

## **BUSINESS INCOME**

When considering your client's needs, Business Income coverage is essential. The purpose of this coverage is to compensate your client for loss of income, should their normal business operation be interrupted resulting from an insured peril.

This coverage has taken on a new format. Gone are the Gross Earnings, Profits and Actual Loss Sustained forms in favour of Limited Business Income or Extended Business Income forms.

The main features of the revised forms are:

- 1) A "Property Damage Provision" has been added to all Forms as Clause 3, making it a condition precedent to coverage that there is insured property damage before any loss will be paid.
- 2) Co-insurance on "Limited" Forms is 80% versus 100% on "Extended" Forms.
- 3) The Insured Perils under the "Named Perils" Forms track with those in the IBC form – Commercial Property - Named Perils Form. The "Broad Form Perils" Forms match the direct damage perils in the IBC form – Commercial Property – Broad Form.
- 4) The exclusions are consistent where applicable.
- 5) The "Determination of Payment" on all forms is consistent to provide a uniform basis of settlement.
- 6) Payroll is limited to 90 days and subject to 80% co-insurance on all "Limited" Business Income Forms and 100% co-insurance on all "Extended" Business Income Forms. A **payroll limit** must be specified on the Policy Declarations for coverage to apply.
- 7) Coverage for "Accountant's Fees" is automatically included up to \$5,000 on all Business Income and Rental Income Forms.
- 8) Indemnity Period – standard is "up to 12 months" on the Limited and Extended Business Income forms. The Indemnity Period can be extended to more than 12 months upon request and must be indicated on the policy declarations.
- 9) Limited Business Income forms exclude loss or delay caused by:
  - bylaws
  - strikers
  - breach of contract
  - suspension/lapse or cancellation of lease

Extended Business Income is a broader form, as it does not contain these exclusions.

\*\*Please refer to the Business Income wording for full review of the coverages, exclusions and definitions.

The coverage form – named perils or broad form – will be following that of the property coverage (i.e. if named perils on the building, business income will be the named perils form).

The determination for limited vs. extended will also follow the form of the property coverage (i.e. if bylaws or coverage for strikers is offered on the building, business income will be on the extended form; if not, coverage will be on the limited form).

We have included copies of these Business Income forms with this coverage summary, for your review.

When determining your client's needs, we offer the attached Business Income worksheet, to assist with the calculations for the proper Business Income limit.

Business Income continues to include the following forms:

- b) Limited Extra Expense (Limited or Extended)
- c) Rental Income (Limited or Extended)

## BUSINESS INCOME

Points to consider when reviewing Business Income coverage:

- In a worst case scenario, how long will it take for your business to reach the level it would have achieved had no loss occurred
  - “Business Income” means the amount by which:
    - i) the sum of the “revenue” and the amounts of closing stock and work in progress shall exceed
    - ii) the sum of the amounts of opening stock and work in progress and the amount of the “variable operating expenses”.
- Note: The amounts of the opening and closing stocks and work in progress shall be arrived at in accordance with the Insured’s “normal” accountancy methods, due provision being made for depreciation.
- Working in “net” dollars, what limit of insurance would be required to reimburse you for your normal profit, your expenses that continue (i.e. taxes, rent) and extra expenses (anything outside of “normal” business expenses), indicating the funds necessary to reinstate your business operations quickly.
  - When determining Probable Loss of Income, take into consideration:
    - » future trends of the business
    - » project at least TWO years forward, to allow for a loss at the end of the policy period.
    - » indemnity period is standard 12 months. If Extended Business Income is offered, the indemnity period can be extended. If an Indemnity Period greater than 12 months is selected, the projected figures must be increased in the proportion that the selected Indemnity Period bears to 12 months
    - » delete any items which are inappropriate to the business or which are not true variables in all circumstances and add any others specific to your operations
  - Co-Insurance:
    - » Limited Business Income form is subject to 80%
    - » Extended Business Income is subject to 100%
    - » Co-insurance applies to the “future” (never the past)
  - Hot Site is defined as a premises equipped with EDP equipment compatible with the client’s EDP software/data/media. This “premises” is kept by you on a retainer basis and a fee applies. Such premises supply a location where you can perform your EDP operations while your property is being restored following a loss.
    - » **NOTE** – In advance, decide which of your EDP operations are necessary to continue your business operation while the property is being restored, as hot sites may not have the capacity to meet all of the requirements of your EDP operations
      - Duplicate media should be tested on the hot site’s equipment to ensure compatibility. Such media should be current and stored off premises
      - Rental fees for Hot Sites are high. To reduce your extra expense costs, it is vital to move your replacement EDP equipment to a cold site as quickly as possible after the loss.
  - Cold Site is defined same as the Hot Site – EXCEPT – the property is not equipped with EDP equipment. It provides a location where your EDP property can be moved, so you can perform your EDP operations while your property is being restored following a loss.
  - “Ordinary payroll” is insured for a period of time not exceeding 90 consecutive days (or such other period specified on the “Declarations Page” for Ordinary Payroll) immediately following the date of “damage”, which may continue during a total or partial suspension of “business”, insuring only to the extent necessary to resume the “normal business” of the Insured with the same quality of service which existed immediately preceding the “damage”, and which would have been earned had no “damage” occurred.

