

Business Interruption Insurance Traps and Gaps

Speaking or writing about risk management without mentioning insurance is difficult. The two disciplines are independent in theory, but “glued together” in thought and practice.

Insurance is one of the first tools camp risk managers can deploy in their arsenal of weapons to combat risk. Insurance is the weapon of choice for camp risk managers when the risks are too unpredictable, or the stakes are so high with such significant financial impacts their organizations simply couldn't win the battle on their own without some help.

Business interruption insurance to the rescue! Well, maybe. There is a lack of uniformity and nothing standard about this property insurance except it is intended to protect your camp's loss of net profit. There are variations in coverage between insurance companies. How well you are protected depends upon understanding your options, the choices you make in advance of the interruption, and on the plan you make to survive the interruption of your business. Simply put, business interruption insurance can be complicated and claims can take a long time to resolve.

Re-opening your camp following an interruption in your programs and services requires preparation in advance. Hopefully you read “Plan to Survive a Business Interruption” in the March/April 2009 issue of *Camping Magazine*. You can find the article online at www.ACACamps.org/campmag and click on Archived Issues to the left of the screen. I encourage you to read this article to consider some of the complexity surrounding this type of insurance. The following is a brief discussion of some of the more notable traps and gaps that may be lurking in your camp's business interruption insurance policy.

Coverage Is Triggered by Direct Damage to Property

Protection for business interruption is optional. Basically, when this insurance is purchased, the insurance benefits become available only after 1) there is direct damage to or destruction of camp property from a covered cause of loss (peril); 2) a waiting period of usually seventy-two hours; 3) a necessary slowdown, or suspension of operations; and 4) an actual loss of income. If there is no direct damage to property, no coverage will be provided for business interruption.

Damage Must Be From a Covered Cause of Loss

Besides direct damage, the event causing the damage must be a covered cause of loss (peril). Typically property insurance is either named peril or all perils except those which are excluded.

Covered causes of loss are mostly defined by insurance companies as either “Basic,” “Broad,” or “Special.” “Basic” and “Broad” are the traditional named peril forms, while “Special” is the new term for the broadest protection covering all perils except those which are excluded. Examples of perils typically excluded are floods and earthquakes.

As new risks have evolved, protection for these new perils is being added by endorsement, and coverage must be purchased separately. Examples are food contamination and communicable disease, and workplace violence risks. Protection against these new perils, a potential gap in your coverage, may not be uniformly available from all insurance companies offering insurance to camps.

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The swine flu outbreaks during the summer of 2009 put lots of pressure on camps and resulted in some voluntary closures. Programs were cancelled completely, while in other instances, sessions were cut short. Here's the gap!

These camps most likely did not receive any benefit from their business interruption insurance because 1) they may not have had coverage for communicable disease events, and even if they did buy the additional peril of communicable disease and 2) their decisions to close were voluntary and not ordered by the health department. The coverage trigger in the protection against communicable disease events at camp is the health department must order closure. Increase your

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knowledge about what triggers coverage and the perils that are and aren't included in your property insurance program, to address these issues properly.

Deductibles

Here is a trap you may not see coming. Ask an experienced insurance broker about deductibles in business interruption insurance. They'll tell you there are none, but there is a waiting period.

Upon further investigation you learn your camp operations must be suspended for at least seventy-two hours that is the standard waiting period, before business interruption benefits are available. This sounds a lot like a deductible by another name.

This waiting period can be eliminated, or reduced to twenty-four hours for an additional cost. Check with your insurance broker.

Payroll Included in Net Income?

Business interruption insurance is known as business income insurance in the "simplified" language used in policies today. Designed to protect your camp's loss of net profit — defined as accounting net profit plus the expenses which continue (e.g., mortgage, property taxes, payroll, etc.) — so overhead expenses can continue to be paid until such time as the operations can be resumed.

Some insurance companies may apply the ordinary payroll limitation or exclusion to their business interruption insurance coverage. You might want to exclude the payroll for employees such as counselors for example, who would not be retained during an extended business interruption. Their payroll would be considered ordinary payroll. If this is your plan, be sure to remove this payroll from your business interruption limit calculation.

Payroll that would not be considered ordinary would be, but is not necessarily limited to, officers, directors, executive salaries, department heads, and employees under contract. Be sure to include maintenance staff in your thought process. Include these payroll amounts in your business interruption limit calculation as well.

Some directors may want to continue ordinary payroll for a limited period.

Underwriters will use this same endorsement to limit ordinary payroll to a period of time during the interruption, for example, ninety days.

Chances are you may want to continue some, but not all, of your payroll expense if your camp operation is interrupted. Check your policies to determine if this endorsement is in use. Review it carefully with your insurance broker to understand its impact so you know what to expect. Make changes as necessary.

Building Codes

After operations are suspended, the business interruption insurance coverage provides for a period of restoration during which debris can be cleaned up and removed and re-construction begun.

Period of restoration is defined as the period of time following the waiting period (if any) and ending on the earlier of 1) the date when the property should be repaired, rebuilt, or replaced with reasonable speed and similar quality; or 2) when business is resumed at a new permanent location.

The gap in this situation is the period of restoration does not include the additional time needed to comply with ordinances or law, or to test for or deal with pollutants.

Obviously, the use of the terms "should be" and "with reasonable speed" will be controversial and can be a source of conflict between the customer and the insurance company in the adjustment process. This conflict will intensify if building materials are in short supply as has been the case in certain instances in the past following a catastrophe.

The potential gap in the period of restoration can be addressed by including an additional coverage endorsement called Increased Period of Restoration. This will allow for the additional time needed to comply with the ordinances or law.

Order of Civil Authority

Sometimes a civil authority might prevent access to your camp premises in emergencies. Camps in the path of wildfires in the West have experienced these situations.

Generally, business interruption coverage extends to this situation if the order prohibiting access to your property is because a covered cause of loss

insured under your policy has caused direct physical loss or damage to property elsewhere.

Here is the gap; coverage for any loss of income resulting from the order of a civil authority limiting access to your camp is limited to three weeks! This may be okay, but if your situation requires broader protection, consult with your insurance broker and insurance company for a solution.

Extended Business Income

Sometimes when business is resumed the revenue lags and doesn't return to the pre-interruption levels immediately. Reimbursement for this additional loss of income past the time camp has re-opened is included in most camp business interruption insurance policies for a limited time, usually thirty to sixty days. The purpose of this is to support the business until it can regain the customers and level of income that existed before the loss.

Additional time to protect a continuing loss of revenue for up to two years can be purchased by including an endorsement entitled extended period of indemnity and paying an additional premium.

However, a potential gap in this endorsement exists when there is no coverage for the loss of business income that results from unfavorable business conditions like the recession, which is currently affecting enrollment. Coverage strictly applies to loss of income due to the effect of the suspension of operations.

Understand the Risks and How Your Insurance Works

Knowledge is power! Before this summer, take some time to understand how your business interruption insurance works. Consider the gaps and traps we've identified. Refine your plan to survive a business interruption. Be prepared!

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