

Business Income and Extra Expense

Business Income insurance pays for the actual loss of business income that you sustain due to suspension of your business operations as a result of damage or destruction to your property. This suspension must be due to a direct physical loss at the premises that is described in the policy and result from a covered cause of loss (fire, vandalism, wind, etc).

Business Operations means your business activities AND the tenantability of the described premises if coverage includes rental value (income from tenant occupancy and charges which are the legal obligations of tenants and fair rental value which is occupied by you).

Business Income means the Net Income and Continuing Normal Operating Expenses including payroll.

Extra Expense means the necessary expenses that you incur during the period of restoration that you would not have incurred if there had not been direct physical loss or damage to your property. Extra Expense includes any amount paid to avoid or minimize the suspension of your business operations at your premises or at a temporary location. This includes any expenses to repair, replace any property or expenses involving research, replacement or restoring the lost information on damaged papers or records to the extent that it reduces the amount of loss paid under Business Income.

The Business Income coverage begins after a 72 hour (3 days) waiting period or deductible. Extra Expense coverage begins immediately following damage/destruction to property.

Under the Maximum Period of Indemnity settlement provision, your Business Income recovery is limited by time. The most the insurance company will pay for the total loss is the lesser of the amount of loss sustained during the 120 days following the 72 hour waiting period or the limit of insurance selected. The length of time can not be changed.

Under the Monthly Limit of Indemnity settlement provision, your Business Income recovery is not limited to a number of months you can collect; rather you are limited to the number of dollars that the insurance company will pay each month. The fractions, which can be used, are 1/3, 1/4 and 1/6. By example, if your limit of insurance is \$60,000 and your fraction is 1/3 your monthly payment cannot exceed the actual amount of loss up to \$20,000. Your coverage ends when the limit has been exhausted.

Under the Agreed Value settlement provision, the coinsurance option under the Business Income and Extra Expense form is waived if you submit a business income worksheet or profit and loss statement for the prior 12 months and the estimated 12 months to the company. The company may require a minimum of 90% of annual income to trigger this option.

When selecting an adequate limit of insurance for Business Income and Extra Expense coverage you should review the following:

- 1. What is your net income (profit) and total operating expenses for the last 12 months and the estimated next 12 months following the policy's inception?**
- 2. In a worse case scenario, how long would you be out of business following a loss?**
- 3. Amount of Extra Expenses needed to maintain operations or to reduce the period of shut down.**
- 4. Consider availability of materials, labor, climate, weather conditions, etc.**
- 5. Do not hesitate to get your CPA involved in the selection of the amount of insurance necessary.**