



Business Interruption insurance cover

By David Waters, Managing Director CHIS

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I can almost sense that ... aaaagh ... as you read the title, but please— for the sake of your own business — bear with me and read the next few paragraphs.

Business interruption insurance – what is it?

Following any major insured damage – fire, flood, storm or similar – any business will suffer a period of partial interruption. Business interruption insurance provides cover for the lost gross profit for the stipulated indemnity period. Essentially this enables the business to meet its financial obligations, paying the wages, bank loans, council rates and alike.

Why should I read on ... this will never happen to me?

If I had one pound for everyone who said this to me and then suffered damage, I'd be a very rich man! Let's hope it doesn't happen to you, but it is worth sensibly planning for the risk that it could.

So what do I need to know?

Most insurance policies for care homes have their premiums rated on the estimated gross fee income, so you need to project your annual income and assume the damage occurs on the last day of the insurance year. As an example, if your budgeted income for this year is £650,000 and for next year is £675,000 and the year after is £700,000, then if you are selecting a 12 month indemnity period, you need to choose the £675,000 income and if the 24 month indemnity period, you need £1,375,000 (being the £675,000 + £700,000).

What is the indemnity period?

The indemnity period is the period of months you select in which you believe your business could be interrupted by any insured material damage. The indemnity period covers you up to the point your business returns to the level it would have achieved had the damage not occurred.

So what indemnity period should I select?

CHIS would recommend all care homes have an indemnity period of at least 24 months, as it always surprising how long it takes to restore any business which has been badly damaged. By the time a site is cleared, plans submitted for planning approval, builders selected and work started, we often find almost a year has passed and there is still no chance of any residents returning to the care home for another few months.



Why should I extend my cover? This is just you trying to sell me more insurance.

This is just not so, but I can understand the cynical thought process. In many cases, increasing your indemnity period from 12 to 24 months costs less than £50 additional premium — in some cases the premium decreases — yet the cover it provides is for many thousands of pounds. We believe you should be aware of the different costs for the increased indemnity period and then you can make your own choice.

Here are a few examples for you?

The first one, the care home appears to have based their gross fee revenue on their estimated gross profit. They suffered in the summer floods of 2007 and the shortfall on their claim costs was £300,000 – this was money they had to find themselves as they had understated their gross fee revenue.

The second one is the exact opposite. A care home with 24 months indemnity and everything done correctly were also flooded and they were ecstatic when the insurance cover not only met the entire shortfall in their income, but also paid higher amounts by paying for their residents to be moved together to another care home, rather than being separated. When the building work was all completed, one resident had unfortunately passed away and another had decided it was inappropriate to return to our client's newly refurbished home. Insurers met their shortfall in gross profit while these two vacancies were filled – we had a very pleased client and that's the way CHIS likes to do business.

David Waters of CHIS comments:

Getting value for money from your insurance policy is as important to us at CHIS as it is vital for all our care home clients. To make sure you have the right cover, the right indemnity period and understand what you are buying, contact CHIS – 01273 645920. To enjoy more of a taste of how CHIS operates, visit www.chis.net or email info@chis.net.

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