

THOR

INSURANCE FINANCIAL

Business Interruption insurance can be as critical to the survival of your business as fire insurance

Most people would never consider opening a business without buying insurance to cover damage due to fire or water damage. However, too many business owners fail to think about how they would manage if a fire or other disaster damaged their business premises so that they were temporarily unusable. A business that has to close down or slow down while the premises are being repaired may lose out to competitors. Not to mention, how will the bills keep being paid when the revenue stream is reduced or stopped.

Business Interruption insurance comes in a variety of different forms but they all start with the same basic premise; they are triggered by damage to income-producing property. Such damage either reduces or impairs the ability to produce cash flow or increases the cost of doing so.

Business Interruption insurance covers

- \$ the profits you would have earned, based on your financial records, had the disaster not occurred,
- \$ operating expenses, like rent and taxes, that continue even though business activities have come to a temporary halt,
- \$ reduced revenues from lost tenants as a result of damaged premises,
- \$ additional costs to avoid shutting down during the repair or establish a temporary site if required,
- \$ additional costs to repair or replace equipment or processes, which can alleviate additional costs of labour, shipping and other fees to avoid bottlenecks in key areas.



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How long will this type of insurance pay?

What is termed the 'indemnity period' is probably the most crucial component of both business continuity planning and Business Interruption insurance. This reflects the total time estimated to fully recover from a loss. Consider how long it will take to

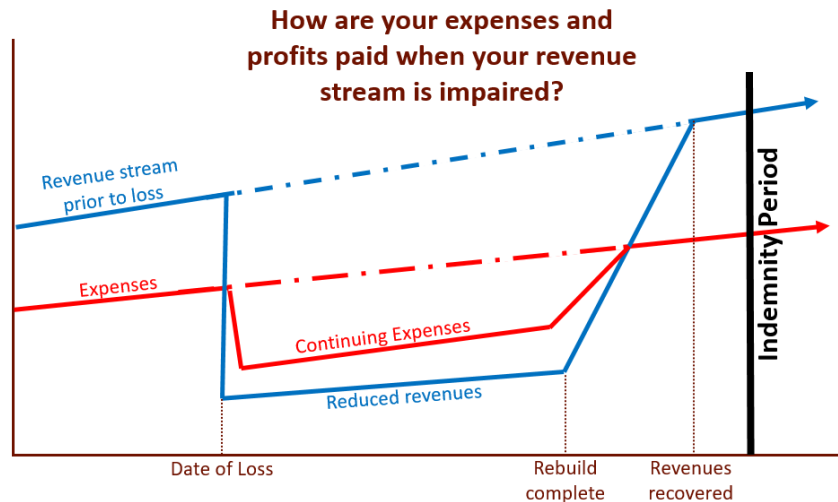
-  demolish and clear the site,
-  organize rebuilding, including competitive tendering and possible redesign,
-  obtain replacement equipment, appreciating some specialty equipment may be difficult to replace quickly,
-  restaff, were you able to keep key staff by continuing salaries?
-  restore the business to its full pre-loss turnover or services including recovering customers.

How do I determine how much insurance to carry?

In some cases, the amount to be insured is easily determined, but there is one key aspect to consider – it has to be assumed that the major fire or other disaster occurs on the last day of the insurance year. If the indemnity period is 12 months, the limit must be projected two years into the future with an allowance for inflation and growth, rather than based on today's amounts.

Calculation of the amount required uses the income statement as a starting point to determine how cash inflows will be affected and what expenses are expected to continue after a loss.

A worksheet is available to assist you or your accounting team to project cash flows during an interruption to your business. Additionally, the Thor Insurance team can partner you with professionals specializing in calculating appropriate levels of Business Interruption insurance for your business.



How do I calculate my lost income and additional expenses for a claim?

Ensure that your Property and Business Interruption policy provides additional claims money to hire a team of professionals to calculate your claim. Making a Business Interruption claim can be a rigorous accounting exercise. This should be done by professionals hired by you and paid for by the insurance company.