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# Business Interruption Insurance Coverage – An Overview

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# Today's Agenda

- Business Interruption - What is it?
- Some Business Interruption Coverages
- Examples of Revenues & Expenses
- Quantification of Business Interruption Values

# Defining Business Interruption

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## ◆ **Property Damage vs. Business Interruption**

- Cost to repair/replace physical assets
- Lost revenue; expenses above ordinary operating expenses to continue operations

## ◆ **BI insurance**

- Reimburses lost revenue when normal business operations are temporarily suspended because of a property loss caused by an insured peril.
- Coverage includes necessary operating expenses during the period required to restore operations with due diligence

# BI Coverage Examples

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- ◆ Tuition & Fees
- ◆ Gross Earnings
- ◆ Rental Value / Income Insurance
- ◆ Expediting Expense
- ◆ Extra Expense
- ◆ On Premises Services
- ◆ Service Interruption
- ◆ Protection and Preservation of Property

# Tuition and Fees

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- ◆ Indemnifies a college and/or university for lost tuition, fees, and other revenue caused by a direct loss from an insured peril
- ◆ Less cost of goods and services which do not continue

# Gross Earnings

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- ◆ Indemnifies the insured for loss of total net sales caused by an insured loss
- ◆ Less cost of merchandise sold, materials, and supplies consumed in the operations or services rendered by the insured

# Rental Value / Income

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- ◆ Indemnifies the owner of a building for the amount of lost rent due to damage from an insured peril
- ◆ Indemnifies tenant of a building for rent that must be paid even if the premises cannot be occupied (*aka leasehold interest insurance*)

# Expediting Expense

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- ◆ Expenses incurred to avert a business interruption loss
- ◆ Indemnifies the insured for expenses reasonably and necessarily incurred by the insured to reduce the loss under BI section of the policy
- ◆ Recoverable expenses will not exceed the amount by which the loss has been reduced
- ◆ Typical costs are overtime, equipment or building rental costs, temporary labor



# Extra Expense

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Indemnifies the agency/institution for reasonable and necessary extra costs incurred by the insured of the following during the period of liability

- *Extra expenses to temporarily continue as normal as practicable the conduct of the Insured's business*
- *Extra costs of temporarily using property or facilities of others*

# Expediting Expense vs. Extra Expense

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Both refer to expenses above normal

## Expense to Avert

*Spend \$1 to save \$1 of  
revenue*

## Extra Expense

*Amount over \$1 spent to  
save \$1 of revenue*

# On Premises Services

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Indemnifies the insured for lost income and extra expense resulting from loss of electrical equipment located within a designated number of feet (typically 1,000) of the insured location as a result of loss from an insured peril

# Service Interruption

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Indemnifies the insured for lost income and extra expense caused by a loss of incoming electrical, gas, fuel, steam, water, refrigeration, incoming or outgoing voice, data or video service or from the lack of outgoing sewerage services caused by an accident of the type insured at the location of a supplier of such service

# Protection and Preservation of Property

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Temporary protection taken to prevent immediately impending physical loss or damage to property Insured by this policy

# In Summary

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- ◆ All agencies and institutions of higher education should analyze their business interruption exposures
- ◆ Damage to or destruction of physical property including equipment could disrupt the revenue flow and normal business operations
- ◆ This disruption could involve a direct loss of income and/or increased cost of continuing to operate

# In Summary

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- ◆ Business Interruption insurance protects the income or revenue derived from the use of a facility which would be lost if the facility were unable to be used due to an insured loss
- ◆ Business Interruption coverage should, in the event of an insured loss, replace financially for the agency / institution the revenue that would have been realized had the loss not occurred
- ◆ The intent of time element insurance is to place the institution/entity in the same position it would have been in, had no loss occurred

# Some Typical Revenues

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- ◆ Royalties & Commissions
- ◆ Consulting Services
- ◆ Research Grants
- ◆ Research Contracts
- ◆ Athletic events
- ◆ Distance Learning
- ◆ Investment Income
- ◆ Other Income
- ◆ Tuition and Fees
- ◆ Laboratory Fees
- ◆ Bookstore Sales
- ◆ Rental Income
- ◆ Dormitory Fees
- ◆ Meal Contracts
- ◆ Fund Raising
- ◆ Gifts
- ◆ Ticket Sales



# Fixed (*Continuing*) Expenses

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Expenses that will continue to be incurred whether or not operations are continued after an event of physical loss or damage

- Mandatory transfers  
*(debt service on buildings)*
- Payments on physical plant debt
- Interest payments  
*(on short term debt)*
- Depreciation
- Executive salaries
- General & administrative expenses
- Insurance premiums

# Variable (*Non-Continuing*) Expenses

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Expenses that are not incurred if operations are completely interrupted as a result of physical loss or damage

- Student housing
- Food services
- Bookstore
- Leases
- Educational supplies
- Most scholarships

# Semi-Variable Expenses

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Costs that may have a fixed portion and a variable portion

- Salaries – contract employees/tenured & adjunct faculty
- Ordinary Payroll
- Utilities - excess of minimum
- Plant operation & maintenance
- Parking facilities
- Operations / Institutional support
- Public service
- Research
- Distance learning
- Travel

# Quantifying BI Values

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- AFR - Agencies
- IPEDS - Higher Education
- Focus on Continuing Expenses
- Maximum Credible Event

# Application and Reality

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- ◆ Many agencies and institutions have facilities that produce revenue, earn income or are critical to the state's operations
- ◆ Damage or destruction of these facilities disrupt revenue flow, cause a direct loss of income, or increase operating costs

# Obtaining More Information

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