

The Value of Business Interruption Insurance

When organizations face large-scale disasters or other unexpected losses, ensuring business continuity is often a top priority. Yet, various losses may make it challenging for organizations to avoid operational disruptions or temporary shutdowns. In these instances, even brief closures can carry costly consequences. That's where business interruption (BI) insurance can help. Also known as business income insurance, this form of coverage can be purchased as a supplement to commercial property insurance or secured through a business owner's policy, which refers to a bundled insurance package featuring property and liability coverage. In any case, BI insurance can offer much-needed financial protection when organizations' usual business activities are interrupted due to covered losses.

With this in mind, organizations should have a clear understanding of BI insurance and the key protections provided by this coverage. The following article highlights the value of BI insurance by offering an overview of this coverage and outlining additional policy features.

BI Insurance Explained

BI coverage generally includes financial protection for the various expenses that can arise if an organization is forced to pause its operations or temporarily close its doors due to direct physical damage caused by a covered loss. Examples of covered losses include a range of perils, such as fires, theft, vandalism and certain types of adverse weather (e.g., heavy wind and hailstorms). When these perils occur, BI coverage may help reimburse the following typical operating costs:

- Income that an organization would be earning if it were running normally
- Commercial mortgage, rent, lease, loan and tax payments due during a disruption
- Payroll expenses to maintain employees' wages amid a closure

Additional BI Policy Features

While standard BI policies can help reimburse typical operating costs incurred following direct physical damage due to covered losses, organizations can also consider several other BI coverage options and endorsements. Here's a breakdown of these additional policy features:

- **Extra expense coverage**—Such coverage can help pay for extra expenses that organizations reasonably sustain (beyond typical operating costs) amid disruptions to help them get back up and running. These expenses may include relocating to a temporary business location during the restoration process, expedited shipping fees for essential materials and supplies, and overtime wages for employees who are asked to work additional hours to minimize operational downtime.
- **Civil authority coverage**—This coverage can help organizations compensate operating expenses incurred during government-mandated business closures (e.g., citywide curfews, local evacuation orders or temporary road closures).
- **Service interruption coverage**—Such coverage can help reimburse operating expenses sustained from disruptions that impact organizations' utility service lines or any plants, substations and equipment that supply these services (e.g., electrical, steam, gas, water, sewer and telecommunication).
- **Contingent business interruption (CBI) coverage**—This coverage may offer financial protection for operational disruptions caused by covered losses among organizations' suppliers and business partners. CBI coverage can be especially useful for organizations that rely heavily on third parties to make critical purchases, deliver essential materials and supplies or conduct other key business functions.

Conclusion

BI insurance can make all the difference in helping organizations stay resilient amid unanticipated disasters and reduce the financial fallout stemming from related disruptions, thus allowing them to reopen their doors with ease and foster ongoing operational success. By reviewing the protection this coverage provides and considering additional policy features, organizations can tailor their BI insurance to their particular needs. Contact us today for more insurance solutions.