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# Planning for the interruption of business due to catastrophe

## What is business interruption insurance?

As we all witnessed on Sept. 11, 2001, catastrophes can happen suddenly. When the property of a business is destroyed, or access to business property is denied, there follow two potential consequences. One, business operations cannot resume, in whole or in part, until the property is restored. And, two, some or all of the operations can continue only by the acquisition of another location. Business interruption insurance is designed to help in both situations; “business income coverage” for lost income and the payment of continuing expenses if operations cease, and “extra expense coverage” if operations can continue at a substitute location.

## What triggers business interruption insurance?

Standard insurance policies require that property located at the business premises be physically damaged by a covered cause of loss. The business owner selects the covered “causes of loss” from the perils offered by the insurer at the time the policy is written. If your policy does not provide coverage for terrorism, for example, there will be no coverage for business interruption due to terrorism. And, although damage may occur due to a covered cause of loss, if the damaged property is located somewhere other than on the insured’s premises, the business interruption loss is not insured under the basic coverage.

## How are coverage limits established?

It is not a simple process, which is why you hear about inadequate coverage stories emerging from catastrophes like the Sept. 11 attack. In order to choose a limit for business income coverage, you must project future income and expenses one year in advance and identify the maximum length of time it will take to restore your property (called the “period of restoration”). For extra expense coverage, you will need to determine all the extraordinary costs that will be incurred to maintain operations at another location. Adequate financial records are necessary to establish these limits and properly support any claim presented under these coverages.

## How do I recover lost income if civil authorities deny my customers and me access to the business premises, even though none of my property has been damaged?

The standard business interruption policy automatically covers four weeks of business income loss when access is prohibited by a civil authority. However, the damage that resulted in the civil authority action must occur within a one-mile radius of the insured business premises. For additional premium, the time limit can be extended up to 180 days; and some insurers also may extend the radius limit.

## What if my property has not been damaged and I have not been denied access to it, but another business on which my business depends is damaged by a covered cause of loss?

Suppose you were a lower Manhattan restaurant that got 80 percent of its lunch business from the World Trade Center. If “dependent property coverage” were purchased, the restaurant would recover lost income from the disruption of its business. This same coverage could likewise apply to a supplier of products or services, or a purchaser of products or services, that a business depends upon for continued operations. The difficulty is that you must specifically identify by location, ahead of time, the premises that your business is dependent upon.

## Our biggest concern is communications—what if our communications are disrupted by a covered cause of loss?

“Utility services coverage” can be purchased to protect your income, for example, in the event your phone lines are disrupted at your premises or in the event a specified supplier that you depend upon suffers a loss of power to its plant.

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**If the building my business leases was to be damaged right now, I would forfeit a very favorable lease. How can I protect against this loss?**

There is available “leasehold interest coverage” that is designed specifically to recover much of the loss that can result from the termination of a favorable lease triggered by damage to the business premises.

**What if I’m still losing income after my property has been restored?**

On most policies, business income coverage automatically is extended 30 days after the property is restored (or should have been restored). For additional premium, this extension can be increased up to 730 days.