

Business Income Basics — What Every Insurance Professional Needs to Know

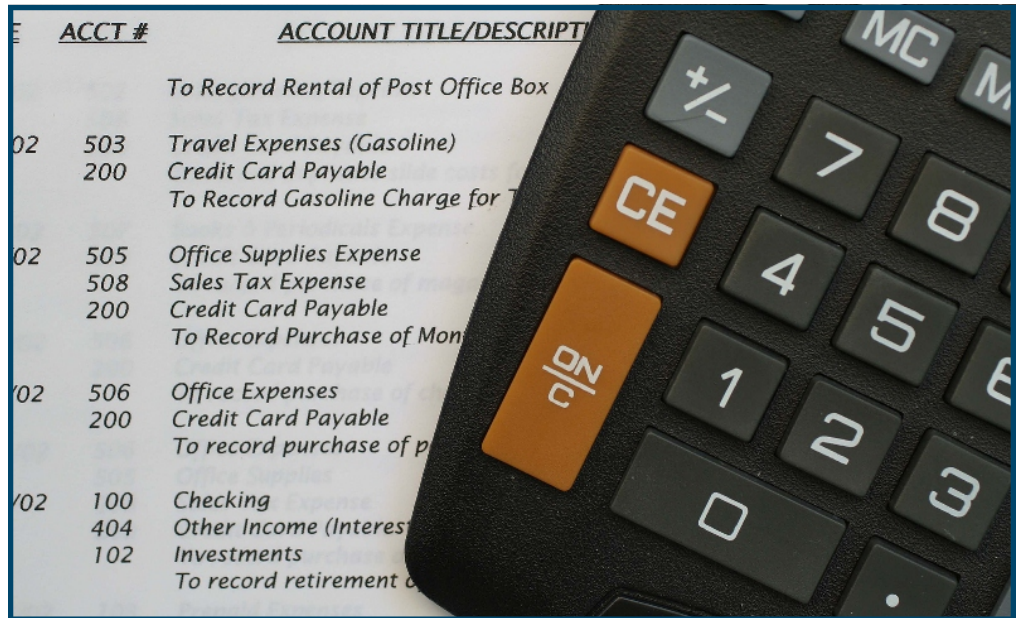
BUSINESS INCOME COVERAGE is one of the least understood insurance coverages, but it is also one of the most important. The Independent Insurance Agents & Brokers of America (IIABA) estimates that “43% of businesses suffering a serious loss never reopen, and 23% of those that do (open) close within three years”. Helping clients stay in business should be the goal of every professional insurance agent.

Business Income is the net profit or loss that would have happened if the suspension of operations had not occurred. In order for coverage to kick in, the suspension of operations must be due to a direct covered loss to property at the described premises, or possibly a neighboring property. Evacuating due to a threat of a hurricane, for example, does not trigger coverage.

There are some common misconceptions about Business Income coverage. Business Income is not “free money”. Even under policies that offer “unlimited” business income, the burden is still on the insured to prove their loss. Non-continuing expenses are not collectible. In addition, the insured cannot be made better off after the loss than before.

There are time limits on coverage as well as monetary limitations. Business Income coverage is available for the reasonable amount of time it would take to rebuild, replace or relocate the business. Coverage does not end when the policy expires or is cancelled. However, even under policies that offer “unlimited” or “actual loss sustained” coverage, coverage is usually available for only one year from the date of loss. If the repairs take more than twelve months, the insured may be left without coverage. Policies that provide a dollar limit of coverage usually do

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ACCT #	ACCOUNT TITLE/DESCRIPTION
	To Record Rental of Post Office Box
02 503	Travel Expenses (Gasoline)
200	Credit Card Payable
	To Record Gasoline Charge for T
02 505	Office Supplies Expense
508	Sales Tax Expense
200	Credit Card Payable
	To Record Purchase of Mon
02 506	Office Expenses
200	Credit Card Payable
	To record purchase of p
02 100	Checking
404	Other Income (Interest
102	Investments
	To record retirement c

not have the twelve month time limit. Recovery is limited to the amount of coverage purchased.

Profit is not a requirement for business income coverage. In fact, the coverage may be more important for struggling businesses. Money is available to pay for continuing expenses, such as rent, that the business still must pay and which would otherwise put them more in the red. The intent of business income coverage is to bring the business back to the position they were in prior to the loss. If the non-continuing expenses are less than the net income loss the insured was experiencing prior to the loss, the insured is not due any business income payment.

Picking a limit is difficult. According to IIABA, “95% of business income losses aren’t adequately insured.” This means at the least, an unhappy client, and at worst, loss of the client, either to another carrier or to bankruptcy. The estimate should take into account anticipated income and expenses going forward at least two years,

since the loss could occur at any time during the policy period. Factors to consider include the time it will take to get back in business, the income loss if the shutdown occurred during the insured’s peak period of business, other income sources such as rental income, and estimated operating expenses for a year, as well as any regulatory and construction codes that could delay recovery.

Determining which expenses will be continuing or non-continuing can also be a challenge. During a short interruption, many businesses may continue to pay employees, especially in a tight job market or if the employees are highly skilled. There are options to include payroll of “ordinary” workers.

We will discuss other aspects of Business Income coverage, including Extra Expense and optional endorsements, in future articles. Business Income is an essential part of every client’s insurance portfolio. Understanding possible exposures and offering flexible coverage options is the mark of a true insurance professional.

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