

Business Interruption

When you suffer a business interruption, the financial loss can be more devastating than the physical loss.

Business interruption insurance (or business continuity insurance, as it's sometimes known) can help minimise the financial impact if an interruption to your normal business operations occurs following a physical loss to your assets.

Business interruption insurance is designed to

- help you to carry on through the event and after the damage has been repaired
- help fund your increased operational expenses
- inject lost profits into your balance sheet.

Business interruption cover can also be purchased to protect the income or profit of a business following insured loss or damage. This type of insurance may cover

- gross profit
- wages
- payroll
- redundancy payments
- additional costs of working
- reinstating records
- loss of rents.

Business interruption policies are commonly extended to include suppliers, customers, denial of access and public utilities extensions.

Business interruption insurance makes sure you have the necessary funds to

- maintain your income stream while your doors are closed
- pay for additional expenses, such as temporary premises or additional costs to source product
- advertise to let customers know that you have moved to a new location or any other effects of the business interruption
- meet financial obligations to the bank, shareholders and staff.

Business Interruption⁽ⁱ⁾ Sum Insured Calculator

How to calculate your Insurable Gross Profit

Insurable Gross Profit is the sum of your turnover, closing stock & work in progress (*derived from your business at your business premises*), less the sum of your opening stock & work in progress. **This has no relation to your taxable gross profit, either net or gross.** In certain situations you may wish to nominate some expenses that you do not wish to insure. This can save you premium but can be dangerous in the case of a partial loss if such expenses may continue to occur.

Total Turnover/Sales (<i>derived from your business at your business premises</i>)	\$ _____
Plus Closing Stock & Work in Progress	\$ _____
Less Opening Stock & Work in Progress	\$ _____
Sub Total A (Turnover)	\$ _____

Less Nominated Uninsured Working Expenses (*if any*):

Purchases of Consumables, Stock, etc.	\$ _____
Commissions	\$ _____
Freight & Packaging	\$ _____
Sub-Contractors &/or Labour Hire	\$ _____
Wages (<i>please only exclude here if cover for wages is not required for the full Indemnity Period add then back in under optional covers</i>)	\$ _____
Other	\$ _____
Other	\$ _____

Less Total Uninsured Working Expenses	\$ _____
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Sub Total B (Insurable Gross Profit)	\$ _____
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Plus adjustment for trend of business since last accounting period @ _____%	\$ _____
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Plus adjustment for trend of business during policy period @ _____%	\$ _____
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Plus adjustment for trend of business during indemnity period @ _____%	\$ _____
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<u>Your Insurable Gross Profit for a 12 month Indemnity Period is</u>	\$ _____
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Multiply the above by⁽ⁱⁱ⁾:

a) 150% for an 18 month Indemnity Period	\$ _____
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b) 200% for an 24 month Indemnity Period	\$ _____
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c) 300% for an 36 month Indemnity Period	\$ _____
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<u>Your insured Rate of Gross Profit is</u> (Sub Total B divide Sub Total A)	_____ %
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Plus the following optional covers:

Additional Increase in Cost of Working (<i>minimum 10% of Sub Total A</i>)	\$ _____
Annual Gross Rentals (including all out goings)	\$ _____
Book debts; outstanding Debtors /Accounts Receivable	\$ _____
Wages: (_____% for _____ months), severance	\$ _____
Redeployment Costs	\$ _____
Fines or Damages	\$ _____
Claims Preparation Costs	\$ _____
Other	\$ _____

(i) *Loss of profit business interruption insurance covers loss of gross profit: the reduction in turnover and the increased cost of working, during a period of business interruption. A business interruption claim is triggered by material or physical damage to insured property caused by an insured peril e.g. fire or earthquake. The claim could be triggered by the loss of a building, plant, equipment or even just stock. The material damage cover and the business interruption cover are in one insurance policy. BI insurance reduces the financial burden of operating that may result from damage to your property and damaged property must be insured for material damage in order to claim BI insurance - Therefore No material damage claim = no loss of profit cover. Once triggered by insured property damage, the business interruption covered is the period of time the business is affected by that damage.*

(ii) *There are two main components.*

- 1. the insured gross profits; and*
- 2. the indemnity period.*

If the length of the period indemnity is more than 12 months, the gross profit must be adjusted accordingly; an 18 month indemnity period requires 150% of the business's annual gross profit. Any growth trends should be included too, not only for the period of insurance but also the maximum indemnity period on top of that. How long it takes to get back up and running is dictated by the nature of the business and commonly the business continuity plan would have explored the scenarios that can be used to determine what indemnity period is appropriate.

Please understand that this information is intended as a guide only.