

# Introduction to Business Interruption Insurance





# Matt Owen-James

## Senior Training Consultant

---

15 Years Working in the Insurance Industry

8 years and experienced trainer and coach

Any questions, please type into the Q&A Function



# Session Objectives



Explain how business interruption can help a commercial client



Determine the correct cover basis depending on the income category



Discuss how the indemnity period should be set and its effect on the sums insured



# Session Agenda



What is Business Interruption? (BI)



Setting the Indemnity Period



Providing Cover



Recap & Summary

# What is Business Interruption?

# What is Business Interruption?

Following the principle of indemnity, business interruption insurance indemnifies a business that has lost income as a result of an insurable peril. It helps to financially protect companies in the event of a serious incident.



of businesses close  
because of a loss or a  
miscalculated BI insurance



of these businesses fail  
within two years of being  
struck by disaster

# What does BI do?



Protects the cash flow of the business



Helps get the business get back to trading after an insured loss



Protects the profits of the business



Provides cover for the increased costs associated with maintaining the business within the economic reason



Cannot be purchased solely



Fire



Storm  
or  
flooding



Breakdown  
of essential  
equipment

## PROPERTY DAMAGE INSURANCE POLICIES

Only cover damage  
caused to premises or  
equipment by defined  
perils, such as:

## BUSINESS INTERRUPTION INSURANCE



Covers the loss of  
income during  
periods when they  
cannot carry out  
business as usual



Puts the insured  
business back in the  
same trading position it  
would have been in had  
the insured damage not  
occurred



In most cases, BI with  
be covered under the  
same policy as the MD



There must be insured  
damage to the  
property



The MD policy must  
respond



Both policies don't  
have to be in the same  
name

# Material Damage Proviso

---

This is the key condition when thinking about  
Business Interruption Insurance

# Providing Cover

# Cover Basis

Different businesses depend on certain activities to generate income. Depending on their activities, income can be classified into four categories



## Turnover

- Income generated from sales of products



## Fees

- Income charged for providing a professional service



## Revenue

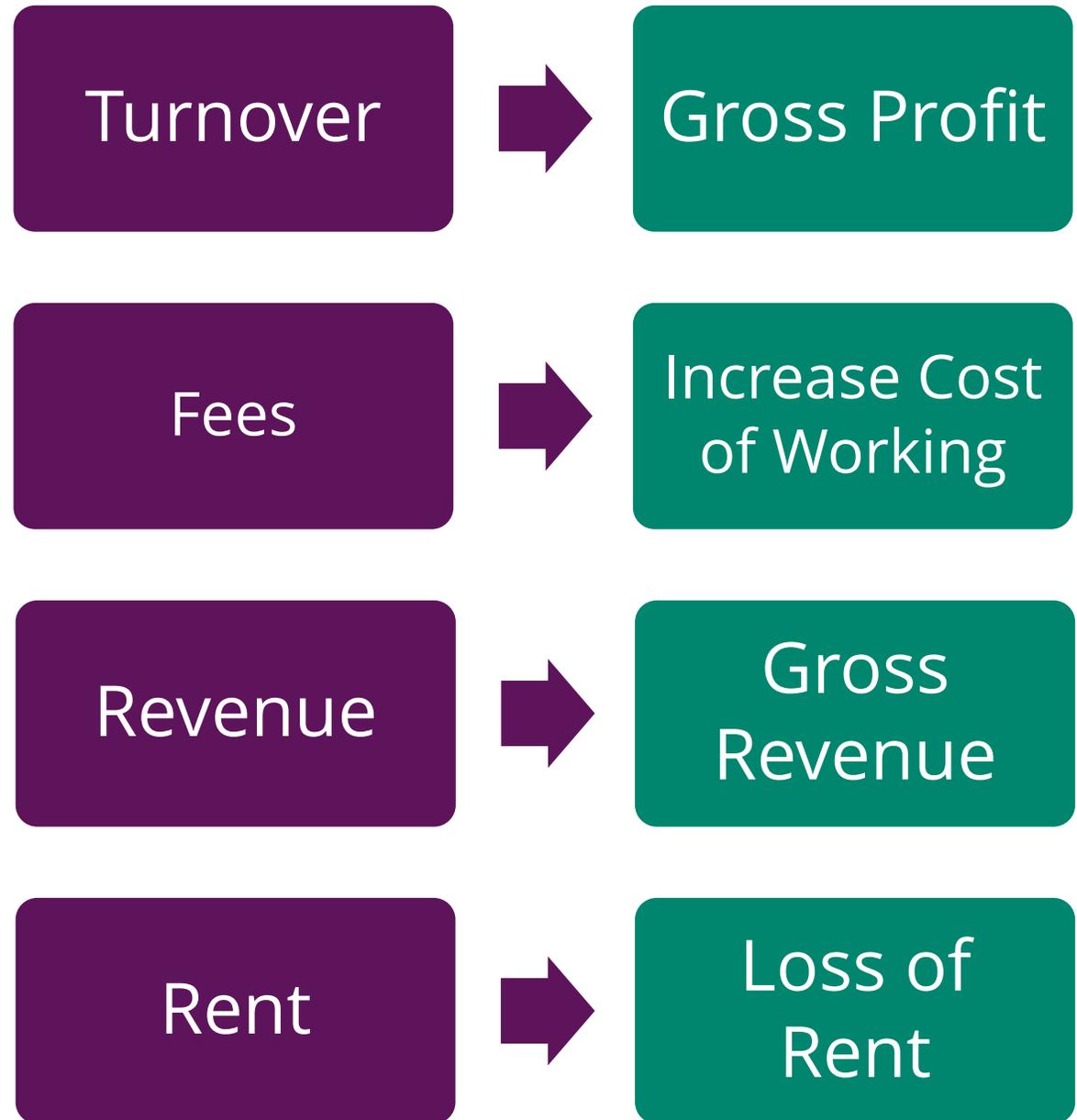
- Income generated from the use of a venue



