

# business income

## insurance checklist



Each year, many organizations suffer a temporary interruption of their business operations due to the damage and destruction caused by hurricanes and other causes of loss.

The following **checklist of basic procedures and considerations** is by no means exhaustive, but is intended as an initial guide to assist in the preparation of business income claims. It is important to note that the items on this list may or may not apply to specific claims, depending upon the language of the actual insurance contract involved, and the facts of your particular claim.

### Step 1

#### REVIEW YOUR POLICY

Most property policies include business income coverage to cover lost business income and at least some of the extra expenses associated with restoring operations after a property loss. Such coverage usually applies only to business losses caused by a covered cause of loss to covered property. As with any insurance claim, the first step is to review the applicable policy language.

As an insured through Irwin Siegel Agency, Inc. you are not on your own in answering these questions. Your first resource for assistance is your local broker. In addition, your local broker can contact ISA and we will be happy to help answer any questions either of you have. Our staff includes seasoned underwriters who are very knowledgeable about the coverage provided by our program and a claims liaison to assist with any questions regarding filing claims and to help with any bumps in the road once the claim is filed.

- What business income coverage do you have?
- How does your policy define business income coverage?
- What event(s) must occur to trigger business income coverage?
- What time period must pass before coverage is available?
  - ◆ The policy may refer to this as the waiting period.
  - ◆ This is similar to the “deductible amount” for property and casualty insurance and is applied separately from any deductible that may apply to the covered cause of loss.
- How long does your policy provide business income insurance coverage and how much?
  - ◆ The insurance policy generally covers business income losses over the shorter of:
    - The time period the business sustains a loss; or
    - The time period specified in the policy.
  - ◆ The insurance coverage may limit business income losses to a maximum amount.
  - ◆ Coinsurance and wind/hail deductibles may apply to your loss.

### Step 2

#### PROMPT NOTICE TO INSURANCE CARRIER

Give your insurance carrier prompt notice of the loss including a description of the property involved. It is important to know that property insurance policies, including business-interruption coverage, may include limitations on when a claim can be made. These time limits vary from policy to policy. Failure to give notice to the insurance company within these time limits, or otherwise satisfy such limitations, can invalidate a claim. Notice should provide the following basic information:

- Name and address of insured
- Location of loss
- Branches involved
- Date and time of loss
- Contact name
- Office phone and fax number
- Cell phone numbers if possible
- A brief description of loss

## Step 3

### MITIGATION AND RECOVERY



Take reasonable steps to protect the property from further damage. Policies generally require a policyholder to mitigate its losses.

- Are you able to access alternative facilities?
- Could services be conducted elsewhere?
- Can rental equipment, overtime or additional shift work be used? At what added cost?
- How much overtime is required to care for your consumers or provide services during the period of business interruption?
- Will you be able to provide services during the period of business interruption?

## Step 4

### SET UP SEPARATE ACCOUNTS

Establish separate or sub accounts to maintain a record of all expenses incurred due to the damage. The accounts can be set up as an insurance receivables account on the balance sheet of a fire expense account on the profit and loss statement (with the former being the preferable method). A list of expenses to charge to the ledger account include:

- Repair costs
- Internal labor costs
- Rent for a temporary location
- Transportation expenses incurred to relocate
- Debris cleanup
- New computers installed at a temporary location, network connectivity, data storage
- Additional marketing and advertising
- Temporary repairs
- Equipment rental (e.g. generators)

## Step 5

### GATHER PERTINENT FINANCIAL AND LEGAL DOCUMENTATION

The following is a list of documents that will be required for all losses:

- Overview of business operations
- Descriptions of programs and / or services offered at the loss location
- Documentation of program fees lost and description of services or consumers that were transferred to other locations.
- Monthly cost center reports and Medicaid rate sheets for the two years preceding the loss year and for the entire year(s) that is impacted by the loss
- Annual income tax returns for the two years preceding the loss year (Returns that are lost or unavailable may be requested on Internal Revenue Service Form 4506)
- Monthly profit and loss statements for two years preceding the loss year and for the entire year(s) that is impacted by the loss
- Payroll reports by pay period for the three months preceding the loss and for the entire loss period.
- Business lease and rental agreements

The following is a list of additional documents that may be required depending on the size and complexity of the loss:

- Forms W-2 and Forms 1099 prepared for any employee or independent contractor for the past two years
- Aged accounts receivable schedules for most recent period
- Weekly billings and receipts for the past two years during the same period of time as the loss
- Depreciation schedules for the most recent period
- Annual financial statements for the past two years
- Monthly sales tax returns for the past two years filed with state or local governments



