

## **Quick Guide To Business Interruption Insurance**

### **What We Cover**

This insurance is designed to get your business fully back up and running as quickly as possible following insured damage to your property. It may also enable you to keep staff 'employed' during a time when the business is unable to operate.

### **Types of Cover**

#### **Loss of Profit**

Where income is obtained from manufacturing products, the loss of profits as a result of not being able to continue manufacturing.

#### **Loss of Revenue**

Where income is obtained for services e.g. hotels, restaurants, the loss of revenue as a result of being unable to provide those services.

#### **Loss of Rental Income**

Where income is obtained from renting out premises, the loss of rent as a result of being unable to rent out the premises (or portions which are sub-let).

#### **Additional Cost of Working**

Where the business can easily relocate to an alternative premises, the increased costs to get the business operational e.g. cost of alternative accommodation, mail and telephone redirection costs. Mainly office based risks benefit from this cover.

It should be noted we cover increased costs of working under Gross Profits, Revenue or Rental items where this minimizes the business interruption loss. An example could be the hiring of extra labour to meet the order of a major customer and avoid the long term loss of that custom.

What Basis Should I choose?

Examples of types of business and a suggested cover type can be found in Appendix 2

#### **Indemnity Period**

This should reflect the maximum time a business can be affected by Insured Damage i.e. if the premises are destroyed completely how long would it take to relocate or rebuild and get the business **fully** operational.

#### **How to Set the Sum Insured**

Consider all items within your annual expenditure and ascertain which amounts would not be payable if the business was not operating (variable costs). You can then deduct these amounts from your overall income to ascertain what remains insurable (fixed costs and profit). See appendix 1 for an example.

### **Perils Insured**

Business Interruption Insurance covers against losses caused by the following:

1. Fire
2. Windstorm (Hurricane, Cyclone, Tornado or Windstorm)
3. Malicious Damage
4. Burst Water Pipe
5. Impact
6. Earthquake
7. Flood
8. Riot & Strike
9. Explosion

### **Excesses**

<b><u>Peril</u></b>	<b><u>Amount</u></b>
Earthquake Windstorm	A 1% policy excess of the sum insured applies per location, with a minimum contribution of \$5,000 and a maximum contribution of \$25,000.
Otherwise	Nil

### **Material Damage Cover**

In order for cover to apply there must be cover on the property necessary to make your business operational as the insurer would not be willing to pay for loss of income due to delays in rebuilding/replacing caused by a lack of insurance funds.

### **Policy Exclusions**

- War
- Insurrection, Rebellion, Revolution, Military or Usurped power.
- Terrorism
- Nuclear Exclusions

**Appendix 1**

<u>Example Income &amp; Expenditure Account</u>				
<b>Expenditure</b>	<b>Type</b>	<b>Amount</b>	<b>Income</b>	<b>Amount</b>
Salaries - Permanent/Key Staff	F	\$ 100,000		
Corporation of Hamilton Rates	F	\$ 10,000		
Land Tax	F	\$ 10,000		
Loan/Mortgage Interest	F	\$ 50,000		
Electricity Surcharges	F	\$ 10,000		
Water Surcharges	F	\$ 10,000		
Insurance	F	\$ 25,000		
<b>Total Fixed Costs</b>		<b>\$ 215,000</b>		
Wages - Casual Staff	V	\$ 75,000		
Metered Electricity	V	\$ 5,000		
Metered Water	V	\$ 5,000		
Food	V	\$ 5,000		
Drink	V	\$ 50,000		
Cleaning	V	\$ 10,000		
Advertising/Web-Site	V	\$ 10,000		
Printing	V	\$ 500		
Depreciation due to wear & tear/Maintenance	V	\$ 50,000		
<b>Total Variable Costs</b>		<b>\$ 210,500</b>		
Opening Stock		\$ -	Closing Stock	\$ -
Total (exc Profit)		<b>\$ 425,500</b>	Gross Revenue	\$ 500,000
<b>Net Profit</b>		<b>\$ 74,500</b>		
<b>Total Expenditure</b>		<b>\$ 500,000</b>	<b>Total Income</b>	<b>\$ 500,000</b>
<b>Gross Revenue</b>				
1) Income - Variable Costs				
2) Net Profit + Fixed Costs				

## Appendix 2 – Guidance on specific Trades/Businesses

### Hotels and Guest Houses

Even one or two rooms being unusable for a month or two at the height of the tourist season can seriously affect your income. If more substantial damage forces you to close your premises altogether, unlike many other types of business, you cannot simply rely on moving to temporary alternative premises. You can arrange to insure the income you receive for accommodation provided and from the sale of food and drink. Variable costs may be deducted from your **gross income** to arrive at your sum to be insured.

### Manufacturing Business

Your income is derived from the conversion of raw materials or components into either a final product or a component to be used by another manufacturer. The inability to continue with the processes involved in that conversion process brought about by the loss of your premises will impact your earnings.

You would therefore need to insure your **gross profit** and deduct the variable costs involved in production, power, light and raw materials being obvious examples.

### New Ventures

Some new businesses opt to do without business interruption cover in their early stages. This can be unwise. If the business has not been trading long enough to build up sufficient reserves to help it through a period of interrupted trade, then all the time and expense involved in setting up the business could be wasted. Business Interruption insurance could mean the difference between failure or survival if catastrophe strikes during your first few years of trading.

### Professions and Offices

If your income would not be adversely affected by damage to your premises, for instance, if suitable alternative premises are readily available, and your business is not dependent on its location, then **Additional Cost of Working** cover may be sufficient. This would pay for additional costs such as additional rent for temporary premises, the rental of temporary computers or other office equipment, or overtime payments to staff which are reasonably incurred to minimise interruption to your business following the damage .

It would not, however, compensate you for any shortfall in income that may result. If damage to your premises is likely to affect the income to the business, it is advisable to insure the **gross fees or revenue** that you receive for the services which you provide.

### Property Owners

Damage to any of your rental property could result in several months loss of **rental income**. By insuring your gross rentals under a Business Interruption policy you can ensure that your rental income will be maintained, not just during the period necessary to repair the property, but also until such time as replacement tenants have been found and rental income returns to its previous level. Cover is wider than that available for loss of rent under a standard fire insurance policy which would pay only for the rental income lost up to the time when the repairs are completed.

### Retailers and Restaurants

As a shop or restaurant owner, you know the importance of location to your business. If your premises were to suffer damage which forced closure for several months, then even if you could find suitable alternative premises, a fall in trade could be expected. Such a move would also involve considerable extra



costs. Relatively minor damage could still affect your trade, or even force a temporary closure of all or part of your premises, with a resultant loss of income.

You can insure the income which you receive for the goods you sell or food and drink which you supply. The policy will also cover additional expenses reasonably incurred to minimise the interruption to the business. This may include, for example, additional advertising costs to inform your regular customers that you are still open for business or have temporarily moved location. Variable Costs may be deducted from your **gross income** to arrive at your sum to be insured.

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