

Can Your Business Survive a Lengthy Interruption?

If you had to close your doors or stop taking orders for two weeks or two months, what would happen? Would you be able to recover? Would you be able to meet your payroll?

Would you be able to keep up with tax, insurance, lease, rental and mortgage payments for that long? Or would you lose key workers who would be very difficult or impossible to quickly replace?

Thousands of businesses face a similar crisis every year as a result of a natural disaster, man-made disasters, civil unrest, supply chain interruptions and a variety of other factors, including the COVID-19 pandemic that brought commerce to a near standstill in 2020.

About 25% of all businesses do not reopen after a disaster, according to the Federal Emergency Management Administration, and only a fraction of small firms get back on their feet after surviving an interruption of only a few weeks. The costs to their owners, and in some cases employees, can be enormous.

Insuring against business interruption

Business interruption insurance compensates businesses for income lost as a result of a covered disruption in business operations, or damage to the firm's premises.

For example, if you are forced to cease operations for 90 days as a result of a fire or flood, your fire or flood insurance policy will cover your material loss (over and above your deductible and subject to policy limitations).

They will cover your building and its contents, for instance. But only business interruption insurance will replace the income you lost while you were getting your business back on its feet.

Definition of business income

Business interruption insurance covers the operating expenses for a company due to a problem covered by the policy. The covered perils for business interruption insurance are generally theft, wind, fire, lightning and falling objects.

Covered operating expenses may include:

- The revenue your firm would make if it were open for business.
- Monthly mortgage, lease and rent payments for the business space.
- Loan payments for the business.
- Taxes.

- Payroll.
- Relocation costs if you have to move to a temporary location.
- Training costs for employees to learn new equipment.

Mitigation provisions

In many cases, insurance carriers will help you with costs you incur to mitigate income loss.

For example, if you can reduce the amount of your lost income by leasing an alternate office space while you get your business back on its feet, your carrier may help you with that expense as well, if it means reducing your overall covered loss.

Loss period calculation

Most policies begin calculating benefits 72 hours after the interruption begins, or the damage to the premises actually occurs.

Benefits will end as of the date the business resumes normal operation, or as of the date the lost equipment and facilities should have reasonably been replaced or repaired to enable full resumption of business activity.

If you decide to spend more or wait longer because you decide to make improvements to your facility that take longer to accomplish, that part would not normally be covered in a business interruption policy. The policy is simply designed to protect you against the negative impact of a loss of income.

The takeaway

Considering the volatility in the last few years with the COVID-19 pandemic, increasing natural catastrophes, massive supply chain disruptions and other events, now more than ever firms need business interruption coverage.

It can be the difference between your firm resuming operations or fading away for good.

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