

# WHAT BUSINESS INSURANCE COVERS

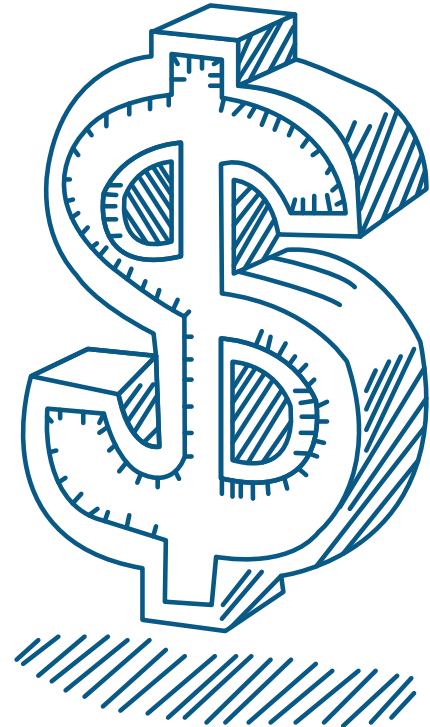


**Agility Recovery**

# PROTECTING YOUR ORGANIZATION'S FINANCIAL WELL-BEING DURING A RECOVERY

While the number of different insurance products available in the market today is nearly limitless, there are a few common types of coverage that most businesses typically carry or at least consider. When it comes to large scale disasters and long-term business interruptions, these policies are also among the most misunderstood. By investing some time with your insurance professional and understanding each type of coverage explained in the guide below, you can take significant steps towards anticipating and perhaps even reducing your financial risk during business interruptions.

In this article we'll first explain a few key areas of insurance coverage to review with your carrier or broker to make sure you're best prepared for a business interruption. Then we'll talk about questions to ask when considering coverage.



## POTENTIALLY USEFUL COVERAGE FOLLOWING INTERRUPTIONS

“Business Interruption Insurance” is a common coverage that helps offset lost income and expenses resulting from property damage or loss such as salaries, taxes, rents, and net profits that would have been earned during a closure. However, this coverage only applies to losses as a result of covered perils, which typically involve physical damage to your location(s). Therefore, you should consult with your provider regarding additional coverage that can protect against other common interruptions. They may include, but are not necessarily limited to, the following:

1



## EXTRA EXPENSE COVERAGE

This coverage, often combined with Business Interruption coverage, can not only help you offset costs related to restoring operations but may also significantly reduce your overall business interruption or business income claim. This coverage will often pay for additional costs in excess of normal operating expenses that an organization incurs to continue operations while its property is being repaired or replaced after having been damaged by an insured peril. These may include the costs to set up in a new or temporary office location or costs that allow the business to function where it currently is (e.g. generators), reducing the impact of a shutdown, overtime wages, expediting expenses, lost profits due to the business being shutdown, or, in some instances, repairing/replacing damaged property.

2



## UTILITY (OR SERVICE) INTERRUPTION

Nearly all commercial property policies contain exclusions for losses due to a utility failure that originates away from the insured premises. Therefore, Utility Service Interruption Coverage is available to close that gap in coverage and can cover interruptions to water supply, sewer service, power supply and communications connectivity. Be sure to understand the covered locations, property that is covered, cause of losses covered and any limits in place. It is important to note if your coverage excludes interruptions to overhead transmission lines. If your utility service is delivered via overhead lines, be sure to request specific coverage for this. Also note that two different coverages exist for Utility Interruption: Direct Damage Endorsement which covers loss of or damage to covered property caused by an interruption in utility services, or Time Element Endorsement which covers a suspension of operations at your premises caused by an interruption in utility service to your premises.

3



## MECHANICAL OR EQUIPMENT BREAKDOWN COVERAGE

This coverage can help protect your business from damages and costs related to computer or IT failure, as well as electrical or mechanical equipment breakdown.

### THIS KIND OF COVERAGE MAY INSURE A VARIETY OF EQUIPMENT SUCH AS:

- Air conditioning and refrigeration
- Electrical equipment
- Computers and telecommunications
- Business equipment
- Production machinery
- Computer-controlled machines
- Security systems
- Retail “point of-sale” systems
- Ventilation systems
- Generators
- Elevators and escalators
- Boilers
- Water heaters
- Motors and pumps
- Engines

4



## DEBRIS REMOVAL INSURANCE

This coverage provides reimbursement for clean-up costs associated with damage to a property resulting from an insured peril, such as charred wood from a building fire. Note that there are often limits to total coverage inclusive of property replacement which may limit the amount available for debris removal. Additionally there may be limits tied to a specific percentage of overall insurance available that is available for debris removal.

5



## CYBER LIABILITY INSURANCE

This includes data breach and technology errors and omissions coverage.

