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### Are you a Business Income expert?

I'm the go-to person in the office

I know there is Business Income coverage, but that's about it.

What's Business Income?

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### Business Income and Extra Expense 101

- What triggers coverage?
- What are covered Business Income expenses?
- What is Extra Expense?
- What is the Period of Restoration?

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What triggers coverage?

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We will pay...

- Actual loss of BI
- necessary "suspension"
- "operations"
- during the "Period of Restoration"



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"Operations" means...

- Business activities at the premises
- Tenantability of premises

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"Suspension" means...

- Slowdown or cessation of your business activities
- Premises is rendered untenable

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Caused by...

- Damage to property
- At premises
- Described in the declarations
- BI limit shown



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Damage to what property?

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Must be caused by a Covered Cause of Loss

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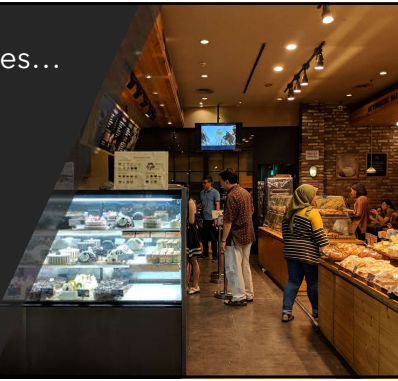
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Premises includes...

- The part you occupy
- 100 feet
- Area that services
- Area that accesses



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What questions do we have?

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What are covered Business Income Expenses?

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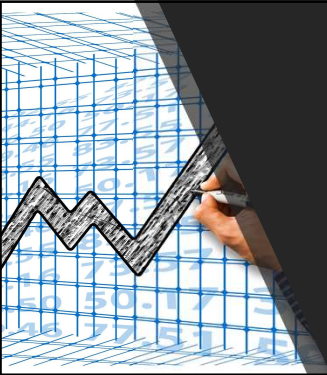
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### Amount of BI loss...

- Net Income before the loss
- Likely Net Income after the loss
- Operating expenses
- Other sources of information

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### Continuing operating expenses

- Continuing payroll
- Rent/mortgage
- Utilities\*\*
- Insurance
- Loan payments

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### Our favorite pizza shop

- Profit - \$10,000
- Lease - \$2,000
- Insurance - \$1,000
- Payroll \$10,000
  
- Total \$23,000

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Extra expense means necessary expenses you incur during the "period of restoration" that you would not have incurred if there had been no direct physical loss or damage to property caused by or resulting from a Covered Cause of Loss.

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We will pay Extra Expense (other than the expense to repair or replace property) to:

(parts have been skipped)

We will also pay Extra Expense to repair or replace property, but only to the extent it reduces the amount of loss that otherwise would have been payable under this Coverage Form.

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**We will pay expenses to...**

- Avoid or minimize "suspension" and continue operations
- Minimize "suspension" if operations stop



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**Which of these is an example of payable Business Income?**

- The cost to rent a new building.
- Payroll for employees during the period of restoration.
- The cost to rebuild the building.
- The cost to replace dishes.
- None of the above

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**Which of these is a payable extra expense cost?**

- The cost of renting a new building.
- The cost of normal payroll.
- The cost of rebuilding the building.

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What is the "period of restoration"?

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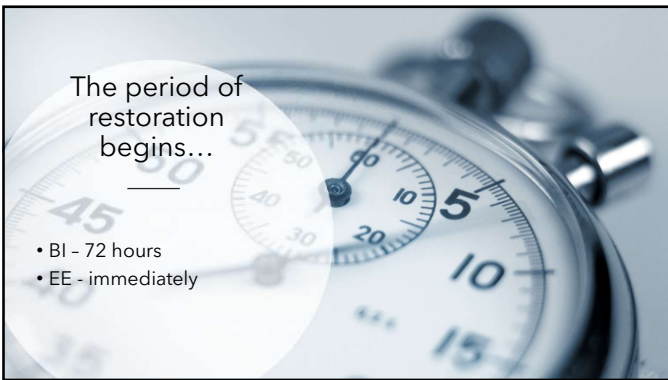
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The period of restoration begins...

