

Business Income Insurance (Lecture 7)

Overview of Lecture 7 (chapter 8 CPCU 3)

I. Business Income Coverage (BIC) Form

II. BIC Coverage Options

III. Extra Expense Coverage Form

IV. Other Business Income Insurance

I. Business Income Coverage (BIC) Form

A. Loss of business income

1. business income defined:

- the net income or loss before taxes that would have been earned or incurred plus continuing normal operating expenses, including payroll

2. suspension of operations from:

- property at described premises
(property does not have to be covered under BPP)

3. period of restoration:

- time permitted to replenish supplies, restock merchandise and restore manufacturing to the operating capacity before the loss

- does not end at end of the policy period if the loss occurred during the policy period

B. Coverage forms

1. business income with extra expenses coverage form
2. business income without extra expenses coverage form

C. Additional coverages

1. extra expenses

- to avoid, reduce, or minimize suspension and to continue

operations (i.e. renting or moving equipment)

- to expedite repair or replacement, but only to the extent that it reduces the amount otherwise payable under the policy

2. action of civil authority

- must be due to damage or destruction to property not at the insured premises

3. alterations and new buildings

4. extended business income coverage

- continued up to 30 days after repairs are made and operations resume

5. extended period of indemnity

6. coverage extension newly acquired locations (coinsurance of at least 50% required)

D. Exclusions in causes of loss forms

- 1.
- 2.
3. any loss caused by damage to finished stock or time to reproduce

4. suspension, lapse or cancellation of any license, lease or contract
 - unless the suspension, lapse or cancellation is caused by the suspension of operations (covers losses only during the period of restoration)

E. Coinsurance

1. options

– coins. % = max. probable loss/bus. inc. basis for coins.
(rounded up)

2. business income basis for coinsurance

basis = net income before taxes + continuing expenses
+ noncontinuing expenses for the policy year

3. coinsurance formula

$[(\text{actual limit})/(\text{insurance required})] * \text{loss} = \text{recovery}$

F. Alternatives to Coinsurance

1. maximum period of indemnity

2. monthly limit of indemnity

- limits the amount payable per 30-day period to a fraction of the limit (1/3 of \$120K, \$40K per month)

3. agreed value

II. BIC Coverage Options

A. Exclude certain expenses

1. Noncontinuing ordinary payroll
2. Energy expenses

B. Dependent property exposures

1. Coverage

2. Coverage forms

- business income for dependent properties - broad form (extends BIC to contingent locations, same limits)

C. **Business income premium adjustments**

D. **Blanket insurance**

E. **Ordinance or law-increased period of restoration**

F. **Off-premises services-time element**

III. Extra Expense Coverage Form

- **may be necessary for businesses that MUST continue to operate after a loss (i.e. banks, newspapers, hospitals, etc.)**

IV. Other Business Income Insurance

A. Valued Policies

B. Businessowners Policies