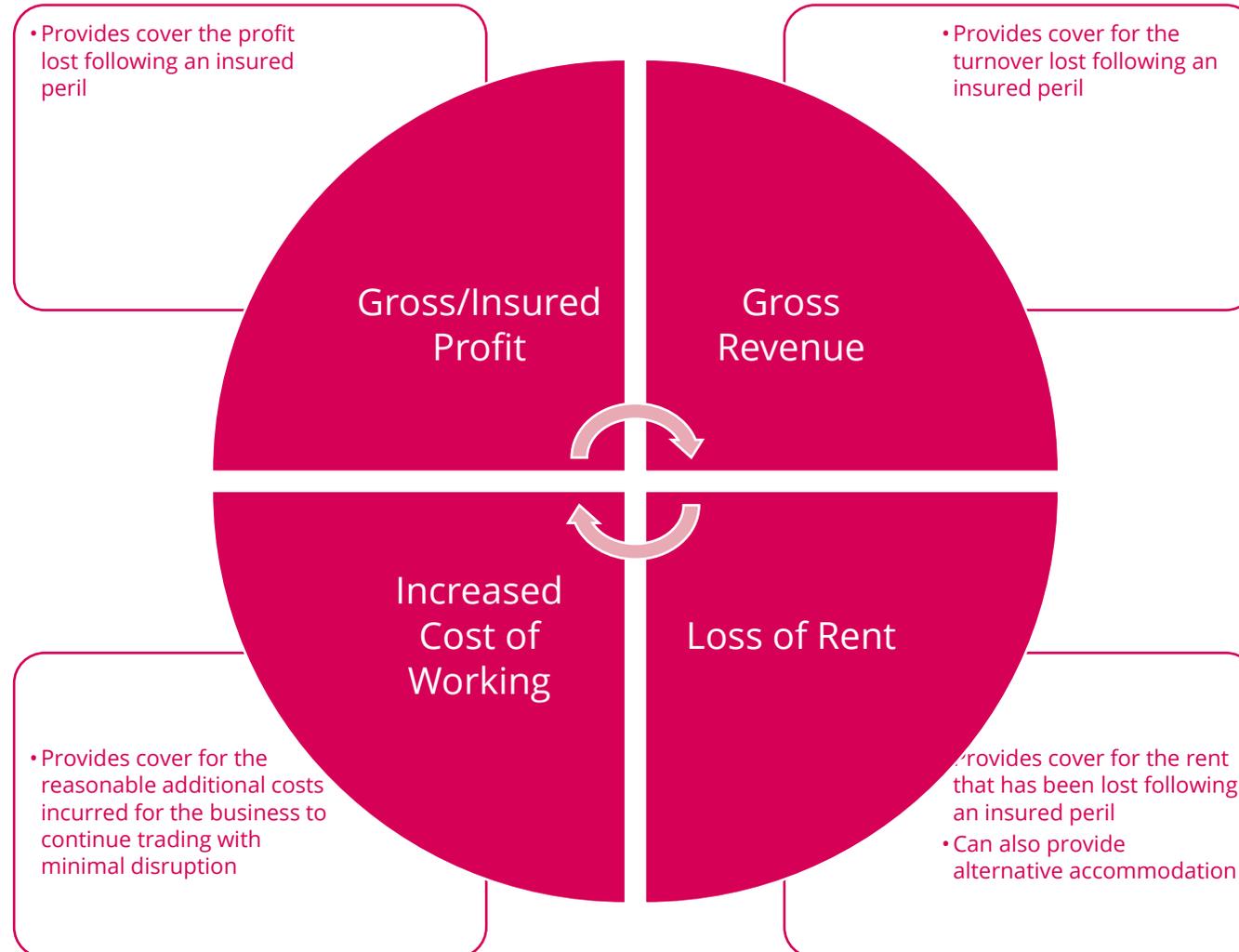
## Rent

- Income generated from renting out a property

# Income Category vs Cover Basis



# Providing the Correct Cover Basis



# Gross Revenue

Suitable for businesses whose income is generated by revenue



The insured is able to provide an accurate sums insured

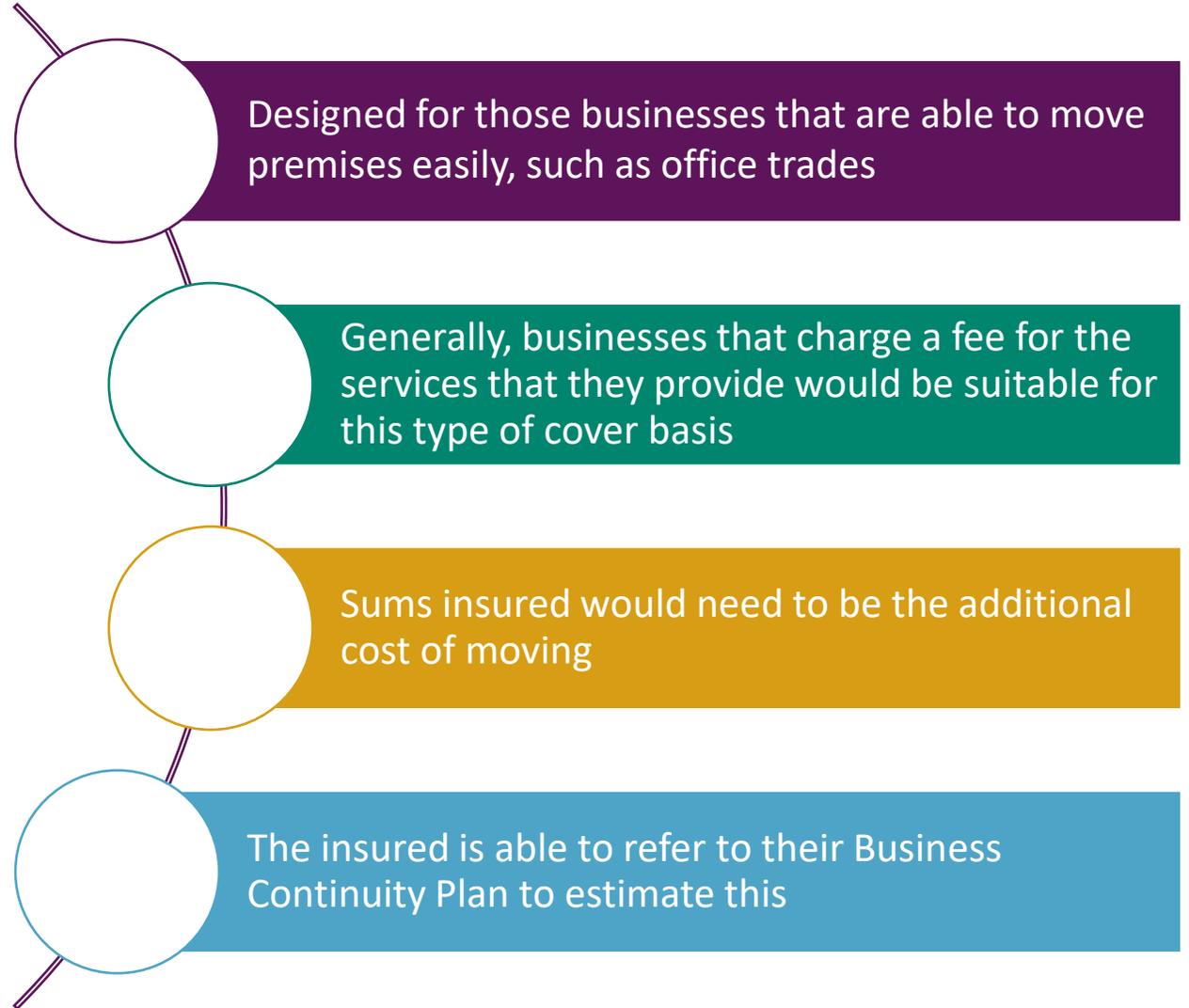


Monthly/annual accounts can be referred to understand the turnover over the past 12 months



Will also include trends for peak times

# Increased Cost of Working



# Loss of Rent / Alternative Accommodation



## Loss of Rent

- Provides the rental income a landlord would have received should the insured peril not have happened



## Alternative Accommodation

- Provides the Landlord with additional costs that have incurred as a result of a loss that is covered by an insured peril

- The most complex cover basis of business interruption insurance
- A lot of calculation involved
- Suitable cover basis for businesses with high stock levels and generate their income from the turnover category

## Turnover

The amount of money taken by a business in a particular period

## Profit

A financial gain, the difference between the amount earned and the amount spent in buying, operating, or producing something

# Gross/Insured Profit

---

The most complex cover basis

# Setting the Indemnity Period

# What is the Indemnity Period?

*The period during which the business results are affected due to the damage, beginning with the date of the damage and ending no later than the maximum indemnity period'*

The policy will stop paying when:

- the claim has been fully settled and the business indemnified
- The sums insured has been reached
- The indemnity period has been reached



