

# Understanding Business Income Coverage

Property coverage can protect a business from physical damage to its property from fire, windstorm, vandalism and othersimilar events. Sometimes, thecovereddamage preventsabusiness from operating. In those situations, the business’s revenue may decline or even come to a halt, while normal operating expenses, such as loan payments or utility costs, continue. Business Income coverage may provide protection against certain financial losses that are sustained whilethebusiness is unable tooperate.

## What is Business Income or Extra Expense coverage?

The types of financial losses for which coverage typically is afforded include loss of **Business Income** and **Extra Expense** loss.

**Business Income** is generally defined as the net income (net profit or loss) plus normal continuing operating expenses.

**Extra Expense** is generally defined as expenses reasonably and necessarily incurred to avoid or minimize the period in which the businessisunable tooperate.

The time frame during which these coverages apply is referred to as the **period of restoration**. The period of restoration begins when covered damage forces a business to suspend its operations, and it ends when the covered damage is, or reasonably could have been, repaired.

Some policies also include **Extended Business Income** coverage. This coverage may provide protection against a loss of business income that continues after operations have been resumed and the period of restoration has ended. The timeframe during which this coverage applies is typically specified in the policy.

## Here is an example of how these coverages may provide a business with important protection:

Kate’s Bagel Shop is a Travelers customer. The shop’s insurance policy provides Property coverage and Business Income coverage (including Extra Expense and up to 30 days of Extended Business Income coverage). A fire causes extensive damage to the shop’s interior and cooking equipment. Repair of the fire damage will take approximately three months.

The shop is able to shorten its downtime and resume operations in two months, rather than the expected three months, by arranging to make bagels off-site. However, when it resumes operations, the shop’s revenue does not immediately return to the level projected prior to the fire.

In this example:

- The policy’s property coverage would protect against the cost of repairing the fire damage.
- Business Income coverage would provide protection against certain financial losses (i.e., the profits that would have been earned during the two-month period the shop is unable to operate and normal continuing operating expenses, such as loan payments or electrical costs, incurred during that time).
- Extra Expense coverage would protect against the increased costs the shop incurred to make the bagels off site to minimize its downtime.
- Extended business income coverage would protect against a loss of Business Income that continues during the 30-day time frame after the shop has resumed operations and the period of restoration has ended.

## Frequently asked questions

**Q: Is Business Income coverage subject to a deductible?**

**A:** Under most policies, Business Income coverage is subject to either a waiting period (for example, the first twenty-four hours after the damage that caused the suspension) or a monetary deductible.

**Q: What if my building sustains significant tornado damage and, as a result, I have to suspend operations. When would my Business Income coverage begin? When would it end?**

**A:** Under most policies, a tornado is a covered cause of loss and, consequently, when tornado damage causes a suspension of operations, Business Income coverage may be triggered. Coverage typically begins at the time of the tornado damage (unless there is a waiting period specified in the policy)

and generally lasts through the “period of restoration.” The period of restoration generally would be the period of time reasonably required to repair, rebuild, or replace the property damaged by the tornado with property of similar quality. If you were to elect not to repair, rebuild or replace the tornado-damaged property, the period of restoration generally would be the amount of time reasonably required to relocate your business to a new location. Our Travelers claim professional would work with you to determine the period of restoration specific to your loss.

**Q: How will the amount of my Business Income loss be determined?**

**A:** Under most policies, Business Income coverage includes both net income (net profit or loss) that would have been earned and continuing normal operating expenses. We and our retained accounting experts will work closely with you and your representatives to determine whether you have sustained an actual Business Income loss.

**Q: What information will I need to provide to support my Business Income claim?**

**A:** While the specific information required to support a Business Income claim varies from claim to claim, the types of information we may request include:

- Profit and loss statements
- Sales records
- Income tax returns
- Rent rolls
- Payroll records

**Q: Do I have coverage for paying my employees while my business is not operating?**

**A:** Under many (but not all) policies, Business Income coverage includes continuing normal operating expenses such as payroll expenses. Check with your Travelers claim professional to see if your policy provides this coverage.

**Q: What happens if, once I resume operations, I continue to experience a loss of business income?**

**A:** Business Income coverage only applies during the period of restoration; if you have resumed operations, the period of restoration has ended. However, if your policy includes Extended Business Income coverage, there may be coverage for a continuing loss of Business Income after the period of restoration has ended. Check with your Travelers claim professional to see if your policy provides this coverage.

**Q: How will I know if my policy provides Extra Expense or Extended business income coverage?**

**A:** Your Travelers claim professional would be happy to review the coverages provided by your policy. Typically, included coverages are listed on your policy declarations page.

.....➔ For more information about how the claim process works, visit [travelerscanada.ca](http://travelerscanada.ca)



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