Because cyber insurance is often excluded from a general liability policy and nearly every organization is exposed to some level of risk to cyber incidents, this form of coverage is critical to protecting your organization in today's digital age. These policies are intended to cover a variety of both liability and property losses that may result when a business engages in various electronic activities, such as a data breach in which personal information is exposed or stolen. In addition, the policies can also cover liability arising from website media content, as well as property exposures from business interruptions, data loss or destruction, computer fraud, funds transfer loss and cyber extortion. Technology errors and omissions coverage is intended to protect providers of technology products and services, such as computer software and hardware manufacturers, website designers, and firms that store corporate data on an off-site basis.

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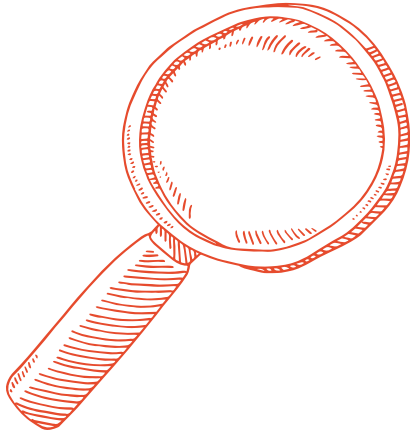


## CONTINGENT BUSINESS INTERRUPTION

This is an extension to other insurance that reimburses your lost profits or extra expenses that are a result of interruptions of business operations at the premises of a customer or supplier. If the key components or core supplies that you rely on come from a limited vendor group, having CBI coverage is crucial because a break in the supply chain could have a dramatic impact on your ability to produce and market goods. The same coverage can apply to an interruption of operations for one of your key customers. It is important to note however, that coverage is only available for perils that YOUR business interruption policy covers.



Each organization's risk exposure and loss potential is different, but by investigating these options as potential supplements to your existing commercial property coverage, you could enhance your organization's preparedness and ability to recover quickly and effectively following a disaster.



## COMMON MISTAKES AND INCORRECT ASSUMPTIONS

The most common mistake is relying on property coverage and ignoring the threat of lost income, the ongoing expenses you'll incur while shut down, the time it takes to recover and the additional expenses a recovery requires. Additionally, there are some steps you can take when you review your insurance coverage:

- ✓ Confirm all covered and excluded perils; never assume that all types are covered
- ✓ Review your policies at least annually to ensure that they are updated as your business evolves, revenue grows and exposures change
- ✓ Be aware of all limits to coverage and exclusions to specific property
- ✓ Understand the terms and timeframe under which your coverage takes effect, as in some cases, coverages will not kick in until your business is shut down for a number of days
- ✓ Determine the cost of rebuilding your facilities (including the costs of demolition, materials and professional fees) versus the market value or purchase price
- ✓ Become familiar with your deductibles or coinsurance due for the various coverages
- ✓ Conduct regular, accurate valuations of your business and property, and update policies accordingly (especially after any mergers, acquisitions or expansions)
- ✓ Determine an appropriate indemnity period that allows your business enough time to recover
- ✓ If you carry flood insurance, take note that the National Flood Insurance Program does not cover lost revenue

There are also a few questions to ask regarding the different types of coverage mentioned above:



**PROPERTY COVERAGE:**

- Is the coverage based on “valuation replacement cost” or “actual cash value”?
  - Is there a coinsurance provision?
- 



**BUSINESS INTERRUPTION INSURANCE:**

- Is there a separate deductible or waiting period for this type of coverage?
- 



**EXTRA EXPENSE COVERAGE:**

- Can your insurer provide a worksheet of the expenses that are allowed under this coverage for recovery?
- Are there any “sublimits” applicable for expenses depending on the cause (e.g. fire, flood, etc)?
- Is there any deductible applied to extra expenses?



## THE BOTTOM LINE

Every organization must carry insurance, but is your organization (1) getting your money's worth for the investment and (2) ensuring the proper coverage? Given the increase in the frequency and severity of large scale natural disasters coupled with greater customer demand the criticality of maintaining your operations is more important than ever, regardless of the interruption. Speak with your insurance professional today armed with insightful questions and knowledge of your options. Take the time to dive into the question "How much coverage is enough?" Your provider may provide you with tools to help calculate the proper coverage given your gross annual sales and existing or anticipated expenses. Tools such as this may assist in creating a solid strategy to protect your employees, customers and your business as a whole.

### NOTE:

This information was developed in collaboration with our colleagues at Arthur J. Gallagher who specialize in commercial property and casualty insurance programs. For direct questions or assistance with managing your risk exposure, please contact Dan O'Connell, Area Vice President at Arther J. Gallagher & Co.: [Dan\\_O'Connell@ajg.com](mailto:Dan_O'Connell@ajg.com)

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