

Understanding the Business Interruption Claims Process



Continuity is critical in business, and there are few things more important than continuous revenue and cash flow. In fact, just one brief business interruption can be incredibly costly for an organization, often leading to serious reputational damages or financial harm.

That's where business interruption insurance can help. In the event of a disruption, business interruption insurance provides coverage for income your business would have earned during a closure period if it had been operating normally. It may also reimburse organizations for expenses they were unable to pay for as a result of a covered peril.

Business interruption insurance provides protection against a variety of common interruptions, including natural disasters, equipment damage and vandalism. However, these policies are complex, and it can be difficult for policyholders to understand what triggers coverage and how the claims process works. This Coverage Insights highlights considerations related to business interruption claims, helping you gain a better understanding of your coverage and how to respond to a loss.

Coverage Requirements and Considerations

While business interruption insurance can provide much-needed financial protection following a disruption, there are a number of requirements that must be satisfied before a policy kicks in.

In general, this form of coverage will pay for the actual loss of income your business sustains due to a necessary suspension of your operations during the period of

restoration. What's more, the suspension of operations typically must be caused by a direct physical loss, damage or destruction to insured property. Finally, the loss or damage must be caused by or result from a covered cause of loss. Let's examine these considerations in more detail:

- **Physical loss or damage caused by a covered peril**—In order for business interruption policies to provide coverage, there must be an actual physical loss or damage to the insured property caused by a covered peril. Coverage will not be afforded in cases where the loss was caused by a peril excluded by the policy. What's more, the physical loss or damage to the property typically needs to occur at the location described in the policy.
- **Business income**—Business interruption policies typically cover reductions in net income that result from the business having to suspend operations due to a physical loss at their premises. Under most policies, business income is defined as the net income (net profit or loss before income taxes) that would have been earned or incurred by the insured and the continuing normal operating expenses incurred. What's more, to be covered, the loss of business income must be the result of the necessary "suspension" of the policyholder's operations.
- **Period of restoration**—Typically, business interruption policies will cover losses to business income only during a period of restoration. A

Understanding the Business Interruption Claims Process

typical definition of "period of restoration" is the period of time that begins immediately after the direct physical loss and ends on the earliest date the property can be repaired, rebuilt or replaced with reasonable speed and similar quality. It may also end on the date when business resumes at a new, permanent location.

Remember, coverage will differ from policy to policy, and there may be additional considerations to keep in mind. The variances in policies underscores the importance of working with qualified insurance brokers when purchasing or renewing your business interruption coverage, as well as filing claims.

Typical Duties in the Event of a Loss

In the event of a business interruption loss, insurance companies will typically require insureds to take a number of steps. In order to avoid claim issues, it's important for businesses to be aware of these duties and take appropriate action, which can include:

- Notifying the police or authorities if the property damage in question may have been caused by criminal activity.
 - Providing the insurance company with a notice of a direct physical loss. This notice should include a description of the property involved. Businesses should also notify their insurance broker as soon as reasonably possible. After giving notice of a loss, insurance companies will typically require businesses to provide a description of the loss, including how, when and where it occurred.
 - Taking all reasonable steps to protect the covered property from further damage. Businesses should document all expenses they incur in their efforts to protect covered property from further damage.
- Permitting the insurance company to inspect the damaged property and any relevant records to prove the loss. Additionally, businesses will typically be asked to provide a signed and sworn proof of loss containing information requested by the insurance company.
 - Cooperating with the insurance company during the investigation of the loss and the settlement of the claim.
 - Resuming operations as soon as possible to limit losses.

Preparing for and Responding to a Claim

Business interruption claims can occur without warning, and it's important to be prepared should a loss occur. To help ensure claims are resolved quickly and favorably, consider the following best practices:

- Gather information and be prepared to provide proof of your business income and expenses for a period of at least one to two years before the loss occurred. Specifically, key information to have on hand when submitting a claim includes the following:
 - Financial statements for the last two calendar years before the loss occurred
 - Payroll records
 - Your hours of operation
 - Variable costs that have the potential to be reduced or stopped during the business interruption
 - Daily or monthly revenue and sales records for the last two accounting years
 - Your pre-loss income

Understanding the Business Interruption Claims Process

- Details regarding relevant contracts, including property and equipment leases, and customer and vendor agreements
 - Records regarding any continuing expenses your business is responsible for during the disruption
 - Sales and production summaries
 - Financial projections made prior to the loss
 - Inventory records
 - Expense records
- Read your policy carefully, and ensure you understand how insurers will calculate lost income.
 - Gather data following the loss. Avoid throwing any affected property away, and take photos and videos of damages.
 - Maintain records of sales and operating expenses following a loss. Be sure to track lost revenue and additional expenses incurred as a result of the disruption.
 - Act to minimize losses. This could include moving to a temporary location or outsourcing portions of your business.
 - Retain copies of all communications with your insurance company throughout the claims process. Some businesses communicate with insurance companies through independent insurance adjusters or attorneys. These professionals can also provide guidance on how to maximize your recovery efforts following a loss.

Additional Protection

Business interruption insurance is designed to give businesses access to the protection they need when they need it most. However, these policies can be complex, and it's important to work with your insurance broker closely when seeking coverage or filing a claim. To learn more, contact Harden today.