

## **BUSINESS INTERRUPTION INSURANCE**

Many businesses and companies purchase business interruption insurance in addition to their commercial property policies. Business interruption insurance is often misunderstood by policy holders from a coverage standpoint as well as understanding the complexities surrounding the claim submittal process. Preparing claims and understanding coverage requires a solid understanding of accounting principles as well as the ability to interpret insurance terminology and review of prior court cases.

In basic terms, business interruption insurance protects businesses against losses that arise due to a shutdown of a business as a result of damage caused by a covered event, such as a fire, hurricane, or other natural disaster. Commercial property insurance may cover the cost to rebuild the physical property but entities should also have business interruption coverage to pay for lost profits, operating expenses, and extra expenses while restoring operations.

The net result or goal of business interruption coverage is to make the business whole should a covered event occur. The financial statements for the business should report the same financial results as they would if the covered event had not occurred (excluding any consideration surrounding deductibles, length of coverage, etc.). The amount of reimbursement, in part, is based on business income which is generally defined as:

Net income (before taxes) plus continuing normal operating expenses incurred (including payroll)

An example:

A business suffers a hurricane at its facility that ceases all operations for a three month period. During the three month period, the business continues to pay salaries, utilities, rent, and other fixed costs necessary for operations to restart. In order for the business to become whole, the business is entitled to reimbursement for net income as well as operating expenses paid during the recovery period.

### **Documentation**

The preparation of a business interruption claim can be quite detailed and require a tremendous amount of effort. The amount of documentation required will generally depend on the amount of claim and degree of detail requested by the adjuster. The Insurance Company may be able to provide a format for the actual calculation or one may be obtained

from the Insurance Services Office (ISO). Industry standards often refer to a bottom-up (Net Income) or a top down approach (Lost revenues).

We recommend gathering and/or preparing the following documents as part of the claim process:

- Description of the business operations
- Description of products and/or services offered
- Business Plan
- Tax Returns (3 – 5 years)
- Payroll Records (2 years)
- Sales Data (3 – 5 years)
- Budget/Forecasts for future periods
- Monthly Profit & Loss Statements (Historical 3 – 5 years & Current Year to Date)
- Audited Financial Statements (3 – 5 years)
- General Ledger (available for review)
- Depreciation schedule (previous year)
- Extra Costs (should include a summary sheet by categorical detail, supporting receipts, and should be segregated within the accounting system)
- Industry trade data, geographical data

It is important that the accounting system and underlying data is properly recorded, up to date, and accounts are properly reconciled to supporting documents.

### **Summary**

The above information is generalized and is intended to provide some of the basic fundamentals surrounding business interruption insurance.

Call us as we have extensive expertise as forensic and expert witness in this area.