- Market share statistics
- Equipment and facility replacement timetables and costs and any expediting costs
- Budgets or projections of future operations
- Articles of incorporation and bylaws, or collaborative agreements
- Minutes of board of directors meetings for the past two years
- Business contracts and agreements
- Documentation of overtime or additional time including employee name title or capacity, regular job, description of the additional work performed dates and number of hours involved, and a calculation of the hourly wage including benefits.
- Other documentation as required by the insurance companies

## Step 6

### DETERMINE THE PROBABLE PERIOD OF INTERRUPTION

Under most business income policies, the period of loss is determined by the time it should reasonably take to repair, rebuild, or replace the property after the initial damage has been sustained. In addition, many policies contain language holding that the period of loss does not include idle periods in which the business would have ceased operations for any other reason besides the insured risk. The period of loss is generally held to terminate when the repairs to the damaged property have been completed. This is usually referred to as the *Period of Restoration*.

## Step 7

### CALCULATING THE BUSINESS INCOME LOSS

Your insurance policy will define the terms of your coverage:

- Coverage may be provided for your lost BUSINESS INCOME during the interruption period.
- Coverage of lost BUSINESS INCOME is generally the amount of lost revenues less the expenses that would have been incurred to produce the lost revenues. (Consideration needs to be given to decreases in revenue that are not related to loss, (i.e. market conditions, seasonality) These should not be included in the loss computation.)

### business income

Calculation of business income insurance coverage for lost profits: **LOST REVENUES**

- What is the loss period according to the terms of the insurance policy?
- What revenues would have been produced during the loss period had there been no loss?
- What revenues were actually produced during the loss period?
- The difference equals LOST REVENUES

Here are some things to consider when calculating your business income loss:

- A non-profit agency is not typically operating at a profit. The fact that your agency does not show a profit, does not preclude your from having a business income loss.
- For some programs it may be difficult to determine the loss of revenues for a single location because the reimbursement for that location may be included with a number of other locations.
- Typically an agency will have other ways of documenting the expenses and revenues for each location they operate and you could go to that document to get the information for the location involved in the business income loss. (Some agencies may refer to this document as a Cost Center.)
- Medicaid rate sheets will show the reimbursement for each individual at the location which would help you calculate your revenues at the location that had a business income loss.
- Using the Cost Center information that documents the expenses for the location and the Medicaid rate sheet to assist in calculating the revenues for the location will assist your agency in calculating the business income loss for a single location.



- ❑ First Expenses have to be separated into fixed and variable. Generally speaking, only changes in variable expenses should be subtracted from the loss as long as they decrease because of the damage.
  - One example might be if your Administration Office was damaged or destroyed by a covered cause of loss, the supplies that you would normally order: paper for your copy machines, toner for your printers, and other office supplies, would not be needed during the period of loss and the cost of such supplies would be subtracted from the loss.
- ❑ What expenses would have been normally incurred to produce all revenues during the loss period had there been no loss?
- ❑ What actual expenses were incurred to produce actual revenues during the loss period?
- ❑ The difference is SAVED EXPENSES.

Calculation of business income insurance coverage for lost profits:

