



Article Written By:
Casey Myers

Casey Myers,
Account Executive,
Mover's Choice



Business Income Coverage Helps Movers Keep Moving

During the snowy, frigid winter of 2015, a moving and storage company was storing cargo in a Midwestern warehouse. A huge winter storm barreled through the region, leaving behind a heavy blanket of snow. The weight of the snow caused many roofs to collapse—including the roof on the mover's warehouse. They were forced to cease operations it took them weeks to find another suitable location from which to operate while the warehouse was being repaired. As a military approved warehouse facility it took additional time for the military to approve the warehouse for use.

Fortunately, they had some help in recovery. This moving company had business income and extra expense coverage, also known as business interruption insurance. In this instance, it covered the lost revenue from their storage operation, extra expenses associated with the cost of the new facility and the cost for them to temporarily relocate.

How does business income and extra expense coverage work?

Business Income and Extra Expense coverage (BIC) is part of a commercial property insurance policy.

Business Income insurance pays for the actual loss of business income that you sustain due to suspension of your business operations as a result of damage or destruction to your property. This suspension must be due to a direct physical loss at the premises that is described in the policy and result from a covered cause of loss (fire, vandalism, wind, etc).

Extra Expense means the necessary expenses that you incur during the period of restoration that you would not have incurred if there had not been direct physical loss or damage to your property. Extra Expense includes any amount paid to avoid or minimize the suspension of your business operations at your premises or at a temporary location. This includes any expenses to repair, replace any property or expenses involving research, replacement

Business Income Coverage Helps Movers Keep Moving

or restoring the lost information on damaged papers or records to the extent that it reduces the amount of loss paid under Business Income.

Businesses can be reimbursed for the lost income for up to one year on some policies (Mover's Choice, for example), but some insurers provide a shorter reimbursement period.

Many movers rely on monthly storage fees as a steady source of business income. If their operations are disrupted by an insured loss, BIC can replace lost income while they get up and running again. Also, some moving companies rent warehouse space to other businesses or own and rent out multiple properties. The BIC can replace the lost monthly rental income when damage to the building pushes a tenant out.

To use BIC, it is crucial to understand where it applies. It can only be triggered by a covered claim; that is, the business interruption must be caused by a loss that is covered on the property insurance policy. For example, many property policies exclude damage from floods and/or earthquakes. Under such policies, BIC would not apply to

a business disruption caused by earthquake damage.

Sue & Labor Coverage

An enhancement to some policies, such as the Mover's Choice policy, is Sue & Labor coverage. This is not a separate product, rather, it is included in the Inland Marine insurance policy. It covers "reasonable expenses" incurred by a moving company to take steps to defend, safeguard, or recover insured property being threatened or damaged by an insured peril. In the case of our mover during that notorious winter storm of 2015, had they not had this coverage, their business income limits would have had to have been significantly higher to cover the increased costs and expenses related to the protection, transport and relocation to the new facility.

The critical co-insurance clause

Though there is no deductible on a business income policy, the limit on that policy can be subject to a co-insurance clause. That means the policy limit—the total amount available to be paid by the BIC—needs to be within a set percentage of the actual amount of loss covered by the BIC. That amount includes lost revenue, warehouse payroll, rental income and extra expenses, all calculated for the year. The co-insurance percentage can be adjusted based on the mover's comfort level and will impact the premium. As the co-insurance percentage decreases, the premium for the coverage will

increase and vice versa. The percentage is typically 80 to 90 percent, but can be lower or higher.

Here's an example of how the co-insurance clause works: when a business owner sets up her property insurance policy, she sets a limit of \$150,000 for the BIC with a 50 percent co-insurance clause. After her warehouse is damaged in a storm, she relocates to a temporary building while the warehouse is being repaired. The insurance claims adjuster works with the business owner to calculate the lost income, expense of relocating and lost rental income from warehouse tenants. The adjuster will use an accountant to determine prior year's revenue that may have been earned after the loss as well as expenses over prior terms; they then will make a business income loss estimate given historical financials. He finds the annual net income loss and extra expenses amounted to \$400,000. That means the limit on the policy (\$150,000) did not represent at least 50 percent of the actual potential loss (\$400,000). As a penalty, the amount paid for the business income claim is reduced.

The policy outlines the calculations as such:

Insurance Carried

Insurance Required (which is the actual valuation x the co-insurance calculation)

Another alternative to having

Business Income Coverage Helps Movers Keep Moving

coinsurance is to request a blanket business income limit over multiple locations with an agreed amount coverage. This means that you would have to complete a business income estimated and statement of values with the insurer and insure to 110% of estimated value, this can be considerably more expensive than allowing a coinsurance clause on the policy but will ensure that no penalties will be done for underinsuring at the time of loss. Companies should check their policies, learn their coinsurance percentage and work with their insurance agents to determine the appropriate limit. When determining limits and co-insurance percentages, companies should pay careful attention to the following:

- Annual revenue from storage, including monthly income from storage rentals, as well as additional charges such as warehouse handling fees or access fees.
- Rental income from tenants.
- Payroll for employees dedicated to working in the affected property who now have no work until the

damage is repaired, e.g. the warehouse manager, dispatch manager, key drivers and other key employees that you would not want to lose if you had no facility for a few months.

- Extra expenses to cover the cost of relocating to a temporary location.

- Current lease costs compared to current market costs if you had to open a new facility now.
- Analyze each category of your income statement to determine how it would be affected in the event the warehouse facility is gone, hauling for example may continue dispatching from a trailer, international shipment revenue already in transit would likely not be affected.

All of those expenses may be covered by BIC. Include them in your planning as you discuss your property policy with your insurance agent. This will ensure your insurance is working for you when you need it most.

Why BIC is a crucial coverage

Let's return to the Midwestern mover with the collapsed roof. In addition to their private customers, they had a military contract. When the warehouse roof collapsed, they not only lost the revenue from providing storage for military personnel, they also had to wait for the military to approve the new temporary facility. The BIC was able to cover the revenue lost during the downtime as they waited for this process to occur.

Another factor that impacted their business income limit was that in 2015 the quality score by which they received tonnage, was better than previous years. Simply looking at historical revenue was not a fair indicator

of the tonnage they would have received at the time of 2015 which impacted the claim totals and the business income valuations.

This is why BIC is one of the most important commercial insurance coverages: because it covers so much for relatively little money and often applies to situations insureds have not considered. You can focus on getting your property in working order, rather than worrying about how to pay routine bills. For any moving and storage company operating and recovering under such conditions, BIC can provide a valuable lifeline.

DISCLAIMER: The information contained in this article has been developed from sources believed to be reliable. However, the accuracy and correctness of such materials has not been verified. We make no warranties either express or implied nor accept any legal responsibility for the correctness or completeness of this material. This information should not be construed as business, risk management or legal advice or legal opinion. Compliance with recommendations, if any, contained herein in no way guarantees the fulfillment of your obligations as may be required by any local, state or federal laws. Paul Hanson Partners assumes no responsibility for the discovery and/or elimination of relevant conditions in your operation(s) and/or facility(ies).