- BI - 72 hours
- EE - immediately

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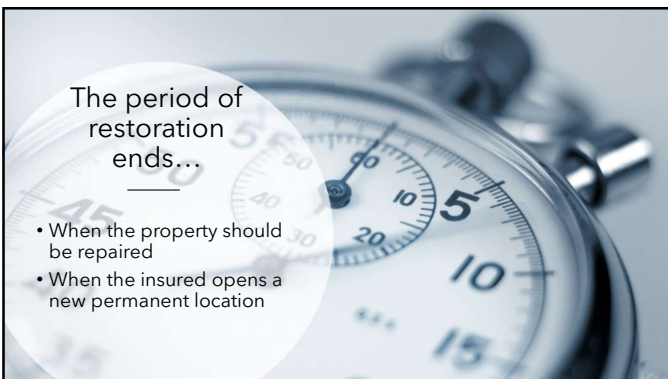
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The period of restoration ends...

- When the property should be repaired
- When the insured opens a new permanent location

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**What's the worst word in the insurance language?**

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Calculating coinsurance

Year	Amount	Start at beginning of year
1	373 967	424 963
2	404 029	467 459
3	1 296 231	1 005 037
4	1 899 317	1 600 037
5	2 499 800	2 324 349
6	3 227 076	3 124 764
7	4 050 035	4 023 856
8	4 028 331	

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The ancient equation

did \* loss = claim total - deductible = final payment  
should

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### Business Income means...

- Net Income +
- Continuing normal operating expenses incurred
  
- This is what is payable.

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### Calculate the coinsurance amount

- Coinsurance percentage \*
- Add these
  - Net Income
  - Operating expenses for 12 months before inception (or renewal)
  
- This is the coinsurance basis.

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### The equation

$$\text{Coinsurance percentage} * (\text{12-month net income} + \text{12-month operating expenses}) = \text{minimum limit required (should)}$$

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Options...

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### Calculating an appropriate limit

- Does the business need BI, EE, or both?
- How much money do they want to have?
- How long could it possibly take?
- How much are they willing to pay?

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### Are there some businesses that don't need BI or EE coverage?

Yes No

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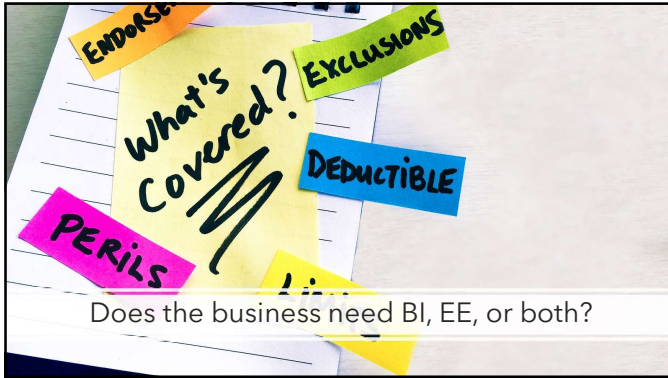
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A few questions...

- How long can you survive without foot traffic?
- Is it possible to do business without your storefront on main street?
- If a fire happens today, how will that impact revenue?
- What if you could set up shop in another location?



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How much money do they want to have?

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Our favorite pizza shop claim

- February Net Income - \$10,000
- March Net Income - \$0

- Rent/mortgage
- Utilities
- Insurance
- Payroll



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**CP 15 10- Payroll Limitation or Exclusion**

- Payroll Expense Limitation - Number of Days
- Payroll Expense Exclusion

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**CP 15 10 - Payroll Limitation or Exclusion**

- All employees
- All employees EXCEPT officers, etc.
- All employees EXCEPT as indicated
- Only specific employees

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**How long should a building repair take?**

It depends on the extent of the damage, but it should be pretty quick. **A**

It depends on a lot of factors, but it takes longer than you think. **B**

Forever plus a week. **C**

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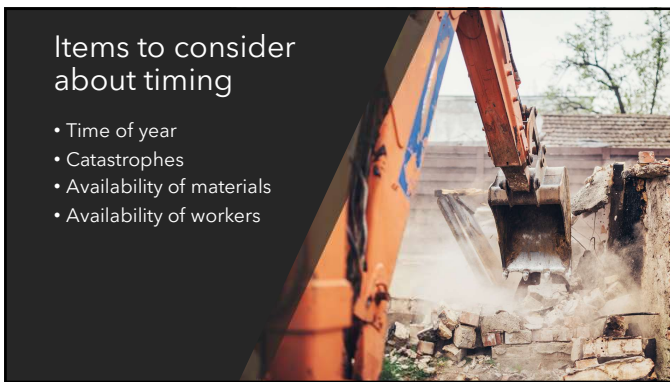
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We will pay Extra Expense to...

