

WHAT IS BUSINESS INTERRUPTION INSURANCE?

Business interruption insurance, often referred to as a *BI Insurance* or *cover*, is a type of general insurance designed to protect your business from financial losses that occur when you're unable to operate due to an insured event.

BUSINESS INTERRUPTION EXPLAINED

This could be anything from a fire or natural disaster to a power outage. The cover is available as part of a Business Insurance Pack or IRS policy, but specialist standalone policies are available too. Typically the policy covers Loss of income, ongoing expenses (like payroll, financing and other fixed costs) and increased operating costs due to an insured event, such as property damage.

WHY IS THIS COVER CONSIDERED ESSENTIAL FOR HEALTHCARE CLINICS?

Healthcare clinics provide a vital community service, particularly during times of crisis or disaster. However, these clinics are also businesses that have invested significantly in their operations. A disruption to normal operations can have devastating consequences for both the community and the clinic itself.

Business Interruption Insurance: More Than Just Income Protection



Beyond lost income, and potentially of **more** value, business interruption insurance can help cover the additional costs associated with keeping your clinic operational during disruptions, protecting patient retention and continuity of care. This can include expenses for temporary relocation, replacement equipment, or increased operating costs. Studies show that maintaining operations, even at a reduced capacity, is often more beneficial for healthcare clinics than complete closures.

UNDERSTANDING YOUR BI INSURANCE

To ensure that your BI Insurance represents value and responds in the way it should, it is important to understand how the policy works. Below are a few basic concepts that you should understand and apply when deciding on the level of BI insurance you have in place.

Policy Trigger:

Your BI insurance is activated when insured damage occurs under the **property section** of your policy.

Underinsurance:

Underinsurance is a critical factor in BI insurance. To ensure adequate and effective coverage, we recommend insuring your practice's full gross turnover before expenses, with a 3-5% increase to account for inflation. This helps protect your practice's income from underinsurance penalties.

Indemnity Period:

An indemnity period of less than 12 months is likely to be inadequate, especially given current supply chain issues. 18 months is recommended.

Increased Costs of Working:

As mentioned above, this coverage can help reimburse additional expenses incurred during a disruption, such as temporary facilities or increased utility costs. We recommend a sum insured of no less than \$300,000 for this cover.

UNDERSTANDING UNDERINSURANCE AND BUSINESS INTERRUPTION INSURANCE

Underinsurance occurs when a business is not adequately insured for its actual value or income. In the context of BI insurance, this means that the declared income is lower than the actual gross income.



Key points to **remember**:

Rate of Gross Profit:

BI insurance often uses the "rate of gross profit**" method to calculate income. For service-based businesses, this can be very high (e.g., 95%).

Financial Pressure:

Underinsurance can put significant financial pressure on a practice owner, especially during a disruption. This is a common factor that can delay a business's recovery after an event.

Underinsurance Penalty:

If a business is underinsured, insurers can reduce the claim payment by the percentage of underinsurance. This means the business owner bears the difference in lost revenue.

** Rate of Gross Profit for insurance purposes is the gross turnover *before* any expenses and tax, less the 'the cost' of doing business.. Typically this only included costs such as electricity, consumables and any stock.



To **avoid** underinsurance:

Accurate Declaration:

Ensure that your declared income accurately reflects your practice's gross turnover.

Regular Review:

Periodically review your coverage to ensure it aligns with your practice's growth and changing circumstances.

By understanding the concept of underinsurance and taking proactive steps to avoid it, you can protect your healthcare practice's financial stability in the event of a disruption and maximises the value of your practice's Business Interruption insurance..