



The Reciprocal

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Business Interruption Insurance – Are You Covered?

In the wake of a major, catastrophic event resulting in extensive property damage, your organization might be unable to serve your customers for an extended period of time; some assets could take several weeks or months to rebuild, particularly if there was extensive damage or if equipment was to be sourced from overseas. If this event caused a disruption in the flow of product to your customers, clearly that would mean lost revenue. If an insured property damage loss was the cause of such an event, that economic loss could be mitigated with business interruption insurance.

The Insurance Bureau of Canada defines Business Interruption Insurance as, "Insurance against business expenses and loss of income resulting from a fire or other insured peril."¹ In general terms, it covers the loss of income your operations suffer after a disaster while your facility is closed during the process of being rebuilt or repaired. Your property policy covers physical damage to the location; optional business interruption insurance could cover the lost revenue during the closure or rental income you collect from others, revenue that would have been earned at that location had there not been a closure.



Business Interruption (BI) is an Additional Coverage to Your Property Insurance:

1. BI coverage is not automatic in the standard property policy; it must be purchased as an additional coverage under the Property policy.
2. BI coverage is location-based. The loss of profits must occur at a location identified on the BI Schedule of Locations.
3. Limit of coverage is established as part of the application process, based on the BI worksheet calculation.
4. BI coverage is not available as a standalone policy.
5. Loss of revenue must be the result of an incident which is a covered peril under the Property policy.
6. Coverage is subject to a 30 day waiting period (which acts as a deductible) – there must be 30 days of profits lost before coverage is triggered.
7. Coverage period is for 12 months from the date of loss.
8. Two different Business Interruption coverage options are common: **Gross Profits** and **Gross Rentals**.

¹ Insurance Bureau of Canada. "Glossary." ibc.ca. nd. Web. October 2013

Business Interruption Coverage Options

Gross Profits	Gross Rentals
<p>“Gross Profits” covers the sustained loss of profits directly resulting from the inability to carry on business at a location due to a physical loss to property insured under the policy. (The gross profit is calculated as revenue minus the costs to earn the revenue). The key is the loss must take place at a location shown on the BI Schedule of Locations and there must be an insured value indicated under “Profits” on the declaration pages of the policy.</p>	<p>“Gross Rentals” covers the actual amount of lost rental income you are unable to collect as a result of the destruction or damage to your building (and tenants who are forced out during this period). The key is the loss must take place at a location shown on the BI Schedule of Locations and there must be an insured value indicated under “Rentals” on the declaration pages of the policy.</p>
<p>Example of a Gross Profits Claim: You have a solar generation facility located on the roof of your service centre garage. As a result of a tornado, your building is destroyed and the rooftop solar panels are no longer generating electricity to sell under your FIT contract. For the 11 months it will take to rebuild the facility and the solar generation equipment, you are unable to generate and realize this income revenue stream. Business Interruption insurance could make up the loss, replacing your profits and covering certain fixed expenses attributable to that scheduled location.</p>	<p>Example of a Gross Rentals Claim: As part of your business, some of your facility space is rented to various tenants. The building is destroyed in a devastating fire and you are unable to collect rent. For the 11 months it will take to rebuild the facility and allow the tenants back in, you are not collecting rent. Business Interruption insurance will pay the amount payable to you by tenants for the rental of the facility according to bona fide leases, contracts or agreements in force at the time of loss.</p>

To apply for Business Interruption coverage, and to establish the appropriate limits of coverage, complete the MEARIE Profits Worksheet for each scheduled location at which you require coverage for profits; or provide details on the rental income at each location. As part of your risk transfer program, **consider your business interruption exposures and insure against the potential losses.**

As part of your Risk Management Plan, if your operations produce revenue at location-specific facilities, resulting from generation, rental or another income stream, evaluate the potential for a loss of that revenue. Consider purchasing Business Interruption coverage under your MEARIE Property policy to help offset the economic loss of revenue in the event of a covered disaster.

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