**BUSINESS INCOME WORKSHEET**

This Business Income worksheet represents the fiscal year: \_\_\_\_\_ (i.e. 2010)

**SECTION 1) - BUSINESS INCOME** - Use the accrual method of accounting

- Gross Operating Profit (including closing stock and work in progress) \$ \_\_\_\_\_
- Other Income (i.e. rent, commission income) \$ \_\_\_\_\_
- Total Annual \$ \_\_\_\_\_
- To determine the business income total per day, **divide total by 365** (days) = \$ \_\_\_\_\_ / day
- In the event that all your property is destroyed, how many **days** will it take to replace your property and restore your revenue to where it would have been had no loss occurred? (i.e. 100 days). X \_\_\_\_\_ # of days
- Note:** Property includes "Building and Contents" \_\_\_\_\_
- Total Section 1) - Estimate Of Loss Of Income** \$ \_\_\_\_\_

**SECTION 2) - EXTRA EXPENSES**

**A - "MONTHLY"** The "monthly increase" over existing costs which are incurred to resume operations as quickly as possible

- Temporary Location \$ \_\_\_\_\_
- Temporary Equipment \$ \_\_\_\_\_
- Utilities (include deposits) \$ \_\_\_\_\_
- Overtime \$ \_\_\_\_\_
- Staff \$ \_\_\_\_\_
- Emergency/Hot or Cold Facilities \$ \_\_\_\_\_
- Professional Fees \$ \_\_\_\_\_
- Other - \_\_\_\_\_ \$ \_\_\_\_\_
- Other - \_\_\_\_\_ \$ \_\_\_\_\_
- Subtotal* \$ \_\_\_\_\_

# of **months** these "Extra Expenses" occur? (i.e. 3 months) X \_\_\_\_\_  
**Total 2) A** \$ \_\_\_\_\_

**SECTION 2) B - "NON-MONTHLY" (FLAT)**

- Temporary Site - Set Up/Installation \$ \_\_\_\_\_
- Moving Expenses from Temporary Site \$ \_\_\_\_\_
- Total 2) B** \$ \_\_\_\_\_
- Total Section 2) - (A + B)** \$ \_\_\_\_\_

**Estimate of your combined Business Income and Extra Expense Exposure (1 + 2)** \_\_\_\_\_

**SECTION 3) - OPTIONAL COVERAGE** - Ordinary Payroll can be included as part of the Business Income limit, however, a limit for Ordinary Payroll must be shown separately

**A - ORDINARY PAYROLL** - Use the largest ordinary payroll period \_\_\_\_\_  
# of consecutive calendar days (up to 90) \_\_\_\_\_ = ordinary payroll \$ \_\_\_\_\_

Completed by: \_\_\_\_\_

Position: \_\_\_\_\_ Date: \_\_\_\_\_