

COMMERCIAL LINES MANUAL
DIVISION ONE
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A4115. BUSINESS INTERRUPTION COVERAGE

A. Application

1. Endorsement

Coverage may be provided to address the insured's business interruption resulting from direct and accidental loss or damage to scheduled property. The loss or damage must be caused by or result from a covered cause of loss while the scheduled property is located within the coverage territory. Use Business Interruption Coverage Endorsement **CA 99 05**.

2. Description Of Coverage

Endorsement **CA 99 05** may be used to provide Business Income And Extra Expense Coverage or Business Income (Without Extra Expense) Coverage.

a. Business Income Coverage

Business Income Coverage pays for the insured's actual loss of business income due to the necessary suspension (slowdown or cessation) of the insured's operations during the period of restoration. The suspension must be caused by direct and accidental loss or damage to scheduled property.

b. Extra Expense Coverage

If provided, Extra Expense Coverage pays for actual and necessary expenses the insured incurs during the period of restoration that would not have been incurred if there had been no direct and accidental loss or damage to scheduled property. This includes expenses for temporary use of other property, but does not include the expense to repair or replace property.

c. Additional Coverages

(1) Extended Business Income

If a loss is payable under Business Income Coverage, Extended Business Income Additional Coverage will pay for the actual loss of business income (if any) that continues after scheduled property is repaired or replaced and operations are resumed. Extended Business Income Additional Coverage applies for a maximum of 60 consecutive days, unless a different number of days is shown in the Schedule of Endorsement **CA 99 05**.

(2) Temporary Substitute And Newly Acquired Property

Under certain circumstances, the coverage provided by Endorsement **CA 99 05** is extended to apply to newly acquired property and property used as a temporary substitute for scheduled property.

d. Definitions

(1) Scheduled Property

Coverage applies with respect to scheduled property, which means the items of property described in the Schedule of Endorsement **CA 99 05**, including machinery or equipment that is permanently installed in such property. Scheduled property may include property which the insured depends on to conduct the business activities described in the Schedule, such as autos and mobile equipment. However, scheduled property does not include buildings, locations or premises.

(2) Period Of Restoration

For Business Income Coverage, the period of restoration means the period of time that begins 72 hours after the time of the direct and accidental loss or damage to scheduled property, unless a different number of hours is shown for the Business Income Coverage Waiting Period in the Schedule of Endorsement **CA 99 05**. For Extra Expense Coverage (if applicable), the period of restoration begins immediately after the direct and accidental loss or damage to scheduled property. For both coverages, the period of restoration ends on the earlier of the date when scheduled property should be repaired or replaced with reasonable speed and similar quality, or the date when operations are resumed.

(3) Operations

Operations mean the insured's business activities that are dependent on scheduled property. Such business activities must be described in the Schedule of Endorsement **CA 99 05**.

(4) Business Income

Business Income means the:

- (a)** Net Income (Net Profit or Loss before income taxes) that would have been earned or incurred; and

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(b) Continuing normal operating expenses incurred, including payroll.

e. Covered Causes Of Loss

The applicable covered causes of loss must be indicated in the Schedule of Endorsement **CA 99 05**. Options for Collision, Comprehensive and Specified Causes of Loss function similarly to the corresponding ISO Commercial Auto physical damage coverage insuring agreements. The covered causes of loss applicable in Endorsement **CA 99 05** need not match those applicable to the physical damage coverage (if any) provided with respect to scheduled property.

f. Limit Of Insurance

The Limit of Insurance shown in the Schedule of Endorsement **CA 99 05** is the most that will be paid in any one occurrence for the total of all business income loss and (if applicable) extra expense attributable to all items of scheduled property which are subject to that Limit. Payments made under the additional coverages for Extended Business Income or Temporary Substitute And Newly Acquired Property are part of, not in addition to, the applicable Limit of Insurance.

If multiple items of property are scheduled, all such items may be written under a single Limit, or separate Limits may be written for individual items. For instance, if each item of scheduled property supports a separate income stream, then separate Limits could be written; if several items of scheduled property support the same income stream, a single Limit could be written. The Schedule provides separate options for these two approaches, as follows:

- (1) Use Option A if there is only one item of scheduled property or to show a separate Limit of Insurance for each item of scheduled property. The Limit of Insurance can be the same amount for each item or a different amount for each item.
- (2) Use Option B if multiple items of scheduled property are written under a single Limit of Insurance.

