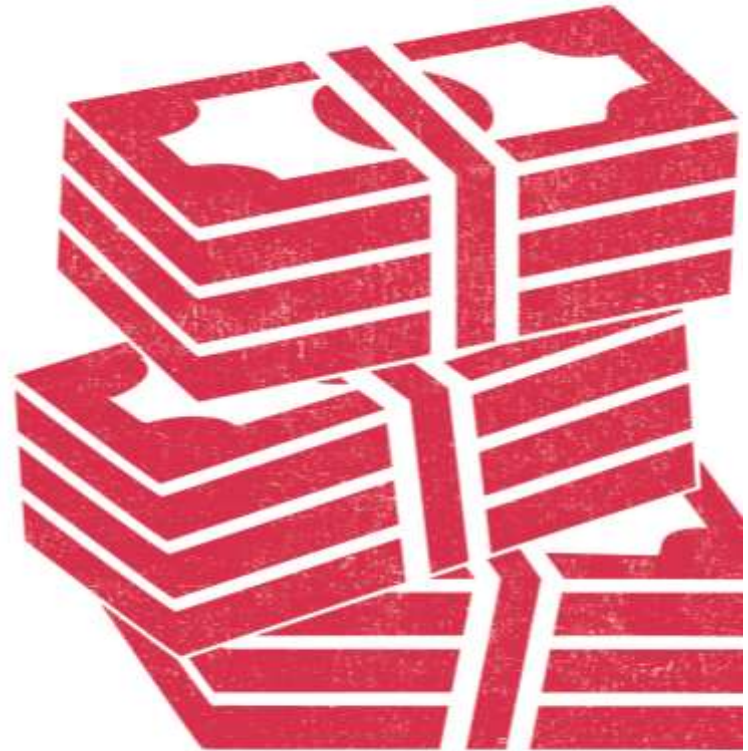
Who needs business interruption insurance?

- A business that needs property insurance also needs BI insurance
- Business interruption insurance is normally added to a property/casualty policy or included in a comprehensive master package policy but can also be bought as a separate policy
- Must be a “necessary” interruption
- Must result from an “Actual Loss Sustained”



Why business interruption insurance is so important?

- Protects your company from:
 - lost income
 - loss of market share
 - lost strategic alliances or partnerships
 - lost time of key employees
 - loss of key employees



What is being covered?

The basics

- *Business Income* - Net income (before tax)
- Necessary continuing expenses (including payroll)

Common optional BI coverages

- extra expense
- extended period of indemnity (extended business income)
- contingent business interruption (dependent property)



Business interruption additional coverages (optional)

- Utility Services
- Service Interruption
- Civil Authority – Ingress/Egress Coverages
- Loss of Market Exclusion / Wide Area Impacts
- Dependent (Contingent) Property Business Interruption
- Extended Period of Indemnity (Business Income)
- Loss Adjustment Expenses – Claim Preparation Fees



Key term: "Business Income"

COMMERCIAL PROPERTY
CP 00 30 06 07

BUSINESS INCOME (AND EXTRA EXPENSE) COVERAGE FORM

Various provisions in this policy restrict coverage. Read the entire policy carefully to determine rights, duties and what is and is not covered.

Throughout this policy the words "you" and "your" refer to the Named Insured shown in the Declarations. The words "we", "us" and "our" refer to the Company providing this insurance.

Other words and phrases that appear in quotation marks have special meaning. Refer to Section F., Definitions.

A. Coverage

1. Business Income

Business Income means the:

- a. Net Income
- come tax
- or incurred
- b. Continuing
- incurred.

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Declarations

- (1) Busin
- Value
- (2) Reins

With respect to the requirements set forth in the preceding paragraph, if you occupy only part of the site at which the described premises are located, your premises means:

1. Business Income

Business Income means the:

- a. Net Income (Net Profit or Loss before income taxes) that would have been earned or incurred; and
- b. Continuing normal operating expenses incurred, including payroll.



