

BUSINESS INTERRUPTION INSURANCE

The purpose of business interruption insurance is to protect a business from losses in revenue that result from an interruption in business operations. The interruption typically must arise from covered damage to the business' property. Most businesses also have "contingent business interruption" insurance, which protects them from a loss in revenue that results if a supplier's business is shut down due to damage to the supplier's property. Both forms of business interruption coverage are meant to keep the business in the position that it would have maintained had property damage not caused an interruption in business operations.

The following is a checklist of steps that a policyholder should take to help ensure that it is able to maximize its business interruption and contingent business interruption coverage. Be aware that, in the case of a contingent business interruption, the documentation concerning damage to a supplier's facility may be more difficult to obtain. Nevertheless, the policyholder should carefully document the effects of any supply disruption on the policyholder's operations.

- Visit the location of the property damage, if possible, and make notes of the extent of damage. Photographs may be useful visual documentation.
- Document the facts of the loss, including, but not limited to, the following:
 - Time of the loss
 - Date of the loss
 - Property damaged
- Obtain a copy of all insurance policies.
- Notify all insurance companies of loss and maintain record of all communication with insurance companies.
- Document whether the insurance adjuster has given specific instructions regarding alternative business operations or incurrence of mitigating expenses.
- Engage an independent adjuster, if appropriate.
- Implement work orders or establish specific general ledger accounts to accumulate loss-related charges. Business interruption accounts should be established for:
 - Expediting costs on repairs, such as:
 - Temporary repairs
 - Incremental repair costs for fast track
 - Incremental freight for faster than normal delivery of repair items

- Incremental costs for alternative production, such as:
 - Temporary facilities
 - Higher costs of production using alternative methods or facilities
 - Extra freight
 - Premium paid for higher cost of material on subcontracted work
- Obtain copies of company accounting records and documents related to the business interruption, including, but not limited to:
 - Production records for the base period, the period during the loss and the period after the loss
 - Sales records for the base period, the period during the loss and the period after the loss
 - Inventory records for the base period, the period during the loss and the period after the loss
 - Tax returns
 - Sales tax returns
 - Financial statements
 - Cost accounting records
 - Other statistical or internal records
 - Bank statements
 - Payroll records for the base period, the period during the loss and the period after the loss
- Maintain thorough records of costs incurred to avert or reduce the loss.
 - Expediting expenses—expenses that are necessarily incurred for the purpose of reducing the loss. They may shorten the indemnity period or be necessary to continue the business, but generally at a higher costs, such as:
 - Premium portion of overtime (that is, the additional cost incurred for overtime worked to make up for lost production)
 - Price premiums and extra shipping charges to expedite delivery of replacement machinery
 - Extra shipping charges for inventory (such as the difference between air freight and land freight to meet contract deadlines)
 - Difference between the cost of buying the end product from a competitor and the insured's normal variable cost to manufacture
 - Extra expenses—expenses needed to continue business operation so that the business will not lose customers during a shutdown, such as:
 - Relocation costs
 - Overtime pay
 - Added freight charges for quicker delivery of emergency supplies
 - Advertising costs in notifying customers of the relocation