



THE CHARTERED INSTITUTE
OF LOSS ADJUSTERS

A BASIC INTRODUCTION TO BUSINESS INTERRUPTION CLAUSES & DEFINITIONS

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1. Purpose of Paper

The purpose of this paper concerning Business Interruption is to explain the basic Clauses and Definitions often found in a Business Interruption (BI) policy wording. The following Clauses and Definitions will vary from policy to policy and as with all claims, it is incumbent upon the adjuster to verify the policy wording.

Unlike the vast majority of insurance policies we commonly deal with, BI policies set out how the admissible loss is computed. In common with any other contract, the Policyholder and Insurer are bound by the contractual terms; the calculation of the amount to be paid to the Policyholder as an Indemnity is of course no exception to this.

The table below includes typical Clauses and Definitions within BI policy wordings that require consideration when calculating a claim. The definitions are to be taken as guidance only and it is crucial that all definitions are verified within the policy and from case law etc.

WORDING	DEFINITION
Alternative Trading Clause	If the Business trades elsewhere during the Indemnity Period, the Turnover earned mitigates the loss and thus the payment to the Insured.
Annual Turnover	The Turnover during the twelve months immediately before the date of the Incident.
Declaration Linked	A basis of BI cover introduced to avoid underinsurance. Turnover and Gross Profit are estimated by the Insured. Within six months of renewal the Insured's auditors certify the actual figures. The premium is then adjusted accordingly. There is no underinsurance penalty on this type of cover, only a limit (typically 133 ⅓ of the estimated Gross Profit) to the amount payable. No proportionate reduction clause applies.
Extensions	These may include, amongst others: Denial of Access – cover available in certain circumstances where access to the insured's business is not possible. Public Utilities – cover available if there is a failure of a Public Utility, Customers Extension – cover where the damage is at a Customer's premises, Suppliers Extension – cover where the damage is at a Suppliers premises.
Gross Profit	Often defined as the amount by which (i) the sum of the amount of the Turnover and the amounts of the closing stock and work in progress shall exceed (ii) the sum of the amounts of the opening stock and work in progress and the amount of the Uninsured Working Expenses



	Alternatively: Sales less Cost of Sales – Cost of Sales defined within policy wording.
Increase in Cost of Working	The additional expenditure necessarily and reasonable incurred for the sole purpose of avoiding or diminishing the reduction in Turnover which but for that expenditure would have taken place during the Indemnity Period in consequence of the damage, but not exceeding the sum produced by applying the Rate of Gross Profit to the amount of the reduction thereby avoided. The costs incurred must therefore be “economic”.

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