Examples and not examples of "necessary continuing expenses"

Examples

- mortgage payments
- rent
- property taxes
- salaries
- equipment leases
- insurance premiums
- service contracts
- ordinary payroll
- interest and bank fees

Not examples

- utilities that do not continue
- raw materials
- repairs and maintenance
- supplies
- discounts; bad debts
- prepaid freight
- returns and allowances

How is coverage triggered?

- Must start with a "Covered Cause of Loss"
- At an insured location
- For an incident that occurred during the policy period



Key term: "Covered Cause of Loss"

- Description of covered perils and exclusions, such as:
 - fire
 - flood
 - wind/hail
 - earth movement (earthquakes)
 - civil authority
 - ingress-egress
 - terrorism
 - vandalism
 - others

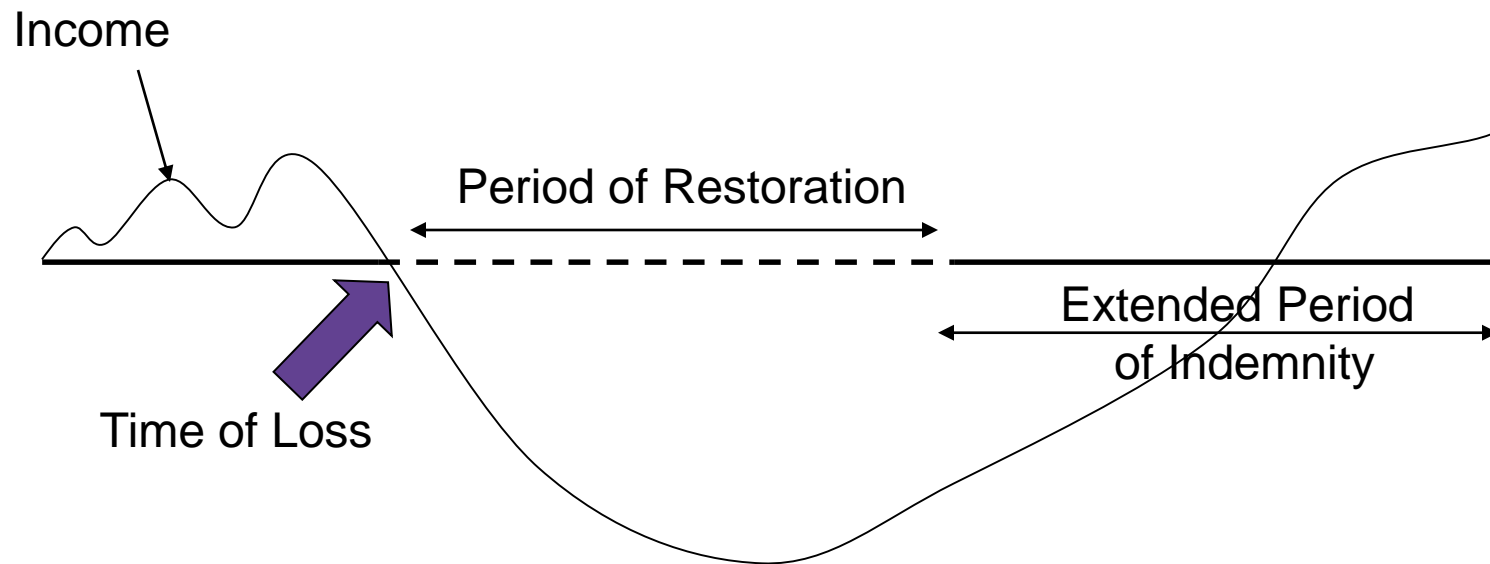


Key term: "Covered Location"

- Listed on the policy
- Includes all the locations where you do business
- Could include locations not directly operated by your company
- May include other dependent properties as well such as (additional endorsements):
 - your suppliers' locations
 - your key clients' locations
 - magnet property locations
 - any location that you can establish a legitimate connection to your Net Income



