



Business Income and Extra Expense Insurance

Educational Objectives

After learning the content of this assignment, you should be able to:

1. Describe the nature of business income insurance, including the ways in which it differs from most other types of property insurance.
2. Given a business income case study, recommend appropriate coverages to address the specified loss exposures. In support of this Educational Objective, you should be able to do the following:
 - a. Describe the coverage choices provided by the Business Income (and Extra Expense) Coverage Form.
 - b. Explain how the Business Income (Without Extra Expense) Coverage Form differs from the Business Income (And Extra Expense) Coverage Form.
 - c. Describe the exclusions and limitations, additional coverages, optional coverages, and endorsements available to cover various business income losses.
 - d. Explain how the value of a business income loss is determined.
 - e. Describe the importance of coinsurance under the BIC.
3. Describe the Extra Expense Coverage Form and the types of businesses that typically use it.
4. Given a business income insurance case, structure the appropriate coverage by doing the following:
 - a. Calculate the coinsurance basis.
 - b. Estimate the maximum possible loss.
 - c. Select a coinsurance percentage and an amount of insurance.
5. Describe how business income premiums are calculated.
6. Explain why producers should discuss business income and extra expense coverage with insureds.
7. Given a business income case study, demonstrate how a producer prepares a submission for presentation to an underwriter. In support of this Educational Objective, you should be able to do the following:
 - a. Identify the loss exposures faced by the account.
 - b. Describe the information the underwriter needs to make a decision on the account.
8. Define or describe each of the Key Words and Phrases for this assignment.

TOPICS

The Nature of Business Income Insurance

Business Income Coverage

Extra Expense Coverage Form

Structuring Business Income Insurance

Business Income Premium Calculations

Discussing Business Income and Extra Expense Coverage With Insureds

What the Underwriter Needs to Know

Summary

3 ASSIGNMENT

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Outline

- ▶ **The Nature of Business Income Insurance**
 - A. Direct Loss and Indirect Loss
 - B. Time Element Losses
 - C. Maximum Possible Business Income Loss
 - D. Need for Business Income Planning
 - E. Business Income Loss Case Study
- ▶ **Business Income Coverage**
 - A. Coverage Choices
 - B. Business Income Insuring Agreement
 - C. Tenant's Portion of Premises
 - D. Extra Expense Insuring Agreement
 - E. Exclusions and Limitations
 - 1. Off-Premises Utility Services
 - 2. Finished Stock
 - 3. Radio or Television Antennas
 - 4. Interference by Strikers
 - 5. Loss of a License, Lease, or Contract
 - 6. Consequential Losses
 - 7. Additional Limitation—Interruption of Computer Operations
 - F. Additional Coverages
 - 1. Civil Authority
 - 2. Alterations and New Buildings
 - 3. Extended Business Income
 - 4. Interruption of Computer Operations
 - 5. Expenses to Reduce Loss
 - G. Coverage Extension—Newly Acquired Locations
 - H. Loss Determination
 - I. Coinsurance
 - J. Optional Coverages
 - 1. Maximum Period of Indemnity
 - 2. Monthly Limit of Indemnity
 - 3. Agreed Value
 - 4. Extended Period of Indemnity
- K. BIC Endorsements
 - 1. Ordinary Payroll Limitation or Exclusion
 - 2. Premium Adjustment
 - 3. Dependent Properties
 - 4. Ordinance or Law—Increased Period of Restoration
 - 5. Utility Services—Time Element
 - 6. Business Income Changes—Educational Institutions
 - 7. Power, Heat, and Refrigeration Deduction
 - 8. Blanket Insurance
- ▶ **Extra Expense Coverage Form**
- ▶ **Structuring Business Income Insurance**
 - A. Calculate the Coinsurance Basis
 - B. Estimate the Maximum Possible Loss
 - C. Select a Coinsurance Percentage and an Amount of Insurance
- ▶ **Business Income Premium Calculations**
 - A. Rate Factors
 - B. Rating Examples
 - 1. Case One
 - 2. Case Two
 - 3. Case Three
 - 4. Case Four
 - 5. Case Five
- ▶ **Discussing Business Income and Extra Expense Coverage With Insureds**
- ▶ **What the Underwriter Needs to Know**
- ▶ **Summary**

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3 ASSIGNMENT

The two previous assignments discussed ways in which producers can properly insure their commercial customers' buildings and personal property. However, when producers insure just the business's tangible assets, they have not fully satisfied their customers' insurance needs. Business income and extra expense insurance is a key coverage for every commercial enterprise. This assignment discusses business income and extra expense loss exposures and how producers can help their customers select the appropriate coverages to insure them.

THE NATURE OF BUSINESS INCOME INSURANCE

Business income insurance covers the reduction in an organization's income when operations are interrupted by damage to property caused by a covered peril. Business income insurance differs from most other types of property insurance in several ways: it covers an indirect rather than a direct loss, the loss extends over a period of time, the maximum possible loss is much more difficult to estimate, and planning for the possibility of such losses is even more important than with other types of losses.

Direct Loss and Indirect Loss

Business income insurance covers indirect losses, whereas most other types of property insurance policies address direct losses. A **direct loss** is a loss that causes a reduction in tangible property values. The damage fire causes to a paint factory as a result of flammable ingredients igniting is considered a direct loss. An **indirect loss** is a revenue loss, an extra expense, or another consequential loss that results from a direct loss. Indirect losses are also known as consequential losses because they typically result from, or are a consequence of, direct property losses. Loss of business income and incurred extra expenses are two types of indirect losses. Many other consequential losses can be classified as indirect losses. Some insurance practitioners consider losses arising from the enforcement of building ordinances and laws to be indirect losses. However, because the courts don't always agree, insurance policies that are intended to cover only direct damage usually contain exclusions of consequential and indirect losses. Producers should be alert for the possibility of indirect losses when designing insurance programs. The loss potential of an indirect loss can sometimes be greater than that of a direct loss.

Direct loss

A loss that causes a reduction in tangible property values.

Indirect loss

A revenue loss, an extra expense, or another consequential loss that results from a direct loss.