



**POINT**  
Cyril Tuohy

## Pile on the Coverage With Your Next Renewal

**With rates this soft, there's no reason not to pick up extra business interruption at renewal.**

Throwing in business interruption coverage on top of standard property coverage is a no-brainer. For an incremental amount, why wouldn't a risk manager pick up the extra coverage, particularly in this soft rate environment? Rates are already low, and getting lower. Carriers can't give the stuff away.

Business interruption, you will recall, is coverage that reimburses you for lost income if your company has to clear the premises because of disaster-related damage, from a hurricane or a fire, and you can no longer run the business.

Business interruption, which protects income and continuing expenses, pays the policyholder cash — cash the insured would otherwise not have received. The amount is calculated based on the financial records of the business.

So, for example, after the massive tragedy on Sept. 11, 2001, the scores of business around the World Trade Center that were out for weeks and months following the clean-up, would have been compensated under such a policy had they bothered to buy it. Instead, dozens of businesses large and small went bust even though they were reimbursed for their physical losses.

Those business interruption payments would have been separate from the compensation offered them through their property policies that covered the physical damage sustained by the collapsing towers.

The rub with business interruption coverage is that it isn't sold separately. It has to be added to a property insurance policy or included in a business owner's package policy. Buyers can find extra business interruption coverage for longer coverage times and higher coverage amounts, if they so choose. The policies often don't kick in right away, but start 48 hours after the business suffers an initial loss.

So, what's not to like in a business interruption policy? Nothing. Particularly if your broker can "throw it in" with your property coverage. Then you can push hard for a deep discount, which your broker should be able to get you in this buyer's market.

There's a price to pay for business interruption, yes, but it's a small price. There's no free lunch, remember, so the coverage is going to cost you something. But with this kind of value offered in the marketplace—like business interruption coverage stacked atop a property program—buyers ought to jump on this opportunity. You'll be sorry if you didn't. And if you don't like it, or if you need to trim your budget, you can just go ahead and cancel it at the next renewal, no hard feelings.

If you have to buy property coverage, then you might as well add business interruption to it.

*CYRIL TUOHY is managing editor of Risk & Insurance®. He can be reached at riskletters@lrp.com.*



**COUNTERPOINT**  
Dan Reynolds

## Not so Fast With Coverage for Business Interruption

**Even dirt cheap, why buy something when the value can't properly be ascertained?**

No one disputes the value in theory of business interruption coverage. The devil comes in how to calculate what a business would have earned had life not been so rudely interrupted. As is so often the case, working out these details isn't easy.

Take the gross earnings form, for example. Gross earnings are not to be confused with gross profit, although the terms sound familiar. "Gross earnings deductions," an insurance concept that includes only raw materials and consumable supplies, isn't the same as the accounting concept of cost of goods manufactured, according to Hans-Dieter Sprohge, writing in the *Journal of Accountancy*.

Or, take this concept of noncontinuing expenses, which represents the difference between projected normal expenses and the actual expenses that would have occurred during the loss period. Insurance companies treat noncontinuing expenses as a reduction in gross earnings and take a credit against gross earnings for expenses that have ceased.

Noncontinuing expenses should not be confused with "variable expenses," and continuing expenses should not be confused with "fixed expenses," Sprohge writes.

But here's my point: If accountants and insurance adjusters can't agree on the meaning of terms used to describe values that would have been spared had a business continued to operate, it's not going to be easy figuring out how much a business would have earned had it not fallen victim to interruption.

When we went about trying to ascertain the impact of the 2007 wildfires that scorched so much of Southern California, we specifically asked policyholders about whether they planned to file business interruption claims in cases in which those policies weren't automatically triggered by the property policy. And in many cases, they just weren't sure what they would do or whether they had any hope of collecting.

One reason was that in the case of mandatory civil evacuations because of a wildfire, the policyholder seeking to collect on a business interruption claim might have to provide insurers with the physical proof of an evacuation, that is, the notice itself.

In addition, in California, employers facing an advancing wall of flames who thought they were being proactive in sending their employees home before an official evacuation notice might have found themselves without coverage. Same goes if your employees live in an evacuation area and your business isn't located there.

Business interruption coverage in theory has value. But in practice you better be very good at understanding it, and that is not an inherent benefit.

*DAN REYNOLDS is senior editor of Risk & Insurance®. He can be reached at dreynolds@lrp.com.*

## Zurich HelpPoint Perspective



**Patrick Daley**  
Head of Property, Underwriting  
Zurich in North America

Business interruption coverage sits close to the heart of a company's business continuity plan. A facility ravaged by a fire, hurricane or earthquake can be rebuilt, but how long can a business survive without revenue? Continuity planning, working together with business interruption coverage, helps reduce the chance that an event will impede ongoing business operations.

Continuity planning isn't price sensitive or subject to the vagaries of current market conditions. Underwriters understand that effective continuity planning helps reduce exposures and the chances of big business interruption losses. That helps keep down the cost of business interruption coverage.

Certainly a good continuity plan will consider the risk transfer mechanism, including policy language, issues

surrounding coverage and the claims process itself so that when an event happens funds flow quickly. But more importantly, business continuity planning helps you truly understand your business interruption risk and your level of resiliency by examining your interdependencies; identifying vulnerabilities such as loss of supplier, production or storage resources; and prioritizing risks based on impact scenarios.

Business interruption coverage and business continuity planning are part of an enterprise risk strategy. Insurance products such as business interruption coverage are the critical back-stop in a catastrophic event. But insurance works far better when it's part of an enterprise risk solution and an effective business continuity plan.

*Editor's note: The opinions stated in this Zurich HelpPoint Perspective are solely those of Zurich and are not an editorial position of our magazine.*

**"We're a growing company. And, with Zurich's help, we're already a global one."**

**Joseph G. Mahler, Chief Financial Officer**  
**FuelCell Energy, Inc.**  
**Connecticut, USA**

Zurich **HelpPoint**

**International insurance solutions for the global companies of today and tomorrow.**

FuelCell Energy is bringing renewable and ultraclean power generation to three continents—and counting. Zurich's ability to design a flexible insurance program in compliance with local and global regulations is helping them grow. And with a single, U.S.-based contact, supported by a global network spanning more than 170 countries, Zurich is making it even easier for FuelCell to manage their overseas risks. It's an example of how Zurich HelpPoint delivers the help businesses need when it matters most. Let FuelCell tell you more. Watch the video at [www.zurichna.com/stories6](http://www.zurichna.com/stories6)



*Because change happenz.®*



In the United States, insurance coverages are underwritten by individual member companies of Zurich in North America, including Zurich American Insurance Company. Certain coverages are not available in all states. Some coverages may be written on a nonadmitted basis through licensed surplus lines brokers. Prior results do not guarantee a similar outcome. Risk engineering services are provided by Zurich Services Corporation.