Chronology of a claim



A few key terms – *Period of Restoration*

F. Definitions

1. "Finished stock" means stock you have manufactured.
"Finished stock" also includes whiskey and alcoholic products being aged, unless there is a Coinsurance percentage shown for Business Income in the Declarations.
"Finished stock" does not include stock you have manufactured that is held for sale on the premises of any retail outlet insured under this Coverage Part.
2. "Operations" means:
 - a. Your business activities occurring at the described premises; and
 - b. The tenantability of the described premises, if coverage for Business Income Including "Rental Value" or "Rental Value" applies.
3. "Period of restoration" means the period of time that:
 - a. Begins:
 - (1) 72 hours after the time of direct physical loss or damage for Business Income Coverage; or
 - (2) Immediately after the time of direct physical loss or damage for Extra Expense Coverage;
caused by or resulting from any Covered Cause of Loss at the described premises; and
 - b. Ends on the earlier of:
 - (1) The date when the property at the described premises should be repaired, rebuilt or replaced with reasonable speed and similar quality; or
 - (2) The date when business is resumed at a new permanent location.

3. "Period of restoration" means the period of time that:

a. Begins:

(1) 72 hours after the time of direct physical loss or damage for Business Income Coverage; or

(2) Immediately after the time of direct physical loss or damage for Extra Expense Coverage;

caused by or resulting from any Covered Cause of Loss at the described premises; and

b. Ends on the earlier of:

(1) The date when the property at the described premises should be repaired, rebuilt or replaced with reasonable speed and similar quality; or

(2) The date when business is resumed at a new permanent location.



A few key terms – *Extended Period of Indemnity (Business Income)*

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CP 00 30 06 07

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A. Coverage

1. Business Income

Business Income means the:

- a. Net Income (Net Profit or Loss before income taxes) that would have been earned or incurred; and
- b. Continuing normal operating expenses incurred, including payroll.

For manufacturing risks, Net Income includes the net sales value of production.

Coverage is provided as described and limited below for one or more of the following options for which a Limit of Insurance is shown in the Declarations:

- (1) Business Income Including "Rental Value".
- (2) Business Income Other Than "Rental Value".
- (3) "Rental Value"

With respect to the requirements set forth in the preceding paragraph, if you occupy only part of the site at which the described premises are located, your premises means:

- (a) The portion of the building which you rent, lease or occupy; and
- (b) Any area within the building or on the site at which the described premises are located, if that area services, or is used to gain access to, the described premises.

2. Extra Expense

- a. Extra Expense Coverage is provided at the premises described in the Declarations only if the Declarations show that Business Income Coverage applies at that premises.
- b. Extra Expense means necessary expenses you incur during the "period of restoration" that you would not have incurred if there had been no direct physical loss or damage

(1) Business Income Other Than "Rental Value"

If the necessary "suspension" of your "operations" produces a Business Income loss payable under this policy, we will pay for the actual loss of Business Income you incur during the period that:

- (a) Begins on the date property (except "finished stock") is actually repaired, rebuilt or replaced and "operations" are resumed; and
- (b) Ends on the earlier of:
 - (i) The date you could restore your "operations", with reasonable speed, to the level which would generate the business income amount that would have existed if no direct physical loss or damage had occurred; or
 - (ii) 30 consecutive days after the date determined in (1)(a) above.

However, Extended Business Income does not apply to loss of Business Income incurred as a result of unfavorable business conditions caused by the impact of the Covered Cause of Loss in the area where the described premises are located.

Loss of Business Income must be caused by direct physical loss or damage at the described premises caused by or resulting from any Covered Cause of Loss.