Both options may be used for a particular policy, provided that a particular item of scheduled property is described under only one option.

g. Insurance To Exposure

The following steps provide a means of estimating the business interruption exposure, which may be used as information when determining the appropriate Limit of Insurance:

- (1) Estimate the maximum period of restoration. This is the longest amount of time it would take for the insured to repair or replace scheduled property and resume operations (business activities that are dependent on such property).
- (2) Estimate the maximum amount of business income loss during the maximum period of restoration. (Business income means net income and continuing normal operating expenses including payroll.)
- (3) If Extra Expense Coverage is provided, estimate the maximum amount of extra expense that would be incurred during the maximum period of restoration.
- (4) For the duration of Extended Business Income Additional Coverage, estimate the maximum amount of business income loss (if any) that would continue after scheduled property is repaired or replaced and operations are resumed.
- (5) Add the results of Paragraphs (2), (3) and (4) to determine the estimated business interruption exposure.

If more than one Limit of Insurance is written, repeat the above steps for each such Limit.

B. Premium Development

Apply the following procedures to determine the premium for each Limit of Insurance. For each Limit, determine the premium separately for each applicable covered causes of loss option (Specified Causes of Loss or Comprehensive, and/or Collision).

1. Determine the base loss cost in Table **A4115.B.1.(LC)**, based on the coverage provided and the applicable covered causes of loss option.
2. Divide the Limit of Insurance by 100 and multiply the result by the base loss cost determined in Paragraph 1.
3. Multiply the result by the appropriate factor in the following table corresponding to the number of days' coverage for Extended Business Income Additional Coverage:

Number Of Days*	Factor
30	0.90
60	1.00

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90	1.05
120	1.10
150	1.20
180	1.25
270	1.30
365	1.35
450	1.40
540	1.45
630	1.50
730	1.55

* Interpolation not permitted

Table A4115.B.3. Extended Business Income Additional Coverage Factors

4. Multiply the result by the appropriate factor in the following table corresponding to the duration of the Business Income Coverage Waiting Period:

Duration Of Waiting Period	Factor
72 hours	1.00
24 hours	1.17
No waiting period	1.25

Table A4115.B.4. Business Income Coverage Waiting Period Factors

5. When multiple items of scheduled property are written under a single Limit of Insurance, evaluate the Limit to determine the proportion that the Limit bears to the estimated business interruption exposure. Calculate that proportion by dividing the Limit by the amount determined in Paragraph **A.2.g.**, and then multiplying the result by 100 to convert to a percentage. Select the factor in the following table that corresponds to that percentage. Multiply the result of Paragraph **B.4.** by the selected factor.

Percentage Of Insurance To Exposure	Factor
75% or more	1.00
50% to 74.9%	1.75
25% to 49.9%	2.50
Under 25%	3.25

Table A4115.B.5. Insurance To Exposure Factors

C. Examples Of Coverage Selection And Related Rating

The following examples illustrate how the coverage options available in Endorsement **CA 99 05** might be selected and rated for two hypothetical insureds.

1. Example 1

The insured is XYZ Construction, which uses a wide range of vehicles and mobile equipment in support of various construction activities. It is determined that loss or damage to the insured's customized concrete pumper (which can pump concrete to great heights for skyscraper construction) might result in a business interruption.

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a. Determination Of Estimated Business Interruption Exposure

The business income dependent on the concrete pumper is approximately \$10,000 per month (business income means net income and continuing normal operating expenses including payroll). If the pumper were destroyed, a replacement would need to be custom ordered and it would take the manufacturer five months to build and deliver it. In the meantime, no temporary substitutes are available at any price. As such, the insured does not anticipate incurring any extra expense during the period of restoration while the replacement is being built. The insured would not be able to complete any work which is reliant on the concrete pumper during the period of restoration and expects to incur a business income loss of \$10,000 per month. Additionally, the insured believes that the business income dependent on the concrete pumper will not return to normal until four months after the pumper is replaced, since it is typically reserved several months in advance of the beginning of work. The estimated loss of business income over this four month period after the pumper is replaced is \$25,000. The estimated business interruption exposure for the concrete pumper is \$75,000, which is the sum of the estimated loss of business income (\$50,000 during the period of restoration plus \$25,000 after the pumper is replaced) and estimated extra expense (\$0).

