Insurance Tidbits

Business Income Insurance – Who Needs it?

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OK, so you've bought your fire insurance and the general liability coverage's from your favorite agent when the term Business Interruption Insurance is mentioned. Most folks either don't understand what it is, or why in the world they will ever need it. Unfortunately, many agents don't understand it either. So now we have a coverage we don't understand being discussed with an agent that doesn't know exactly how it works (NOTE: All North Pointe agents understand business income insurance). To further complicate the issue, there are SEVERAL ways to insure business income losses. Before I go any further, let me just add that you WILL understand the concept in just a couple of paragraphs; and probably have a better grasp of it than many agents. Enough of the big build up, let's have some fun learning how it works.

Put simply, BI (business income) is designed to pay the ongoing bills while you are repairing or rebuilding your building. Examples are mortgage payments, property taxes, utility bills, payroll and lost net profit. These and other expenses do not stop just because your business did. A business is far more likely to go bust because of the inability to make these payments than they are because of the fire (or whatever). EXACTLY how to go about insuring this is where your agent's professionalism and your knowledge of your business come into play. For purposes of determining the amount of BI coverage appropriate for the skating industry we'll limit this discussion to only one of the methods. To discuss all the options for BI at this point would be confusing and counter productive. The most appropriate form for most skating rinks is called the monthly limitation form. It's the best coverage for several reasons. You calculate how much you need rather than use a percentage of gross sales to come up with an amount (OK, I did regress to another form and method of calculating an amount of coverage, sorry!). This is where you consult with your spouse, managers, CPA, Insurance Professional and utilize your knowledge of your business to determine which expenses will be ongoing if you were forced to close for an insured loss. Once armed with that figure we recommend that you extend that monthly figure to 12 months or more in dollars and purchase that much coverage. There are work sheets available to assist in this project. If you quit reading here, you've already got the basics of why and how much coverage you need. In the following paragraphs we'll discuss other terms and provisions that are helpful to know.

One of the first things you will notice (if you are one of the 5% that actually reads a policy) about the business income form is its reference to 33%, 25% or 16 2/3%. This part of the policy causes more confusion than any other wording. It DOES NOT mean that we are going to pay 33% of the bills. It does NOT refer to a coinsurance penalty (a topic of a different article). It simply means that we will not pay more than the % amount indicated in ANY one month. If you have a 33% form (also called 1/3 monthly limitation) the company will pay UP TO 33% of the BI (business income) insured amount in any given month. In other words, if you had $300,000 business income on your policy the maximum you could recover in a single month would be $100,000 REGARDLESS of your actual ongoing expenses. If the policy is properly written, this provision should never be an issue. Since we recommend 12 months of ongoing expenses as the insured amount, there should never be 4 months (33% of a year) of ongoing expenses appearing at once. OK, that's the toughest thing we'll tangle with in this article. Here are a couple of options that you should know about. You can be the first operator on your block to have some of these endorsements on your policy. To some extent you control what your "ongoing" expenses will be. For instance, after a large loss, you determine how much of your payroll you keep paying. If you choose, you can continue payroll continuously through the period of loss. For various reasons you may choose not to continue ALL the payroll you were paying at the time of loss.

Your business income policy may include "extra expense" coverage. If purchased, you have coverage for expenses other than the ongoing type. Examples are deposits for utilities at a temporary marketing location, cost of a phone bank and other expenses related to getting the "doors open" when the reconstruction is nearly complete. Finally, another excellent coverage available by endorsement covers your reduced earnings during the time that you are open and still rebuilding your sales. One month's worth of coverage is standard with the contract, BUT you can purchase several months coverage for a nominal premium. This allows you to maintain an income stream while your business grows to pre-loss levels. That's it. You now have a working knowledge of the most misunderstood coverage in your policy. Next month, what in the world is "Coinsurance"?