



Texas Department of Insurance

Consumer Protection – Public Education, Mail Code 111-1A

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Business Interruption Coverage

Having to temporarily close a business damaged by a fire, natural disaster, or other similar event could cause significant financial hardship for a company. A commercial property insurance policy might pay to rebuild your physical property, but many business owners also buy business interruption coverage to pay for lost income, operating expenses, and extra expenses while they're restoring their operations after experiencing a covered loss.

How Business Interruption Coverage Works

Business interruption coverage compensates you for lost income and certain operating expenses if you are forced to vacate your business because of a loss covered in your policy. Payments typically begin 24 to 48 hours after the loss occurs or after you pay a deductible.

You will only receive payments if your property is damaged or destroyed by a risk or peril covered by the policy language. Typically, business interruption policies cover losses from fire, lightning, windstorms (except along the Gulf Coast), vandalism and theft, vehicles, aircraft, and civil commotion.

Most commercial property policies exclude flood coverage. If you bought separate policies for flood or windstorm coverage, ask your agent if those policies include business interruption coverage.

Business interruption coverage usually won't cover losses from earthquakes, disease pandemics, terrorism, weather-related evacuations, or loss of electricity or utilities not directly resulting from damage to your property.

Make sure you understand what your policy does and does not cover. Also make sure you know your policy's dollar limits. Review your policy carefully and talk to your agent if you need clarification.

Types of Coverage

There are four types of coverage that are typically associated with business interruption coverage. Determine which coverages are important to you.

- **Business income coverage.** Business income is net profit or loss before taxes and continuing normal operating expenses, including payroll. The amount of the payment you'll receive is determined by previous sales volumes and expenses based on the business' financial records.

- **Extra expense coverage.** Extra expenses are those above and beyond your normal monthly expenses that are expended to restore a business either at the original or at a temporary location. This coverage can also be purchased alone and could provide sufficient coverage without purchasing business interruption coverage.
- **Contingent business interruption coverage.** This coverage compensates you for any income you might have lost due to property loss or damage at a supplier's or customer's location. For instance, this coverage would pay you for lost income if you own a florist shop and your main flower supplier's business location suffers fire damage.
- **Civil authority coverage.** This coverage would pay for loss of income or extra expenses as a result of a government denying you access to your business due to a covered loss at a location owned by someone else.

How to Get Coverage

- **Through a commercial property policy.** Many commercial property insurance policies include business interruption coverage, either within the body of the policy or as an endorsement. Ask your agent if it's included in your policy.
- **Through a business owner's policy (BOP).** BOP policies are tailored to the needs of small-business owners and combine property, liability, and business interruption coverage in one policy.
- **Through a separate business interruption policy.**

Shopping for a Policy

Keep a few key points in mind when shopping for business interruption coverage and deciding how much coverage you need.

- Ensure policy limits are sufficient to cover your business for more than a week while you're getting the business running again. Consider the cost of rent payments, utilities, salaries, equipment lease payments, and all other operating expenses.
- Consider the likelihood of a covered cause of loss affecting your business. If your business is near the Gulf Coast, for example, you may be at a greater risk for hurricanes than businesses located inland.
- Consider how long it would take to resume normal business operations at a permanent or temporary location after suffering a loss. If necessary, would it be easy to relocate and resume business quickly?
- Premiums will likely be based on the business' risk of suffering damage caused by a covered peril. A restaurant, for example, might be charged a higher premium than a doctor's office because of the greater risk of fire.

- Make sure you understand the exact dollar amount of the coverage and the length of time it will pay. Review the policy carefully or ask your agent for an explanation.

For More Information

If you have questions about insurance, call TDI's Consumer Help Line or visit the TDI website

1-800-252-3439

463-6515 in Austin

www.tdi.state.tx.us

If you have an insurance-related complaint, we may be able to help. You may file a complaint with TDI in a variety of ways:

- by completing the online complaint form
- by e-mail at ConsumerProtection@tdi.state.tx.us
- by fax at 512-475-1771
- by mail at

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