

Secure your bottomline too — not just your assets

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A factory is gutted in a fire. The property loss, not being substantial, was quickly recovered as it was insured; but the owner never really recovered from the accident. During the several months that he took to rebuild the factory, arrange for imported spares and start production again, the fixed costs — labour, rent, interest and works costs escalated. As the insurance claim was just enough only for meeting his capital expenditure, he watched helplessly his workers leaving him, his landlord and his bankers getting edgy and his competitors gnawing into his market share.

What went wrong? Well, although most business owners do cover their properties, most of them err in failing to insure the most important part — the bottomline of the company, which could spell the difference between the company's survival and demise.

Following the horrific events of September 11, many small commercial businesses in the area surrounding the Twin Towers went out of business. It was not the direct losses that forced them under, for most had property insurance. What they were not able to withstand was the loss of income that came with shutting down for an extended period of time, when the entire area was cordoned off. It is in such situations that Business Interruption (BI) insurance can make all the difference.

BUSINESS INTERRUPTION?

Business Interruption losses are typically larger than property losses in many cases — and have the potential to cause a company to fail. It can have the highest financial impact on the balance sheet, if not properly addressed. Standard property insurance by itself is not adequate since it does not cover the loss of income caused by the temporary closure of the business. Business interruption insurance can act as a lifeline during such times, provided the temporary shut down is due to reasons like fire, floods riot, breakdown of machinery etc.

The floods in Mumbai or the tsunami that hit Asia had thrown several businesses out of gear. There was this case of a godown storing raw material

required for production being completely submerged because of floods, leaving the material unfit for production. The lost raw material didn't cost much; replenishing the stock took several months, leading to loss of production worth crores of rupees!

BI Insurance is rarely highlighted in business continuity plans but, after any disaster, inevitably the question is raised, "Are we insured?" Unfortunately though the answer is 'Yes' in most cases, the gravity of the situation is realised later when the claim cheque is for a paltry amount whereas the unseen loss was enormous. This is a policy that is often overlooked either because it is easy to forget that you cannot have income from a stalled business or because the business owner believes property insurance will cover all losses. Or, importantly, it was never thought of because you never knew of such a policy as your agent or broker never mentioned it to you. Sadly, although one of the most powerful products in insurance, BI is a poorly marketed policy.

COVERING THE INCOME

In brief, standard BI insurance is designed to cover the loss of income suffered if normal business operations are disrupted or halted by damage to property. This insurance usually is sold in tandem with property coverage and is sometimes termed 'consequential loss' or 'loss of profits' insurance. Business Interruption Insurance compensates you for profits that you would have earned, based on your financial records, had the disaster not occurred. The policy also covers the unavoidable fixed costs like rent, salaries during the time period in which the insured business is not operating.

Unlike other forms of insurance (e.g. fire and burglary), with business loss insurance

you are not insuring actual goods. Consequently you will need to have a very good idea of how much your business earns to assess accurately the amount of your potential business losses.

SOME POINTS TO REMEMBER

The insurer will need detailed audited records, so be prepared for a considerable amount of paperwork.

The cover will trigger only if the loss is caused by a risk/peril covered under the corresponding property insurance (subject to a waiting period of 48 hours too)

If your business is such that, getting back on your feet will take longer than some others, build this into your cover. It can take more time than anticipated after a major disaster to get your business functioning again.

SECURE YOUR BALANCE SHEET

Getting paid for Business Interruption is something like receiving one's full salary while one is recovering from a major accident. It's not enough to have Mediclaim to pay the hospital bills — you need the money for the hearth too.

Business Interruption doesn't cost much (around 1.25 to 1.75 per cent of corresponding property values, depending upon the recovery period selected and other criteria). And it is useful not just for large factories, but any small or medium business too. Just because it's not much known or talked about, doesn't mean we can ignore it. Skipping Business Interruption insurance is undoubtedly false economy. Remember it is always easier to walk the tightrope if you know there is a safety net.

(The writer is Chairman, India Insure Risk Management and Insurance Broking Services. The views expressed are personal and not that of the organisation)

Special Deposit Rates

Bank	Rate (%)	Term (Days)
ICICI Bank	8.50	390
City Union Bank	9.50	500
Yes Bank	8.25	201
Tamil Nad Mercantile Bank	9.75	400
State Bank of India	8.50	550
Lakshmi Vilas Bank	9.15	550