

BOURGEOIS BENNETT CPAs & CONSULTANTS

BUSINESS INTERRUPTION INSURANCE LOSS CLAIMS

WHAT IS BUSINESS INTERRUPTION?

Business interruption is an insurance industry term, which relates to the disruption of normal business operations as the result of an identifiable event beyond the business entity's control.

IS YOUR BUSINESS COVERED?

In general, in order for a claim to be covered, one must have a "Business Interruption Insurance Policy" in force. This coverage is usually an endorsement to your property policy.

TYPES OF COVERAGE

- Business Interruption
- Extra Expense

BUSINESS INTERRUPTION "CHAIN RULE"

- In the event of physical damage to
- property of the type insured
- under the property policy by a peril insured
- which directly results in an interruption of the insured operations, *then*
- the policy will cover defined losses which are suffered by the insured and which are incurred during the period of indemnity defined in the policy.

ISSUES IN PREPARING BUSINESS INTERRUPTION CLAIMS

- Objective of Business Interruption Insurance
- The Claims Process
- Grey Areas
- Contentious Issues
- Supporting Documentation for Claim
- Resolution/Settlement

OBJECTIVE OF BUSINESS INTERRUPTION INSURANCE
The objective of business interruption insurance is to compensate claimants for the financial loss directly resulting from the incident/occurrence.

"IDEAL" PROCESS FOR FILING A BUSINESS INTERRUPTION CLAIM

- Review your policy
- An incident occurs resulting in damage or loss
- You report it
- An adjuster or other authorized insurance representative investigates the matter
- Reimbursement is granted

BASIC BUSINESS INTERRUPTION

FORMULA:

$$\begin{aligned} & \text{NET INCOME (LOSS)} \\ & + \\ & \text{CONTINUING EXPENSES} \\ & + \\ & \text{EXTRA / ADDITIONAL EXPENSES} \\ & = \\ & \text{BUSINESS INTERRUPTION LOSS} \end{aligned}$$

TYPICAL GREY AREAS IN BUSINESS INTERRUPTION CLAIMS

- Pro Forma Sales & Expenses Had No Loss Occurred
- Loss Mitigation Opportunities and Measurement
- Determining Length of Recovery Period
- Continuing v. Non-continuing Expenses

CONTINUING EXPENSES

- Rent
- Payroll and payroll taxes
- Any expense that continues even in the absence of sales

111 VETERANS BLVD., 17TH FLOOR
METAIRIE, LA 70005
504.831.4949

1340 W. TUNNEL BLVD., SUITE 430
HOUMA, LA 70360
985.868.0139

507-D ST. PHILIP ST.
THIBODAUX, LA 70301
985.447.5243

**FOR MORE INFORMATION:
PHILIP P. MONTELEONE, CPA, CMA, CFM
504.831.4949**

OCTOBER 2005

EXTRA EXPENSES

- Rent for a temporary location
- Transportation expenses incurred to relocate to a temporary location
- Additional advertising when business operations resume
- Additional payroll costs incurred as a result of a disaster (OT, additional personnel, etc)

CONTENTIOUS ISSUES

- Depreciation as a "Saved" Expense
- Determination of FMV of Assets Lost/Destroyed
- Identification and Support of Specific Financial Losses
- Reasonable and Necessary Extra Expenses (subjective)
- Maximum Loss Exposure (future potential)
- Actual Loss Sustained
- Covered Expenses to Reduce the Loss
- Contracts lost
- Interpretation of Insurance Coverages

SUPPORTING DOCUMENTATION FOR THE CLAIM

- Business History
- Revenue Support
- Expense Support

BUSINESS HISTORY

- Description of how the business was impacted by the incident/occurrence
- Date business founded
- Business fiscal year end
- Physical location(s) of business
- Goods produced and/or services provided
- Number of employees
- Main suppliers
- Main customers
- Normal operating hours and days of operation

**For more financial information regarding
Katrina/Rita, visit**

[Www.bourgeoisbennett.com](http://www.bourgeoisbennett.com)

REVENUE SUPPORT

- Annual/Monthly income statements, preferably audited, reviewed or compiled by a CPA
- Tax returns
- Monthly bank statements
- Sales tax returns
- Accounting books and records
- Accounting software printouts
- Sales records or receipts on a daily or monthly basis
- Sales forecasts or business plans
- External data



EXPENSE SUPPORT

- Production data for time period before, during and after the loss
- Payroll and payroll tax records for all employees
- Lease agreements to determine rent expense
- Franchise agreements to determine that amount of fees paid
- Copies of utility bills
- Loan agreements to determine interest expense
- Contractors' estimates for repairs and copies of actual invoices for all repair work.

RESOLUTION/SETTLEMENT

Working with your adjuster is critical

Set appropriate expectations

Understand your unique facts and circumstances

Processing of Business Interruption Claim

Understand your options