

## Business Interruption Insurance Revisited

By Elisabeth da Silva, CPA, CFF; Rachel DiDio, CPA; and Eric Gelb, CPA

Recent natural disasters – such as the hurricanes impacting Puerto Rico and Florida and wildfires in California – can cause physical damage that interferes with business operations resulting in economic distress and ultimately lost income. If you carry a business interruption insurance policy, you may be eligible to file a claim for damages including lost income, operating expenses and certain other costs.

In other words, if you experienced a “covered peril” and your workplace and/or inventory are damaged to the extent that you can no longer conduct business, your business interruption insurance may provide the economic relief you need to resume operations. Covered perils may include wildfires, hurricanes, tornados, earthquakes, hailstorms, or lightning.

Business interruption insurance typically covers:

- **Lost net income.** The policy will provide reimbursement based on performance in prior months.
- **Continuing normal operating and payroll expenses.** These can include operating expenses and other expenses incurred while the business was interrupted.
- **Temporary relocation.** Discuss with your insurance agent – some policies will cover the costs of moving to another temporary location as well as operating expenses.
- **Retraining costs.** In the case of lost machinery, if you have to retrain employees on how to use the new equipment, those costs may be covered.
- **Extra expenses.** Business interruption insurance often covers things that are outside of normal operating expenses, such as generators, temporary office equipment, overtime wages and expenses to expedite recovery.
- **Wages.** A shutdown means a risk of losing valuable employees. Business interruption insurance means you can make payroll even while you're rebuilding your organization.
- **Other Expenses.** Review your policy language for other covered items such as taxes, loan payments and mortgage or rent.

### Contact Your Insurance Provider

It's critical that you preserve your right to recovery and quantify losses under the terms of a business interruption insurance policy if you have been affected by a recent natural disaster. A disaster is devastating and traumatic and there are many tasks that must be handled immediately; however, it is imperative that you meet with your agent to determine what is covered and what steps you have to take to preserve your rights – what is your coverage under the policies and what, if any, steps are you required to take to mitigate losses. Insurance is a contractual arrangement where the insurance company requires the policyholder to meet certain rules and requirements in order to remain eligible for coverage.

### Consider the Restoration Period and Talk with Your Insurance Agent

Your business interruption coverage has what's termed a “restoration period,” the length of time that your policy pays for lost income and extra expenses while you are rebuilding. Talk with your insurance agent – a standard policy usually limits the business interruption restoration period, but you may be able to secure an extension of up to 360 days through an added endorsement. Many business owners are overly optimistic about how fast they can get back up and running. Try to be realistic and remember that the time to purchase protection is before a disaster strikes.

## **Calculate Lost Income and Quantify Normal Operating Expenses – Prepare a Well-Supported Claim – Consider Engaging an Expert**

Insurance policies may allow you to engage “accounting consultants” to assist you with calculating your business interruption loss. Your business interruption loss calculation should illustrate the expectations of the business “but for” the natural disaster. In other words, you must calculate the difference between actual net profit and the projected net profit you were expecting had the loss event not occurred. In addition, when calculating your business interruption loss, you should consider your continuing normal operating expenses, including payroll and, if covered, extra expenses related to the loss event. One way to corroborate the projected net income is with projections that were previously prepared in the normal course of business. If you do not have projections, your accounting consultants can also help you prepare projections by applying relevant assumptions to historical information.

## **Gather the Required Supporting Documentation to Substantiate Your Claim**

Review your policy to learn what your insurance company requires in terms of documentation. In addition to the business interruption calculation, to substantiate your claim, your insurance provider may require additional financial metrics, detailed explanations, photos, a timeline of events, receipts for immediate repairs, contracts, cancelled checks and credit card statements, among other documentation. Often, it’s useful to establish a separate set of accounts or subaccounts in your general ledger to aggregate your loss and expenses relating to the disaster.

## **Continue Paying Your Insurance Premiums if Required**

Typically, once a disaster strikes, you are relieved from paying your premiums. But this may not be the case. Check your policy carefully and speak with your agent to understand all the requirements so you maintain your coverage.

PKFOD's Business Interruption Insurance Claim Checklist can help you with preparing your claim and supporting your claim. To download the checklist, [click here](#).

## **Contact Us**

If you would like to discuss how PKFOD’s experts can assist you with obtaining economic relief, contact a member of your client service team or:

Elisabeth da Silva, CPA  
Partner  
[edasilva@pkfod.com](mailto:edasilva@pkfod.com) | 781.937.5792

Rachel DiDio, CPA  
Partner  
[rdidio@pkfod.com](mailto:rdidio@pkfod.com) | 646.965.7780

Eric Gelb, CPA  
Senior Managing Director  
[egelb@pkfod.com](mailto:egelb@pkfod.com) | 914.341.7049

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