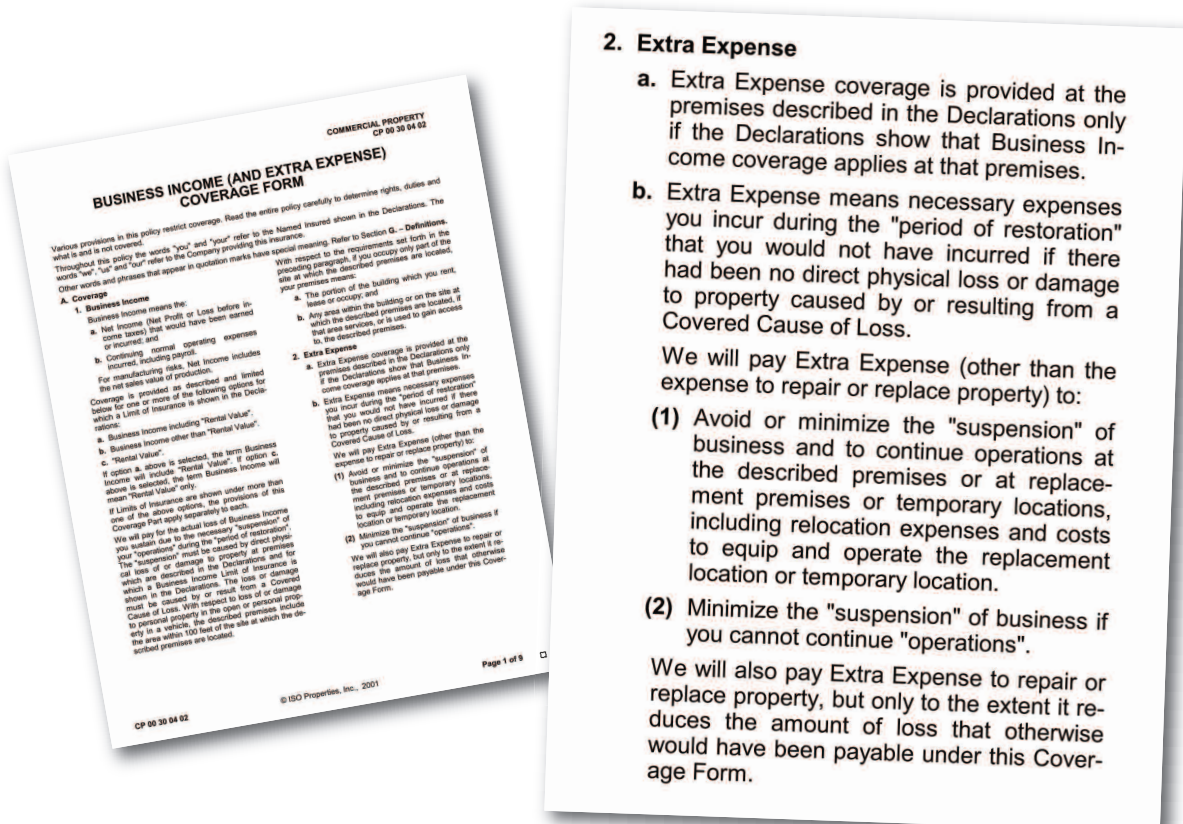
**LOST REVENUES - SAVED EXPENSES = LOST BUSINESS INCOME**

The carrier would then apply appropriate deductibles, waiting period and other policy provisions including coinsurance pursuant to the coverage purchased.

**extra expense**

Does the insurance policy provide coverage for "Extra Expenses"?

Extra Expenses defined under the CP 00 30 (04/02) BUSINESS INCOME AND EXTRA EXPENSE COVERAGE FORM states:



Consult your policy for the actual edition date as this language may differ.

Normal Expenses that otherwise would have been incurred should be deducted from your extra expense claim. Examples include:

- If an insured rents a generator to maintain power to a building, they should deduct the utility expense they do not incur while the rental generator is on site from their extra expense claim.
- In calculating extra expense for employee payroll, only the hours above what the employee would normally work can be counted in your extra expense claim.

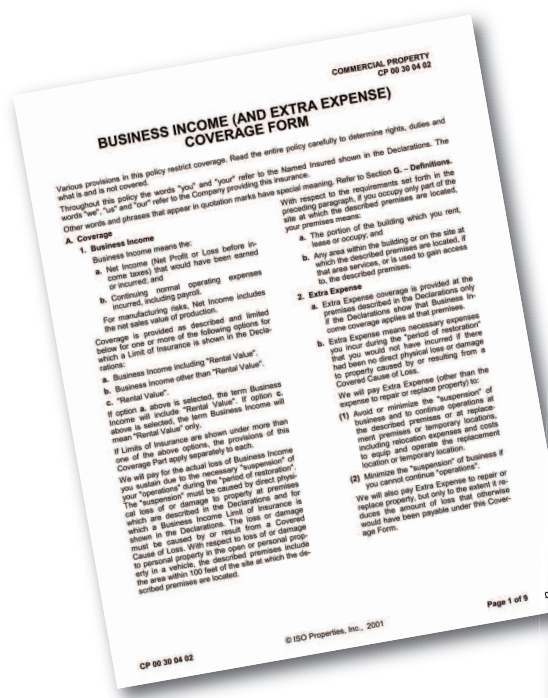
The following list sets forth some representative questions that should be reviewed in calculating the extent of a business income loss. This list is not necessarily exclusive, nor does each of the items necessarily apply to every claim.

- What type of operation is affected (Office, residential facility, workshop or school, day care, day programs)?
- Is there interdependency with other operations?
- Is operation partially or totally disrupted?
- Are consumers or clients affected? Partially? Totally?
- How long will you need to continue paying salaried employees until the business is restored? Can they assist with restoration of the premises and business operation?
- Do you need to pay hourly employees to retain them during the time the business is not operating?
- Can they help with clean-up and repair during restoration?

