

Business Interruption Insurance Part II

by Charles H. Cox

Business Income forms and policies vary in scope. What is standard in one policy may need to be added by endorsement under another insurer's policy. With this article, we continue our review of some notable coverage limitations and other coverage considerations.

Off-Premises Services – Many forms exclude losses due to failure of off-premises services. If your business operations might be affected by the failure of utility service occurring outside a covered building, additional coverage is needed. For example, if electric power lines located off your premises are downed by high winds, causing a loss of power to your premises and necessitating a shutdown of your operation, any resulting loss of business income may not be covered unless coverage is added by endorsement. It is important to note that coverage for overhead transmission lines in connection with communication and power supply services is not always provided and sometimes is offered as an option.

Electronic Media and Records – Insurance Service Office (ISO) Business Income forms exclude loss of or damage to Electronic Media and Records after the longer of 60 consecutive days from the date of direct physical loss or damage, or the period (beginning with the date of direct physical loss or damage) necessary to repair, rebuild or replace, with reasonable speed and similar quality, property at the premises resultant of loss or damage caused by the occurrence. Therefore, if damage to property, including electronic media and records, occurs and you cannot resume business on a timely basis because of loss to your electronic media and records, you will only be able to seek coverage under your Business Income form for a period of 60 days from the date of direct damage loss or until the date that other property (other than electronic media and records) that was damaged or destroyed is repaired or replaced, whichever is the longer period of time.

ISO's limitation defines electronic media and records to mean electronic data processing, recording or storage media (films, tapes, disks, etc.); data stored on such media; or programming records used for electronic data processing or electronically controlled equipment.

Let's look at a simple example (similar to ones included in ISO's Business Income forms). A computer system and its media and records are destroyed by fire on July 1, 2002, and you are able to have the computer equipment repaired or replaced by August 1, 2002, but the data stored on media cannot be replaced until October 1, 2002. As a result, operations continue to be interrupted until October 1, 2002. Under this scenario, ISO's Business Income coverage will only cover you until September 1, 2002, since 60 days from the date of damage is longer than the period from the date of damage to the date the property was repaired. Clearly, for operations with substantial electronic media and records exposure, this limitation could pose a significant problem.

ISO offers a solution to this potential coverage gap via its Electronic Media and Records endorsement. Essentially, the limitation can be deleted in its entirety for a 15% additional charge, or the 60-day limitation can be extended to 180 days for a 10% additional charge.

Alternatively, separate Electronic Data Processing coverage can be purchased, including Business Income coverage, which does not contain such a limitation. It is not always desirable to segregate the coverage for your Data Processing exposures; however, having to settle two claims, one under your Property policy and one under your Data Processing policy, could be a real nightmare.

Completing Business Interruption Worksheets – When completing a Business Interruption worksheet to determine the amount of coverage to maintain, watch for variations in the income and expense figures when your fiscal period does not coincide with your policy period. When projecting values based upon the previous year, use the prior 12-month policy period, not the previous fiscal period. Also, if your facility will be expanding in the coming year, take into account any increased sales and an increased Business Income exposure.

Business Income worksheets are designed to develop an annual value solely to comply with coinsurance provisions. Not all facilities can be rebuilt in one year and some facilities may determine that a full annual value exceeds their needs. The amount of coverage can always be increased or decreased accordingly.

Do not lose sight of the Extra Expense exposure. If you select the combined Business Income and Extra Expense form, be sure to select an amount of insurance that will be sufficient to pay for both types of losses.

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