

# Action Insurance Brokers Pty Limited

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## Product Fact Sheet – Business Interruption Insurance & Business Continuity Planning

### What is Business Interruption Insurance?

Business Interruption Insurance, also known as “Loss of Profits” or “Gross Profit” insurance, provides financial protection to a business that has suffered an “interruption” to their normal trading abilities, as a result of a fire, storm, flood, or other such insured event at your business premises or nearby if it prevents access to your business.

It can also extend to cover an interruption to your business due to a similar insured event at one of your customers or suppliers premises.

Apart from the financial cost of replacing damaged stock, plant and equipment, fixtures and fittings and even buildings and other structure, a business also loses money every day they cannot trade or perhaps their trade is reduced to some extent.

Yet, generally speaking, if a business has a significant claim such as a fire, they still need to meet their ongoing financial commitments such as wages, leases, advertising, etc and they will also incur extra costs to get back into business, such as temporary rental costs, relocation costs, perhaps subcontracting out work to other businesses.

Business Interruption Insurance covers most of these costs and provides the business the vital cash flow they need to get back into business or to keep trading whilst their property is being repaired or replaced.

### Important Statistic

The Insurance Council of Australia states that decades of insurance claim records show that the vast majority of businesses that do not have Business Interruption Insurance, eventually go broke after a fire or storm has caused a significant interruption to their business.

### What does Business Interruption Insurance cover?

Business Interruption Insurance covers business income lost as a result of an interruption to / reduction in, the business’s ability to trade.

Lost income includes but is not limited to:

- Reduction in Gross profit earned during the period of interruption, compared to the normal gross profit that would have been earned, had the insured event not occurred
- Wages for business owners and key staff and additional labour costs
- Ongoing expenses that still must be met – leases on equipment, motor vehicles, etc
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- Costs incurred to relocate the business including rent for additional premises, rental bonds, and temporary hire of replacement equipment.
- Costs incurred to subcontract out work to keep customers happy, including additional expenses where incurred.
- Additional charges such as freight, advertising, storage costs and many others.

### **How do I work out how much Business Interruption Insurance I need?**

There is no set amount or percentage of turnover that businesses need for Business Interruption Insurance. Each business is different and the amount of sum insured they will require is specific to that business.

The best resource for a business is to sit down with their Accountant and Action Insurance Brokers together. Using historical trading records such as profit and loss statements, tax returns, wage reports and stock purchasing report, professional advisors can estimate the potential loss per month that a business could suffer financially.

### **What Indemnity Period should I insure for?**

With each business, the indemnity period should be accurately assessed (the indemnity period is the period after an insured event, for which the business thinks they may be unable to trade fully and may need financial assistance to meet all their ongoing expenses).

For example, a business that can easily relocate will only need a shorter indemnity period. However, a business that is very dependant on a specific location or unique machinery and plant, may take much longer to get back to full trading levels. Insurance companies generally offer from 6 months to 24 months as the insured indemnity period after an insured event. The longer the indemnity period – the greater the sum insured will be and the more expense the Business Interruption Insurance premium will cost.

### **Under-Insurance and Business Interruption Insurance**

Under-insurance must also be considered when determining a sum insured for loss of profits / business interruption insurance. Remember, accounting gross profit is not the same as insurable gross profit just as the replacement value of your assets is completely different from the written down book value. To ensure you get it right, you should consult your accountant who can advise you on how much gross profit cover you need and also assist with calculating extra costs you may incur during a claim, such as cost to relocate temporarily, costs to advise your customers of your change in address, hiring of temporary replacement machinery, additional rent or staffing costs etc.

### **How do I purchase Business Interruption Insurance?**

Most Insurance companies that offer “business” package insurance policies will also offer Business Interruption Insurance as a section under the package policy. Action Insurance Brokers can arrange to include Business Interruption Insurance under all business package policies we arrange for our clients.

Alternatively, we can organize a Business Interruption Insurance policy on its own. There are a handful of specialised insurance companies and agencies that issue these policies.

### **Business Continuity Planning**

Businesses that recover quickly from a loss or claim are those that plan in advance. This involves not only purchasing the right insurance, but also developing and maintaining an adequate recovery plan.

### **Minimise the risk of damage in advance of an emergency by**

- \* Training employees in fire safety, particularly those responsible for storage areas, housekeeping, maintenance and operations where open flames or flammable substances are used.
- \* Testing and if necessary modernising the electrical system since faulty wiring causes a large percentage of non-residential fires.
- \* Ensuring computer monitors and television screens are not left on stand by mode when not in use. It is estimated that there are around 700 fires a year from this source.
- \* Stopping the overloading of power boards and where possible eliminating them altogether. Where they are required purchase good quality ones and have them tested on a regular basis.
- \* Ban smoking within all buildings (in line with occupation and health regulations)
- \* Carefully control any hot works – grinding, welding, cutting etc.
- \* Situating your business in a fire-resistant building - a structure made of non-combustible materials with firewalls that create barriers to the spread of fires - and in a building with a fire alarm system connected to the local fire department. It is also a good idea to have a sprinkler system to douse fires.
- \* Limiting storm-related damage by making sure the building conforms to damage-resistant building codes.

### **Develop a business continuity plan by**

- \* Keeping up-to-date triplicate records of both electronic and written records. In some jurisdictions, if companies fail to maintain and safeguard accurate business records, the company may still be held liable.
- \* Identifying the critical business activities and the resources needed to support them in order to maintain customer service while your business is closed for repairs.
- \* Planning for the worst possible scenario. Do research before a disaster strikes by finding alternative facilities, equipment and supplies, and locating qualified contractors to repair your facility.
- \* Setting up an emergency response plan and training employees how to execute it.
- \* Considering the resources you may need to activate during an emergency such as back-up sources of power and communications systems. Also, stockpiling the supplies you may need such as first-aid kits, and flashlights.
- \* Compiling a list of important phone numbers (including cell phone numbers) and addresses, including your Action Insurance Brokers office, local and state emergency management agencies, major clients, contractors, suppliers, realtors, financial institutions. The list should also include employees and company officials. Keep copies off the premises in case the disaster is widespread. Ideally a copy should be kept off site.
- \* Deciding on a communications strategy to prevent loss of your customers. Clients must know how to contact your company at its new location. Among the possibilities to explore, depending on the circumstances, are posting notices outside the original premises; contacting clients by phone, e-mail or regular mail; placing a notice or advertisement in local newspapers; and asking friends and acquaintances in the local business community to help disseminate the information.
- \* Review and exercise your plan on a regular basis and communicate changes to key employees.

Use your Business Continuity Plan including the risk assessment, business impact analysis and business continuity plan to set your indemnity period, level of wages cover, and additional increase cost of working. It also assists in determining what extensions to the standard cover are required. Your Action Insurance Brokers adviser should be able to assist you here.