## civil authority

Coverage may also be available for loss of Business Income and Extra Expenses sustained as a result of governmental action that prevented access to the described premise due to area wide damage.

Civil Authority defined under the CP 00 30 (04/02) BUSINESS INCOME AND EXTRA EXPENSE COVERAGE FORM states:



### a. Civil Authority

We will pay for the actual loss of Business Income you sustain and necessary Extra Expense caused by action of civil authority that prohibits access to the described premises due to direct physical loss of or damage to property, other than at the described premises, caused by or resulting from any Covered Cause of Loss.

The coverage for Business Income will begin 72 hours after the time of that action and will apply for a period of up to three consecutive weeks after coverage begins.

The coverage for Extra Expense will begin immediately after the time of that action and will end:

- (1) 3 consecutive weeks after the time of that action; or
- (2) When your Business Income coverage ends; whichever is later.

Consult your policy for the actual edition date as this language may differ.

## possible coverage adjustments

- *Extended Period of Indemnity:* May extend period for loss of income coverage for a specified time beyond completion of repairs.
- *Requirement of a Business Suspension:* May determine whether a complete or partial cessation of business is needed to trigger coverage.
- *Resumption of Operations:* May limit business income loss to the point at which operations can be even partially resumed, even though the business may not be able to fully sustain itself.



- **Coinsurance Provision:** Requires that policyholder must pay a share of business income loss if the actual business income exposure for a twelve month period is higher than the amount of business income insurance purchased. The coinsurance formula as defined under the CP 0030 04/02 is noted as follows:

1. Multiply the Net Income and operating expense for the 12 months following the inception, or last previous anniversary date, of this policy by the Coinsurance percentage;
2. Divide the Limit of Insurance for the described premises by the figure determined in Step 1.; and
3. Multiply the total amount of loss by the figure determined in Step 2.

*We will pay the amount determined in Step 3. or the limit of insurance, whichever is less. For the remainder, you will either have to rely on other insurance or absorb the loss yourself.*

- **Agreed Value:** Establishes in advance a maximum for recovery in any given month.
- **Agreed Value Waiver:** Agreed value does suspend coinsurance for 12 months. Unlike adding agreed value to building and/or business personal property, agreed value is an optional coverage for business income that is activated if the following exist:

1. A business income worksheet is submitted providing 12-month prior and estimated subsequent 12-month data.
2. The agreed value should be at least equal to the coinsurance percentage multiplied by the net income and operating expenses or the 12 months following the inception of the policy.

*(Note: Most policies with ISA will be written on an agreed value basis for business income)*

- **Covered Locations:** Identifies what locations are covered. There may be extensions of coverage for newly acquired locations to cover property recently acquired, and for property at locations not owned by the insured.
- **Ingress/ Egress:** Coverage may be provided for loss of business income and extra expense when you cannot gain access to your property without the government action required under the coverage for closure by a civil authority.
- **Building Ordinances:** May provide coverage for the additional time required to rebuild due to compliance with building ordinances.
- **Electronic Media and Records Limitation:** May limit replacement period for such data and documents.

## possible exclusions

- **Property Exclusions:** Since there typically must be a covered loss to covered property for business income coverage to apply, all of the exclusions in the property section of the policy are always relevant.
- **Loss of Contracts:** Income loss on long-term contracts may be limited to period ending with completion of repair or replacement.
- **Consequential Losses:** Coverage for consequential losses is generally excluded, unless the policy contains an extension of coverage for such losses.
- **Off-Premises Utility Failure:** Although it depends upon the circumstances of the interruption, coverage generally does not extend to utility service interruption. However, there is an optional coverage but even that optional coverage does not always cover overhead transmission lines.

## special conditions and limitations

- **Appraisal:** In addition to loss conditions of the property policy, business income coverage may include specific appraisal provisions for valuing the loss of income and Extra Expenses.
- **Loss Determination:** Policies typically contain general provisions for determining the amount of business income loss and extra expense incurred.

## Step 8 PROOF OF LOSS

The carrier will prepare a proof of loss and send it to you for signature. A proof of loss provides details identifying the property destroyed or damaged and documents the amount of loss incurred.

THIS IS NOT A BINDER OF COVERAGE; it is information to serve as a tool and is only intended to assist our customers. It is not intended to be nor should it be relied upon as a substitute for the agent's and the insured's own risk management assessment and evaluation and determination of coverage needs. Irwin Siegel Agency, Inc. and the company make no warranties, express or implied, as respects the type of information contained in this checklist. This checklist does not alter the terms and conditions of the policy of coverage, if issued, which shall govern.