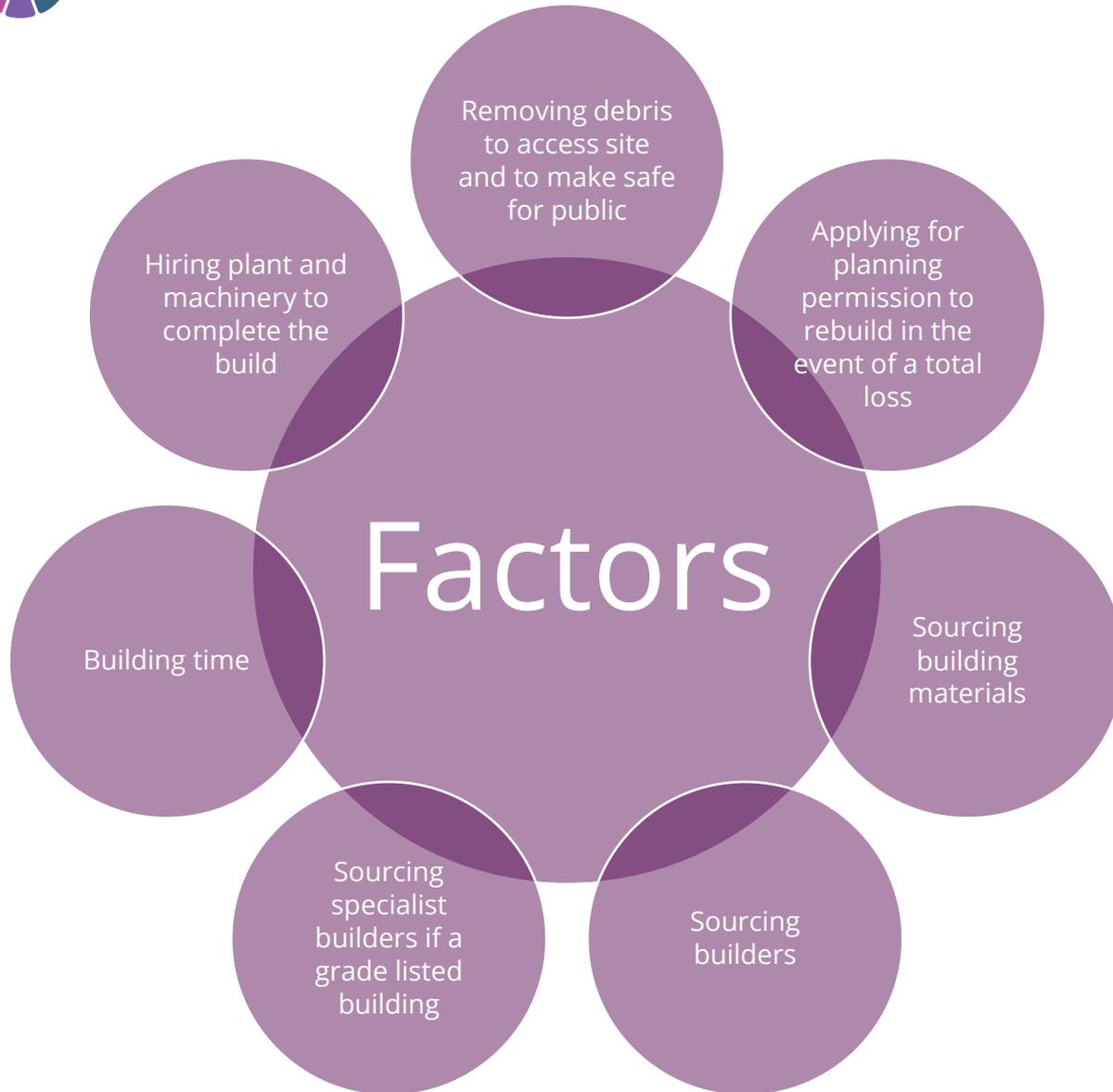
Insurers will apply an indemnity period to stop paying out business interruption claims for long periods of time



Insurers will start paying BI claims from the date of the loss until the indemnity period



Some insurers apply a standard period of indemnity; 12 months being the minimum that can be applied



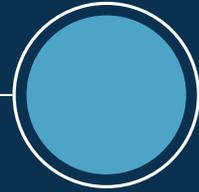
# Factors To Consider

---

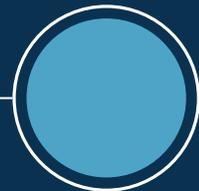
# Other Considerations



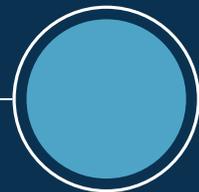
Obtaining specialist equipment



Hiring new employees



Training/retraining employees



Recover business

# Sums Insured x Indemnity Period

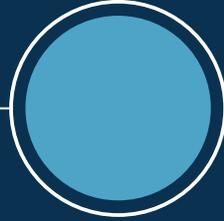
Work out the sum insured (annual basis)

Work out the indemnity period (length of time)

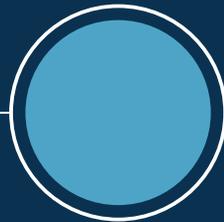
Multiply the sums insured by the indemnity period  
(i.e. £300,000 x 36 months = BI sums insured of  
£900,000 over 36 months)

Will need to allow for business growth and inflation each  
year (5-10%)

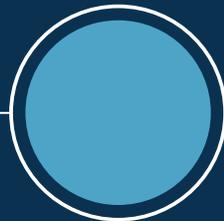
# Consequences



Not setting the correct indemnity period could be disastrous for the business. Many businesses fail after they have started to trade again following a total loss because they have not allowed themselves enough time



If the insured selects the incorrect sums insured, the principle of average will also apply and will only pay a proportion of the claim should there be any under insurance



Must be careful when advising your clients on how much to set the sum insured or an appropriate indemnity period

# Summary & Recap

# Session Objectives



Explain how business interruption can help a commercial client



Determine the correct cover basis depending on the income category



Discuss how the indemnity period should be set and its effect on the sums insured

# Q&A

---

Raise your hand to ask a questions, or use the chat facility



# Thank you for your time

---

Please remember to record your CPD

