

Do I need business interruption insurance?

Business interruption insurance can be as vital to your survival as a business as fire insurance. Most people would never consider opening a business without buying insurance to cover damage due to fire and windstorms. But too many small businessowners fail to think about how they would manage if a fire or other disaster damaged their business premises so that they were temporarily unusable. Business interruption coverage is not sold separately. It is added to a property insurance policy or included in a package policy.

A business that has to close down completely while the premises are being repaired may lose out to competitors. A quick resumption of business after a disaster is essential.

1. Business interruption insurance compensates you for lost income if your company has to vacate the premises due to disaster-related damage that is covered under your property insurance policy, such as a fire. Business interruption insurance covers the profits you would have earned, based on your financial records, had the disaster not occurred. The policy also covers operating expenses, like electricity, that continue even though business activities have come to a temporary halt.
2. Make sure the policy limits are sufficient to cover your company for more than a few days. After a major disaster, it can take more time than many people anticipate to get the business back on track. There is generally a 48-hour waiting period before business interruption coverage kicks in.
3. The price of the policy is related to the risk of a fire or other disaster damaging your premises. All other things being equal, the price would probably be higher for a restaurant than a real estate agency, for example, because of the greater risk of fire. Also, a real estate agency can more easily operate out of another location.

Extra Expense Insurance

Extra expense insurance reimburses your company for a reasonable sum of money that it spends, over and above normal operating expenses, to avoid having to shut down during the restoration period. Usually, extra expenses will be paid if they help to decrease business interruption costs. In some instances, extra expense insurance alone may provide sufficient coverage, without the purchase of business interruption insurance.

Source: *Insurance Information Institute, Inc. (www.iii.org)*