

# Business Income Basics —Contingent Coverage and Extra Expense

THE IMPORTANCE OF BUSINESS INCOME coverage to your clients cannot be overstressed. According to IIABA (Independent Insurance Agents and Brokers of America), “95% of business income losses are not adequately insured.” Providing proper coverage can mean the difference between going out of business or staying in operation after a loss. Helping your clients stay in business should be a goal of all insurance agents.

Business Income can encompass a number of coverages in addition to the loss of income/sales from a covered loss to the insured premises. Contingent Business Income Coverage (or Dependent Properties Coverage) is needed when there is a covered loss at a supplier or client location. This is especially important for businesses, such as manufacturers, that may rely heavily on single suppliers or customers, or for seasonal businesses.

Another time when contingent coverage is needed is when the business is dependent on a leader location or anchor store, such as the grocery store in the strip shopping center, or the department store in the mall. Smaller businesses in these situations depend on the anchor store for a lot of their customers. A fire that damages the anchor store can also damage or destroy the other businesses.

In order for Contingent Business Income coverage to apply, the loss to the supplier/customer/leader location must be from a covered peril. For example, hurricane losses would be covered under most policies. The devastating earthquake in Japan impacted businesses around the world, but earthquake is not a covered cause of loss in most standard policies. The same is true of flood losses.



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Adding these as covered causes of loss to your clients' Business Income coverage may be crucial to their survival.

Nearly half of the businesses that suffer a serious loss never reopen. Many seriously underestimate the time it will take to get

back in business. For insurance companies and agents, the goal is to get the insured to resume operations as soon as possible, for the least expense. Business Interruption coverage usually carries a time period deductible, but Extra Expense coverage does not.

Businesses such as restaurants or newspapers must resume operations quickly, or their customers may be gone forever. Extra Expense Coverage pays the insured for reasonable expenses over and above normal operating expenses, incurred to shorten the time needed to get back in business, or avoid a stoppage of operations altogether.

Extra Expense is also used for expenses that reduce the business interruption costs. Examples may include advertising

to tell customers about a new location, expedited shipping costs to deliver needed replacement materials, or increased rent at a new location. The cost of goods from new suppliers may also be higher.

No one has a crystal ball. For most types of business, there is no way to know what type of coverage will be needed until the loss occurs. Unfortunately, coverages may not be interchangeable. Business Interruption coverage cannot be used to pay for Extra Expense claims, and vice versa. Therefore, a combined limit for the two coverages is often the recommended course of action. This coverage may be more expensive, but in the long run it can be worth it.

Taking the time to understand business income exposures and options and explaining them to your clients is good for your business as well as theirs. Providing proper coverage in the event of a loss is the mark of a true insurance professional.

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