

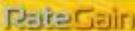
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## Business Interruption Coverage: Why You Need it and What Should be in Your Policy

By [Christopher Bolger](#), Senior Risk Manager, Venture Insurance Programs

After a catastrophe befalls your hotel, you are forced to cope with not only the significant costs of clean-up and repair, but the loss of business income when your usual operations are interrupted. In these instances, hotels often lose multiple income streams, from rooms to events to food and beverage.

Hotels are often careful to scrutinize and mitigate the sorts of risks that may shut down business for an extended period of time. After all, no business would think of going without property insurance. However, far too many are not properly insured for the immediate aftermath of a property loss such as a fire or burst pipe. All business tend to underestimate the risk of business interruption and its significant costs.

Business interruption insurance coverage, also known as business income coverage, exists to provide business owners in all industries support while they recover from the unthinkable. Unfortunately, quite a few hotels are underinsured for this coverage. So, why does a hotel need this coverage, and what does it look like in practice? Let's take a closer look at the risks.

### Where Business Interruption Coverage Applies

Offered as part of a hotel's property insurance policy or as part of a business owner's policy package, business interruption coverage goes into effect after a covered loss that affects the operation of the business. It covers the loss of net income due to business interruption or suspension and any ongoing operating expenses during that period of time.

It is no exaggeration to say Superstorm Sandy obliterated parts of the Jersey Shore and



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Long Island. In fact, the devastation was so complete, that authorities kept evacuees out of their neighborhoods and proprietors away from their businesses for weeks after the storm. In some cases, people could not reenter the neighborhoods where they lived or worked for weeks after the storm.

If, in prior disaster recovery planning, Jersey Shore hotels and resorts had budgeted 90 days to recover after a severe hurricane, they would have found themselves falling far short on coverage for the recovery period. After such a catastrophe a hotel may be unable to open for normal

operation for a full year.

Out west, the increased threat of wildfires can devastate hotel businesses. Not only would a fire quite literally destroy your property, but as a wildfire rages for weeks on end, you may be unable to access your property to assess the damage, remove debris and rebuild.

Though Sandy and wildfires provide extreme scenarios, even minor disasters can significantly disrupt your business and rob you of necessary income. As one Georgia hotel learned recently [www.accessnorthga.com/detail.php?n=284792], even a relatively small fire contained in the laundry room can necessitate evacuation and downtime for recovery. And as many businesses near National Parks and other government-managed attractions learned during the 2012 federal government shutdown, business can be severely impacted by your neighbors. Many businesses that serve National Park visitors saw a decline in business during the shutdown.

Keep in mind this coverage does not apply to every problem that disrupts business as usual. Review your insurance policies and talk to your broker to make sure you understand what is and is not covered. Your insurance policy will specify a proximate cause of loss or coverage trigger that activates the coverage.

In the unfortunate event you do need to file a business interruption claim, advise your property adjuster that should have been assigned to the claim you have already reported. If not it has not already been reported, do so as soon as practicable. The insurance carrier will send an adjuster and, depending on the severity of the loss, that adjuster's manager may be involved in handling the claim. In some instances, the carrier may opt to send out an independent adjuster as well. Finally, you may be contacted by a loss accountant or auditor, who will review sales data, payroll, room rates, occupancy and other factors that go into determining your indemnity payments. Feel free to contact your broker or adjuster should you need clarification on the various participants on your claims team.

**What to Consider When Purchasing This Coverage**

Since many hotels are underinsured for business interruption, you should check with your insurance broker about your current insurance policies. Your hotel should maintain coverage that accounts for the maximum projected loss, accounting for loss of income from room sales and all amenities.

Look for a policy with sufficient limits and periods of indemnity appropriate for your hotel. In the example of Superstorm Sandy detailed above, some business owners could not even return to their businesses, let alone begin recovery efforts, for weeks after damage was done. So if a hotel in that area had business interruption coverage that allowed for 90 days, but they were not allowed to access the hotel for 30 days, recovery would be significantly



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slowed. Construction delays for various reasons can increase the cost of recovery. Satisfying any changes in local or statutory enforcement of building, zoning or land use ordinance or law must be considered in your coverage and anticipated in the policy.

Ensure you have debris removal coverage. Though news reports and marketing campaigns only show us images of rebuilding, debris removal is an intensive and expensive aspect of recovery from a disaster. If your hotel is devastated by a flood, tornado or fire, you may come up against a sublimit – a cap on coverage for a particular type of loss. This could leave you exposed and paying out of pocket for the significant expense of debris removal.

For peak occupancy months, seek an extended period of indemnity. A business interruption policy will pay until you reach pre-loss revenue, but that revenue varies seasonally. So hotels will want to figure out how to increase most limits for peak months. An insurer will not pay you for 100 percent occupancy; they will pay based on your average occupancy for the season based on the previous year or other analysis period as determined by the carrier. Plus, they will not pay 100 percent of your expenses during downtime; they will most likely cover projected income, expenses and payroll based on your financial history.

### Financial Planning for Disaster Recovery

Having detailed financial records and projections before disaster strikes will make it much easier to manage your business in the aftermath. If you have a plan, and you have detailed records of your income and other financials, you can easily make projections for the sake of filing a business interruption claim.

Create a business income worksheet that estimates your hotel's income for a 12-month period. This should be reviewed annually, perhaps during your insurance policy renewal period or after the close of the financial year.

When filing a business interruption claim, you must also be able to state your sales before the disaster and project those during and after the loss. Prior sales will be included in the income worksheet described above. With the right financial records, you should be able to project daily room rates, but you can use a third-party forecast to estimate this, as well.

You must also be able to calculate continuing expenses, such as electricity, during a time of limited operation and the estimated period of restoration. This is the period of time you expect to need to complete repairs and resume normal operations. Even if this period must later be extended, this estimate will provide you with a solid base.

As the most recent recession taught many businesses, it is a good idea to seek ways to supplement income during times of recovery. Many hotels did this during the recession, adding and diversifying amenities to appeal to different types of guests. This type of diversification makes good financial sense. For example, if after a business-interrupting event, rooms are inaccessible but the club or restaurant is unaffected, you will continue to have that significant income during a period of recovery.

Pre-loss planning can reduce post-loss effects on your hotel's bottom line and operations and reduce unexpected consequences of your loss. You should always be prepared for a crisis, and insurance and financial planning is part of the contingency plan you should have in place. To help you execute that crisis plan, business interruption coverage needs to be a part of your overall risk management strategy and plan. When it comes to the risk of business interruption, take a cue from the Boy Scouts: "Be prepared".

Senior Risk Manager for Venture Insurance Programs. Mr. Bolger has specialized in hospitality risk management since 2007 and is responsible for improving the risk performance of Venture's hospitality clients by reducing the frequency and severity of claims, analyzing loss reports to identify trends by industry or location, and improving loss ratios in order to improve pricing for the hotel and profitability for the insurer. Overseeing all risk management operations, including the claims adjusting teams, Mr. Bolger ensures proper proactive claim management and loss control procedures are in place with the overall goal of



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minimizing the overall cost of risk. Mr. Bolger can be contacted at 800-282-6247 ext. 242 or [Cbolger@ventureprograms.com](mailto:Cbolger@ventureprograms.com) [Extended Bio...](#)

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