Key term: "Extra expense"

- Those expenses incurred during period of restoration in excess of normal operating expenses that otherwise would not have been incurred if no direct loss
 - covers only the extra charges (expenses) incurred to keep a business going in order to avoid or minimize business disruption
- Designed for business and professions that can continue at extra cost and must do so if possible
- Available as a separate coverage or within BI coverage
- Examples:
 - fuel cost for emergency plant or emergency plant rental
 - overtime payment
 - rental of temporary premises while insured location is in restoration



Key term: Dependent (Contingent) business interruption" (optional coverage)

- Increasingly relevant as supply chains become more complex and operate with reduced inventories and complicated to measure
- Important to identify different types of suppliers and applicable policy limitations
 - Direct
 - Tier 1 / Tier 2 customers or suppliers
 - “Scheduled” customers/suppliers
 - Territorial limitations
- During underwriting -- try to include ALL suppliers and customers → Inform management / owners of the limitations



Challenges of proving dependent (contingent) business interruption loss

- Requires proof of damage to 3rd party location, including period of closure and effect on insured
- Little guidance on how to prove loss of business due to covered peril affecting customers or suppliers
- Recent revisions to CBI clauses make coverage even more iffy and claim preparation even more difficult
- Requiring listing of suppliers or dependent property
- Limit to first tier suppliers / customers
- Low sub-limits and high deductibles



Key term: "Utility Services" (optional coverage)

- Coverage suspension of operations caused by interruption in utility services
- Interruption of service caused by a direct physical loss or damage by a covered cause of loss

POLICY NUMBER: _____ COMMERCIAL PROPERTY CP 94 17 10 12

UTILITY SERVICES – DIRECT DAMAGE

This endorsement modifies insurance provided under the following:
 BUILDERS' RISK COVERAGE FORM
 BUILDING AND PERSONAL PROPERTY COVERAGE FORM
 CONDOMINIUM ASSOCIATION COVERAGE FORM
 CONDOMINIUM COMMERCIAL UNIT-OWNERS COVERAGE FORM
 STANDARD PROPERTY POLICY
 TOBACCO SALES WAREHOUSES COVERAGE FORM

SCHEDULE

Premises Number	Building Number	UTILITY Services Limit Of Insurance	Enter "X" for each applicable property				
			Water Supply Property	Communication Supply Property (including overhead transmission lines)	Communication Supply Property (not including overhead transmission lines)	Power Supply Property (including overhead transmission lines)	Power Supply Property (not including overhead transmission lines)
		\$					
Covered Property:							
Causes Of Loss Form Applicable:							
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Covered Property:							
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Covered Property:							
Causes Of Loss Form Applicable:							

(Information required to complete this Schedule, if not shown above, will be shown in the Declarations.)

CP 94 17 10 12 © Insurance Services Office, Inc., 2011 Page 1 of 2



Other important things to look at in BI

- A high limit for *Claim Preparation Expense*
- A *Waiting Period* as short as possible
 - Waiting Period is the amount of time you have to be down before coverage is triggered
 - The standard waiting period is 72 hours but it can be reduced to 24 or 12 hours to 0 hours by paying additional premium



Who should be on the "claim team"?

Internally

- those who bought the policy and established the coverage limit:
 - Risk Manager
 - Finance Management
 - Operations Management

Externally

- Insurance Broker or Agent
- Forensic Accountant/CPA
- Coverage Attorney/Counsel
- Professional expertise such as Engineer or Contractor

Loss determination

The amount of Business Income loss will be determined based on:

1. The Net Income of the business before the direct physical loss or damage occurred;
2. The likely Net Income of the business if no loss or damage had occurred. Excluding, increase in business income as a result of favorable business conditions caused by the covered loss;
3. The operating expenses, including payroll, necessary to resume "operations" with the same quality of service that existed just before the direct physical loss or damage; and
4. Other relevant sources of information, including:
 - (a) Your financial records and accounting procedures;
 - (b) Bills, invoices and other vouchers; and
 - (c) Deeds, liens or contracts.



Questions & feedback