

Associated Risks: Business Interruption

When analyzing your business operation, one area of concern is how you would handle your operations if it is interrupted by an unplanned event or occurrence. Your goal should be to make sure you have systems and procedures in place if there is an interruption.

Some areas where these interruptions can come from are:

- Fire
- Catastrophic events such as natural disaster, flood, windstorms and earthquake
- Evacuation orders due to a loss in the surrounding areas
- Equipment breakdown

There are three types of Business Interruption coverage available:

1. Business Interruption - Profits or Gross Earnings

Business Interruption is type of insurance that replaces business income lost as a result of an insurable loss that interrupts the operations of the business, for example by fire or a natural disaster. It is not sold as a separate policy but rather added to a property/casualty policy or included in a comprehensive package.

2. Contingent Business Interruption

Contingent Business Interruption is a type of Business Interruption coverage, which instead of compensating for a loss suffered directly by the business, it compensates for a loss which occurs due to the interruption or stoppage of a key suppliers' business. The coverage can also be triggered if an evacuation is ordered due to an uncontrollable event in the surrounding area. This can be very crucial if you are relying on a sole supplier for a speciality product which is rare or difficult to replace. Also, this will likely come into play if you are contracting with a business which relies on a single supplier for the key component of your business.

3. Extra Expense Coverage

Extra Expense Coverage is commercial property insurance that pays for additional costs in excess of normal operating expenses that an organization incurs to continue operations while its property is being repaired or replaced after having been damaged by a covered cause of loss. Extra expense coverage can be purchased in addition to or instead of business income coverage, depending on the needs of the organization.

Key Risks to Identify

4. Additional Cost to Relocate Residents, Including:

- Transportation
- Temporary Location
- Outsources of Food Services, Laundry etc.
- Cost to bring in equipment such as beds, linens, lifts, walkers and wheel chairs
- Cost to move administration equipment
- Security which may have to be hired 24/7 as the new facility may not be alarmed
- Loss of medical records if copies are not stored offsite

Equipment Breakdown or Malfunction

Business Interruption insurance can provide coverage for the loss of items that are required for everyday operations. These can include air conditioning equipment, phone systems, computers and servers, washing machines and dryers. The business owner should determine how essential each piece of equipment is to their daily operations. Once that is determined a plan should be established to secure the required equipment and replacement parts and confirm lead times from your suppliers.

5. Qualified Personnel

Under business interruption insurance you'll have an option to insure your payroll. If you have specialized employees with certain skill sets you may want to look at protecting the payroll.

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