

## Business Interruption Loss Calculations

### Overview of Coverage Provisions

Insurance coverage for loss of business income and extra expenses is typically provided when the loss is due to suspension of operations and direct physical loss of property.

Exclusions:

- Water- "flood, surface water, tides, tidal waves, overflow of any body of water, all whether driven by wind or not."
- Earth movement
- Nuclear hazards
- War and military actions
- Power failure

A civil authority provision included in policies provides for payment of loss of business income and extra expenses caused by action of civil authority that prohibits access to premises due to direct physical loss to property, other than at the described premises.

Possible time limits:

- the civil authority provision may be limited to a specified number of weeks
- loss of business income may be limited to a specified number of months
- coverage of certain expenses, such as ordinary payroll during suspension of business operations

The period of restoration when there is direct physical loss to property generally begins immediately after the time of direct physical property loss and ends on the earlier of the date when the property should be repaired or restored or the date when business is resumed at a new permanent location. The period of restoration is extended in some policies until "normal" business operations are resumed.

### Calculation of Loss of Business Income

- Net profit that would have been earned if no physical loss occurred
  - Projected over the period of restoration
  - Reduced by revenues actually earned during the period of restoration
  - An additional reduction may be applied if revenues could have been earned during the period of restoration, but the insured did not adequately do so
- The difference between projected revenues and actual revenues (or revenues that should have been earned with proper mitigation) equals lost revenues. Lost revenues are reduced by expenses that would have been incurred to produce lost revenues to arrive at net lost business income. These expenses are referred to as "non-continuing expenses" or "saved expenses."
- Loss of business income coverage may also include continuing normal operating expenses incurred, including ordinary payroll. This amount would be added to net lost business income.

### Analysis of Historical Operations and Industry Data

Extra expenses are based upon the amount actually paid or incurred and the insurance company generally requests the invoice, proof of payment and brief explanation why the extra expense was incurred. Review of historical operations and interviews with the insured may be sufficient, but new businesses or businesses without detailed records may require analysis of industry data or information from other sources to determine projected revenues and non-continuing expenses. The coverage is designed to put the insured in the position they would have been in had the loss event not occurred and is not intended to be a windfall to the insured.