

How Covid-19 Put a Magnifying Glass on Business Interruption Insurance

Opinions expressed by *Entrepreneur* contributors are their own.

As wildfires have raged in areas across the country like California and the Smoky Mountains of Tennessee, it poses questions for the businesses that must close their doors and evacuate: If they're not operating, how will they cover fixed expenses like rent or utilities? And what about payroll and surviving the revenue loss?

Many businesses have business interruption insurance that is meant to serve as a safety net when disaster strikes that covers a loss of income and fixed expenses. In fact, the NAIC Center for Insurance Policy and Research estimates that 30% to 40% of small businesses have this type of insurance. So, when a loss happens and you have business interruption insurance, you're covered ... or are you? In this day and age in 2022, the answer is more complex than it was a decade ago.

Times have changed and business interruption isn't always enough. So, it's important to understand what the complexities are so you're not left vulnerable. These are five things businesses need to know.

Related: [Business Insurance: What It Will – and Won't – Cover](#)

1. Many Covid-related business

interruption claims were not paid

During Covid-19, many businesses were forced to close due to restrictions or sick employees and assumed their business interruption insurance would cover the losses. However, business interruption insurance does not usually cover pandemic disease – unless the policy specifically states that it does.

A survey published by the Small Business Roundtable found that about 30% of small businesses were not able to operate at some point during Covid, which is a substantial number of businesses reporting losses. It's likely that many of these businesses had their Covid-related claims denied since the insurance companies that do offer coverage for pandemic disease as part of business interruption insurance are severely limited. The Office of the Insurance Commissioner in Washington State reviewed policies by 84 insurance companies and of those, only two offered pandemic coverage.

Related: Are Your COVID-19 Business Losses Covered by Insurance?

2. Be wary of exclusions within business interruption policies

Other exclusions with business interruption insurance include damage from floods and earthquakes that impede business. These are typically covered under other policies including flood insurance and earthquake insurance and most commercial property policies would also cover damage in these instances. Business interruption insurance does cover other natural perils, however, such as fire and tornados.

3. There must be a triggering event

When it comes to having claims paid, there must be a triggering event. With business interruption insurance, the trigger is often physical loss or damage. This becomes problematic when a business cannot be accessed, but there is no physical damage.

One example was during the civil unrest of 2020, where areas of the country experienced protests, riots and sit-ins that destroyed neighborhoods. If the area around a business was damaged and inaccessible, but the business itself was not, the policy would not be triggered.

4. Business interruption insurance is complex

Insurance policies can be complicated, and business interruption insurance policies take the cake with numerous exclusions. Also, there is often a disparity in what a business deems its claim to be and what the insurance company is willing to pay.

In fact, sometimes getting a claim paid is so complicated that businesses must hire attorneys and seek legal action. Although business interruption insurance isn't particularly expensive to secure, the legal fees can be significant.

5. There must be a complete cessation of operations, not partial

In terms of triggers and exclusions, another issue is that some policies require operations to completely cease before the policy is triggered and the claim can be paid. This is a

problem in situations where a business only partially shuts down, must go to reduced hours or only part of the business is damaged. For example, if a fire in a plant impacts one segment of the facility and it must shut down several machines, but the rest of the plant can remain operational, then the policy may not be triggered.

It's important for business owners and leaders to understand the limitations of business interruption insurance and that it's not always a reliable safeguard. So, what is a business to do? For starters, it's helpful to carefully review your business interruption insurance policy to determine where there may be gaps and exclusions and to know what it *does* cover. At least once a year, it behooves businesses to also conduct a risk assessment and understand the most likely risks the company may face and then ensure that the company insurance policies properly address these risks without exclusions.

Another route businesses can pursue is self-insurance – or owning a captive insurance company and combining this with commercial insurance since the policy can be more broadly written so it's better equipped to fill gaps. A captive insurance company has its own reserves, policies, policyholders and claims and is licensed and domiciled just like any large insurance company. This solution offers not just insurance, but a comprehensive risk management approach since the premiums paid, minus the claims, become profit and extra cash that can help when a disaster strikes.

Although business interruption insurance may not be enough on its own, it can be valuable as part of a more robust strategy. Before the next crisis strikes, know your insurance and where there may be holes to fill.

Related: 7 Types of Insurance You Need to Protect Your Business

<https://www.entrepreneur.com/article/425275>