Business Interruption Insurance: Why You Need It and How You Can Maximize Your Coverage

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In his recent blog post on disaster planning for businesses, Nicholas E. Williams noted: “Business interruption insurance, which covers the loss of income suffered by a business after a disaster, plays an important part in disaster planning.” In fact, it can be as important to a manufacturer’s survival as fire insurance. While most people would never consider operating a business without the protection of insurance covering property damage, many businesses overlook how they would manage if property damage to their business rendered it temporarily unusable. That is where business interruption insurance comes in.

Business interruption insurance provides funds to make up the difference between a manufacturer’s normal income and its income during and immediately after a forced shutdown. While a property damage insurance policy will cover the cost to repair or replace buildings, equipment, and inventory, you must either include special wording to cover the loss of income during downtimes, or secure a separate business interruption policy to cover the lost income. Business interruption insurance covers the revenue you would have earned, based on your financial records, had the disaster not occurred. The policy also covers fixed operating expenses, such as electricity, taxes, and mortgage payments, which continue even though business activities have come to a temporary halt.

In order to get the most out of your business interruption insurance, companies should keep the following guidelines in mind:

1. Make sure the policy limit is sufficient to cover your company for more than a few days. With many disasters, it can take a significant amount of time to get the company back on track.

2. You must take the time to prepare objective, verifiable evidentiary support of your lost revenue. To minimize the risk of your insurer questioning your numbers, support the claim with numbers that can be verified back to their sources, such as a general ledger, financial statements, tax return, or the like. Examples of objective support include damage and restoration reports by independent engineers and contractors, customer orders, both pending and in-force contracts, and sales records from the prior few years.

3. Have an upfront conversation with your insurer regarding whether coverage will apply when there is a partial suspension of operations, not just if there is a total operational shutdown. Business interruption insurance is meant to put the business back into the same financial position it would have occupied had the incident not occurred. If the insurer takes the position that coverage terminates as soon as the insured resumes partial operations, either obtain an endorsement or consider using a different insurer.

4. If the timeline for rebuilding is effected by events outside your control, such as construction delays, or a longer than expected permitting process, provide the insurer with advance notice and document the source of the delay. This will help prevent the insurer from cutting off
benefits on the ground that the length of rebuild is unreasonable.

5. Require the insurer to request additional documents needed to assess the amount of your claim in writing, so there is no dispute regarding whether the documentation provided is adequate.

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