Do I need Back in Business insurance?

Back in Business insurance (also known as Business Interruption or 'loss of profits') is designed to compensate you for the money you lose when you are not fully operational due to an insured event. From loss of profits and ongoing expenses, such as rent and wages, to the costs associated if you need to relocate to temporary premises. It provides much needed financial assistance when your business needs to bounce back quickly.

What does Back in Business insurance cover?

Back in Business insurance allows you to insure **your business revenue**, which is calculated primarily by reference to the amounts shown at G1 total sales on your BAS, for a period of time, which we refer to as an indemnity period.

Should your business then suffer a reduction in revenue as a result of an insured event, which is often the case, your Back in Business insurance will seek to cover the shortfall, allowing you to continue to pay your fixed overhead expenses.

How much Back in Business insurance is enough?

Of all the different insurances available, Back in Business insurance is perhaps the most important one to make sure the insured amount is correct.

This is because unlike other insurance policies, most business interruption insurance policies are subject to strict co-insurance clauses, which require you to insure 100% of your businesses revenue.

How to avoid under-insurance

Under-insurance can arise as a result of a failure:

- to correctly assess the amount of insurance cover you need;
- to select an *appropriate indemnity* period for back in business cover;
- to take account of the fact that *accountancy definitions of gross profit are different to insurance definitions* when arranging business interruption cover; and
- to keep sums insured under review from year-to-year.

Research has shown that business interruption is one of the most under-insured risks for small to medium businesses in Australia. Unfortunately, it's also one of the most critical covers if you want your business to survive a major crisis.

Business interruption insurance protects your business income if you're unable to operate from your premises due to Property Damage.

If you're unable to trade, you still need to meet your fixed expenses such as loan repayments, rent and wages. Business interruption insurance can supply you with an income stream to pay for fixed expenses and replace lost profits.

What is risk?

A risk is the likelihood of something happening as a result of a hazard or threat and the impact it will have on your business activity. Risk arises out of uncertainty. It is measured in terms of the likelihood of it happening and the consequences if it does happen.

It is not always easy to recognise the hazards or threats that can lead to adverse consequences. For example, unless you have experienced a fire you may not realise how extensive fire damage can really be. Damage to the building and its contents are obvious exposures, but you should also consider the impact on the business during the time that it takes to get the business back to normal and the effect of customers and staff who may not return when you re-open the business.

Risks may be treated in a number of ways and Insurance is one method of sharing risk. You pay an insurance premium, rather than run the risk of not being protected against the possibility of a much larger loss.

Indemnity Periods

The indemnity period is the maximum length of time, specified in months, that the policy will support the business following an insured event causing an interruption to the business.

When calculating business interruption sums insured on an annual basis they must be increased accordingly if an indemnity period greater than 12 months is selected.

In most circumstances, a minimum indemnity period of 24 months should be considered for SMEs to take into account site clearance, design and planning applications, rebuild time, replacement of plant and machinery, sourcing stock and rebuilding the customer and supplier base.

The indemnity period explained

The indemnity period is the amount of time during which a business owner can claim the benefits of their business interruption insurance policy.

It's typically the most important part of arranging the policy because the period decided will determine the total loss of interruption.

Business owners should be mindful not to underestimate the length of time it could take for the company to be back to full operating capacity.

The indemnity period generally operates from the date of property damage caused by an insured event. Cover does not automatically cease when the building, or other damaged property, has been repaired or replaced. It will continue, subject to the indemnity period selected, until the results of the business are no longer adversely affected

NB. Don't forget that if you double the indemnity period from 12 to 24 months you need to double the amount you wish to insure, taking into account any business trends (either upwards or downwards). If you don't, you will only be insured for half what you should be and average will apply.

Revenue (or Loss of Income) sums insured is the amount of money paid or payable to you for goods sold, work done and services rendered, in the course of your business activities, for the indemnity period selected. Revenue is also known as sales or turnover.

Loss of Rent/Rent receivable sums insured should reflect the amount of the rent received or receivable (including base rental, turnover rental and contributions to outgoings) income of the indemnity period selected.

Accounts Receivable is an accounting name for the money owed to your business by your customers. It is the total amount of money your customers have agreed to pay, but have not yet paid, for the goods or services you have already provided.

If a business' records of those accounts receivable were damaged or destroyed, many customers might not pay their bills. Accounts receivable insurance indemnifies businesses for their financial losses when they are unable to collect money owed because of physical damage or destruction to accounts receivable records. It also pays the expense of reconstructing those records.

It is important to note that the scope of accounts receivable insurance does not cover any losses due to bad debt.

Increased cost of working

The other element of cover under a business interruption policy is 'increased cost of working'. Certain expenses may be incurred following loss or damage to try to maintain business activity, such as renting alternative premises, hiring additional staff and additional advertising. A business interruption policy provides cover for such risks, so long as there is an equivalent saving in the loss of gross profit claim that would otherwise be paid.

Claims preparation costs [Professional fees]

Cover includes the cost of accountants' or auditors' fees incurred in preparing a claim. There is a separate insured amount/limit for this item. This is the only class of business that allows for the preparation of your insurance claim to form part of the claim itself.

Reinstatement of insured amount

If AAMI pay an amount for a claim under the Back in Business Policy section, we will automatically reinstate the insured amount.

You will not have to pay any additional premium.

NB. This Extra cover does not apply if we pay the full insured amount in respect of a single claim under the Back in Business Policy section.

Small Business Insurance

AAMI offers a range of Small Business Insurance cover so you can find the cover that's right for your business' needs. From Public Liability to **Back in Business** cover and more. With AAMI Business Insurance we have options to your business.

Visit www.aami.com.au/business-insurance/small-business