

Small Business Insights

The Importance of Business Interruption Insurance



Provided by: Camargo Insurance

The Importance of Business Interruption Insurance: Safeguarding Against Unexpected Disruptions

Small businesses regularly face several risks that could necessitate a temporary shutdown or reduction of operations, both of which can have devastating effects on a business. One way businesses can protect themselves from the financial impacts of these occurrences is by securing business interruption insurance. This type of coverage can offer valuable assistance following a covered event. This article provides more information about business interruption insurance, including what it is and how small businesses can obtain it.

What Is Business Interruption Insurance?

Business interruption insurance, also known as business income insurance, provides a financial safeguard against temporary revenue losses and extra expenses that result from covered business shutdowns or reductions of operations. For example, if a fire or a vandal damages a company's building and lead to a temporary closure, business interruption insurance can provide financial assistance while the building is shuttered for repairs.

Policies may also offer coverage if a civil authority (e.g., a local, state or federal governmental entity) forbids access to the business's premises. This may happen following a natural disaster, even if the business's property is not damaged. Each policy

According to the Federal Emergency Management Agency, 25% of businesses don't reopen after a disaster. Business interruption insurance can play a key role in ensuring operations resume following a catastrophe.



is unique, and businesses should work with their agent or broker to fully understand the scope of their coverage.

Why Do Small Businesses Need Business Interruption Insurance?

Small business shutdowns created by unforeseen events can have significant financial ramifications. In these circumstances, business interruption insurance can provide coverage for the following:

- **Lost income.** Business interruption insurance can help replace the revenue a business would have generated if it did not need to close temporarily.
- **Continued operating expenses.** Business interruption insurance can also provide financial assistance to cover standard, ongoing operating expenses such as salaries, taxes, utilities and mortgage, lease or rent payments that are due during the impacted period.
- **Relocation costs.** Business interruption insurance coverage can also offer financial assistance for moving expenses if a business needs to relocate to a temporary office.

Additionally, a specialized form of business interruption insurance known as contingent business interruption insurance offers coverage if disruptions in the supply chains create losses. For example, if property damage to a third-party vendor impacts a business's capability to continue its operations, this type of coverage may be able to mitigate the resulting financial impact. It can typically be added as an endorsement to a standard business interruption policy.

How Do Small Businesses Obtain Business Interruption Insurance?

For small businesses, business interruption insurance is typically bundled with commercial property and liability coverage in a business owners policy (BOP). Businesses with 100 or fewer employees and revenue of \$5 million or less may be eligible for a BOP that includes business interruption insurance. For businesses that are not eligible for a BOP, business interruption insurance may be available as a standalone policy or added to a commercial property policy. It is essential for businesses to review their existing coverage to determine if business interruption insurance is included.

Conclusion

Business interruption insurance can provide crucial financial assistance for small businesses if they need to temporarily shut down or reduce operations. Contact us today for more information on this type of insurance and risk management planning.

The National Association of Insurance Commissioners estimates that 30-40% of small business owners carry business interruption insurance.

