

## **Business Interruption and Extra Expense Insurance are the Most Important Commercial Coverages--and Often the Most Overlooked at Point of Sale and Adjustment**

By William "Chip" Merlin, Jr.

There are two activities that would help many more commercial establishments remain in business following a catastrophe. First, insurance agents and risk managers should consider the statistics of failure for commercial enterprises following disaster and do a better job convincing commercial policyholders to purchase business interruption and extra expense coverage. The second activity is for insurance claims executives to pay those benefits quickly.

Christopher Boggs has written a down to earth book regarding business income insurance, "Business Income Insurance Demystified: The Simplified Guide to Time Element Coverages." This book is helpful for those insurance agents who do not understand how to address the importance of business income coverage.

Do any insurance companies have their own adjusters determine the amount of business income or extra expense coverage is owed? Virtually all hire outside consultants and accountants to make the determination. Most adjusters wait weeks or months following a disaster to have these consultants and accountants do the work of evaluating the income and expenses of a business following a disaster. As a result, most business income and extra expense benefits are delayed at the most crucial time following a disaster. Months, rather than days, are the normal sequence for evaluation and payment of time element losses.

Boggs notes:

“The insurance industry has long stated that 25 percent of the businesses that suffer a catastrophic loss (one causing a complete shutdown of more than 30 days) never reopen. The percentage could actually be much higher.

Not included in that often-quoted statistic is the number or percentage of the businesses that do reopen but ultimately close within three to five years after the catastrophic loss, with such failure being directly traceable to the loss. Considering those two classifications of catastrophe- induced business closures, the failure rate of a business due directly to major direct property losses could approach 45 or 50 percent...”

The point of this is two-fold. First, businesses need more and better time element coverage. Second, adjustments of these losses need to be much more prompt.

My suggestion to those commercial policyholders suffering a significant loss with downtime is to immediately ask for payment of income coverages and how extra expense dollars can be used to mitigate the loss and prepare for the ongoing operations after the restoration is complete.

Boggs argues in his book that the business income coverages are the most important coverages available to commercial policyholders, more so than other property coverages. I am not so certain about that. Yet, I agree that they are just as important because commercial enterprises rely upon revenue to exist. Money is blood to a business.

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