Business Interruption Insurance

Business Interruption Insurance (also known as Fire Loss of Profit or F.L.O.P.) covers the loss of income that a business suffers after a fire or a natural disaster while its facility is either closed or in the process of being rebuilt after it. A property insurance policy, popularly called as Fire Insurance in India, only covers the physical damage to the business, while the additional coverage allotted by the Business Interruption policy covers the profits that would have been earned. The policy is designed to put a business in the same financial position it would have been in if no loss had occurred.

This policy is not sold as a stand-alone policy, but can be added onto the Fire policy or any Comprehensive Package policy.

Coverage

The following are typically covered under a Business Interruption Insurance policy:

- Profits- Profits that would have been earned (based on prior months' financial statements);
- Fixed Costs- Operating expenses and other costs still being incurred by the property (based on historical costs);
- Temporary Location- The extra expenses for moving to, and operating from, a temporary location;
- Extra Expenses- Reimbursement for reasonable expenses (beyond the fixed costs) that allow the business to continue operation while the property is being repaired;

This coverage extends until the end of the business interruption period, which is determined by the insurance policy. Most insurance policies define this period as starting on the date of the covered peril and the damaged property is physically repaired and returned to operations under the same condition that existed prior to the disaster or the period mentioned in the policy, whichever is earlier.

In addition, businesses can purchase contingent business interruption coverage, which pays out when a business is unable to operate because of an event (such as a natural disaster) that damages the business premises of one of its suppliers, thus preventing it from engaging in normal trade.