

Business interruption insurance: why you need it



The interruption to trading following a fire or other insured event can often have more serious financial implications for your business than the actual damage itself.

Business Interruption insurance covers the shortfall in your gross profit caused by the interruption to your business after you've had an insured loss.

It helps pay those ongoing costs and protects your profit margins until your business is back on its feet and generating the same amount of gross profit as before the loss.

It is a 'must have' general insurance cover for all businesses

Studies* indicate that over 50 per cent of all SMEs which suffer a major interruption without an appropriate level of Business Interruption cover will cease operation within three years of the interruption occurring.

Things to consider

When a major event occurs, often your business cannot operate or you will be operating at below full capacity, yet you will continue to incur costs such as mortgage payments, rent, salaries and utility costs such as phone, internet, electricity and gas.

You may need to source new premises – there may be costs involved in fitting these premises out or advertising to let people know you have moved.

If you have to rebuild you may need to get plans drawn up, and there can also be delays in getting council approval and permits, and with tradespeople. Building and repair delays can be even more significant after a major catastrophe, when there is a limited availability of building supplies and contractors to perform the work.

Payroll cover can help you retain key staff

In most cases a business will want to ensure it retains key staff following an interruption to help it get back to operating normally as quickly as possible.

With limited or no income being generated, an appropriate payroll cover will assist – payroll cover can be specifically tailored to suit a business's needs.

Increased cost of working cover

Even if your business is able to resume operations quickly at alternative premises or through other business continuity arrangements, you can still incur significant increased costs in implementing such measures.

Selecting the right Indemnity Period is critical

The Indemnity Period is the period you select for how long you believe it may take for your business to fully recover following damage. You need to consider not only the time needed to rebuild, repair machinery or replenish stock but also the time to win back or replace those customers you lost whilst your business was not able to operate.

Cover for damage to premises you don't own

A business can also suffer interruption when damage occurs to premises that they do not own, such as key customers or suppliers, damage to public utilities or instances where people are unable to access your premises due to government authority closure.

Your Business Interruption policy can be extended to provide protection from these exposures when the damage to such other premises is an event you would be insured for under your Business Insurance policy.

More details

Speak with your insurance adviser. For more details on CGU Business Insurance, which includes Business Interruption cover, go to: www.cgu.com.au/cgu/sme/business/Pages/business-package.aspx

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