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# Business interruption cover: Getting it right.

**Q: Do I need business interruption insurance?**

**A:** All types of business can suffer interruption from natural or man-made disaster and may incur extra costs or have reduced revenue. Therefore, arguably all businesses should buy business interruption (BI) coverage and have business continuity plans (BCPs) in place to mitigate the risk.

If an interrupting event arises, the BI policy will first be used to meet the increased costs of working (ICOW), such as outsourcing or renting alternative facilities. These costs are incurred on the basis that it will minimise a claim for lost insurable gross profit (IGP). The policy tends to respond later to any IGP loss claim.

Businesses may buy cover on an "all risks" or "fire and perils" basis. The "perils" aspect covers a number of specific perils with an exact definition in law so coverage is restrictive. All risks will cover most events - aside from stated exclusions.

**Q: How do I work out how much cover I need?**

**A:** Typically mid-market businesses will insure their annual insurable gross profit (IGP) for a specified period: called the "indemnity period". You need to make sure it covers the time it takes to get the business back on track. If the IGP was £10 million, for example, and it would take the business 18 months to get back to the position it would have been in without the loss, the sum insured is £15 million.

Extensions to the BI policy should also be considered. Examples are interdependency, additional increased costs of working (AICOW), suppliers, customers, fines and penalties, denial of access, infectious diseases and utilities.

**Q: What pitfalls are going to catch me out?**

**A:** Pitfalls include: declaring an incorrect sum insured and buying too short an indemnity period.

Many businesses declare a sum insured that excludes some fixed costs or includes variable costs. The result can be understating or overstating the sum insured, which may result in a claim being reduced or too much premium being paid.

In terms of an incorrect indemnity period, even after your facility is reinstated your customers will take time to come back. Buying too short an indemnity period, can leave the business with a gap in their finances.

**Q: What are the implications of getting it wrong?**

**A:** At worst, insolvency. In most cases businesses will incur unbudgeted costs, miss financial targets and have to issue profit warnings.

# Jargon Buster:

**Insurable gross profit (IGP):** The net result of deducting variable costs from turnover (with adjustments for opening and closing stocks).

**Indemnity period:** The period for which the policy operates and relates to the time it takes to reinstate damaged facilities, plant, machinery, equipment and contents and recovery of market share. As a minimum this should be 12 months and is often 18 or 24 months or longer. Since a loss can occur towards the end of an insurance year, businesses need to declare budgeted and forecast financial data for three years to insurers.

**Interdependency:** Where damage within one part of your own business has a knock on effect on another part of your business.

**Increased Costs of Working (ICOW):** Insurers are always open to pay ICOW that ultimately reduces a gross profit claim.

**Additional Increased Costs of Working (AICOW):** ICOW will allow businesses to spend £1 for every £1 saved in IGP. However, in order to keep customers, some businesses will need to operate at a loss for a period. AICOW allows you to spend more than you would save in gross profit.

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