Avoid or minimize the "suspension" of business...

Including... costs to operate a replacement location

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Tips related to extra expense

- Maintain a relationship with a realtor
- Have a way to move equipment
- Secure financing in advance



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How much are they willing to pay?

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Any questions so far?

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POLICY NUMBER: \_\_\_\_\_ COMMERCIAL PROPERTY CP 15 15 10 12

**BUSINESS INCOME REPORT/WORKSHEET**

Date: \_\_\_\_\_

Your Name	Location
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This worksheet must be completed on an accrual basis.  
The beginning and ending inventories in all calculations should be based on the same valuation method.

Applicable When The Agreed Value Coverage Option Applies:

I certify that this is a true and correct report of values as required under this policy for the periods indicated and that the Agreed Value for the period of coverage is \$ \_\_\_\_\_, based on a Coinsurance percentage of \_\_\_\_\_.

Signature: \_\_\_\_\_  
Official Title: \_\_\_\_\_

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**BUSINESS INCOME REPORT/WORKSHEET  
FINANCIAL ANALYSIS**

Income And Expenses	12-Month Period Ending:		Estimated For 12-Month Period Beginning:	
	Manufacturing	Non-Manufacturing	Manufacturing	Non-Manufacturing
A. Gross Sales	\$	\$	\$	\$
B. Deduct: Finished Stock Inventory				

Only 2 columns needed.      Start with the gross sales.

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## Deductions

- Prepaid freight
- Returns and allowances
- Discounts
- Bad debts
- Collection expenses

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### Additions

- Commissions or rents
- Cash discounts received
- Other



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### Cost of goods sold

- Starting inventory
- Add cost of merchandise sold
- Add cost of other supplies
- Subtract inventory end of year



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### Cost of services purchased from outside

- Insurance
- Legal fees
- Design services
- Website maintenance
- Utilities
- Other outside services



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Payroll

- All payroll
- Excluded payroll
- Only if CP 15 10 attached



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OPENING SOON

Don't forget Extra Expense

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Getting to a coinsurance percentage

- 12-month business income = \$500,000
- Estimated down time = 90 days
- Estimated BI needed = \$200,000
- Estimated EE needed = \$50,000
- Estimated total limit = \$250,000

- Coinsurance option selected = 50% (maybe 40%)

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### Getting to a coinsurance percentage

- What if the limit was \$225,000?
- $\$225k/\$500 = .45$
  
- Pick 40%

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### Avoiding coinsurance

- Maximum period of indemnity
- Monthly limit of indemnity
- Business income agreed value
- Extended period of indemnity



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### Maximum period of indemnity

Limits coverage to 120 days



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### Monthly limit of indemnity

- Monthly payment limited by a fraction.
  - 1/3
  - 1/4
  - 1/6
- Does not limit number of months



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### Example

- Limit = \$120,000
- Monthly limit of indemnity = 1/6
- Day 1-30 = \$15,000
- Day 31-60 = \$25,000
- Day 61-90 = \$5,000



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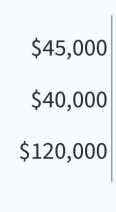
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### How much is payable for that example?



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### Business income agreed value

- Needs a worksheet
- Agreed Value must comply with coinsurance
- Should choose limit equal to Agreed Value
- Renews annually



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### Extended period of indemnity

- Doesn't affect coinsurance
- Replaces Extended Business Income (60 days)
- More days cost more



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### Where we have been

- Business Income and Extra Expense 101
- Calculating Coinsurance
- Calculating an appropriate limit
- Avoiding Coinsurance



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**Questions?**

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