b. Determination Of Coverage Options

- (1) The concrete pumper, along with the business activities that are dependent on such property, would be described in the Schedule of Endorsement **CA 99 05**.
- (2) Since the insured anticipates a loss of business income but does not expect to incur any extra expense, Business Income (Without Extra Expense) Coverage is selected.
- (3) The covered causes of loss options for Collision and Comprehensive are both selected.
- (4) Since the loss of business income would likely continue for four months after the concrete pumper is replaced, 120 days' coverage for Extended Business Income Additional Coverage is selected. The standard 72-hour waiting period for Business Income Coverage is also chosen.
- (5) A \$75,000 Limit of Insurance is selected (Option A in the Schedule of Endorsement **CA 99 05**), which matches the estimated business interruption exposure.

c. Rating Example

The following is an example of how to determine the premium for the coverage options in Endorsement **CA 99 05** selected for XYZ Construction, a hypothetical insured. The loss costs and factors used in this example are for illustrative purposes only. You should determine the actual rates and factors from your individual companies.

- (1) The Comprehensive base loss cost for Business Income (Without Extra Expense) Coverage is: \$0.25.
- (2) Divide the Limit of Insurance by 100 and multiply the result by the base loss cost: $(\$75,000 \div 100) \times \$0.25 = \$187.50$.
- (3) Multiply the result by the Extended Business Income Additional Coverage factor for 120 days' coverage: $\$187.50 \times 1.10 = \206.25 .
- (4) Multiply the result by the factor for a 72-hour Business Income Coverage waiting period: $\$206.25 \times 1.00 = \206.25 , which is the Comprehensive premium. (The factors in Paragraph **B.5**. do not apply because only one item of scheduled property is subject to this Limit of Insurance).
- (5) Since Collision is a covered cause of loss, the above steps are repeated using the Collision base loss cost of \$0.50 for Business Income (Without Extra Expense) Coverage. The result is a Collision premium of \$412.50: $(\$75,000 \div 100) \times (\$0.50 \times 1.10 \times 1.00) = \412.50 .

2. Example 2

The insured is ABC Document Management, which owns eight mobile shredding trucks which are used to shred documents at each client's place of business. It is determined that loss or damage to any of these mobile shredders might result in a business interruption.

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a. Determination Of Estimated Business Interruption Exposure

The business income dependent on the mobile shredders is approximately \$60,000 per month (\$7,500 per shredder); business income means net income and continuing normal operating expenses including payroll. In the event of a total loss, it would take approximately one month for replacement(s) to be delivered. However, incurring certain extra expense would enable the insured to continue shredding operations during the period of restoration, though less efficiently. Similar mobile shredders are not available for rental, but ABC can shred certain documents at its premises. To do so, the insured would need to rent trucks to transport the documents to its premises for destruction and hire temporary employees to help load and unload the trucks. If the insured incurs \$3,000 per month in such extra expense for each mobile shredder, the loss of business income would only be \$2,000 per month, per shredder. Because operations could continue during the period of restoration, the insured does not believe that any business income loss would continue after the shredder(s) are replaced. Thus, the total estimated business interruption exposure for all the shredders is \$40,000 (the per-shredder amounts of \$2,000 in business income loss plus \$3,000 in extra expense, multiplied by eight shredders).

b. Determination Of Coverage Options

- (1) All eight mobile shredders, along with the business activities that are dependent on such property, would be described in the Schedule of Endorsement **CA 99 05**.
- (2) Since the insured anticipates a loss of business income and expects to incur extra expense, Business Income Coverage And Extra Expense Coverage is selected.
- (3) The covered causes of loss options for Collision and Comprehensive are both selected.
- (4) Since the loss of business income is not expected to continue after the mobile shredder(s) are replaced, 30 days' coverage for Extended Business Income Additional Coverage is selected. The standard 72-hour waiting period for Business Income Coverage is also chosen.
- (5) A single \$10,000 Limit of Insurance is selected to apply in total to all of the mobile shredders (Option B in the Schedule of Endorsement **CA 99 05**). Although this Limit is less than the total estimated business interruption exposure of \$40,000 for all eight mobile shredders, the Limit was selected because ABC believes it would be unlikely that more than two mobile shredders would be damaged in the same occurrence. ABC is unwilling to purchase Limit(s) corresponding to the total estimated exposure of \$40,000.

c. Rating Example

The following is an example of how to determine the premium for the coverage options in Endorsement **CA 99 05** selected for ABC Document Management, a hypothetical insured. The loss costs and factors used in this example are for illustrative purposes only. You should determine the actual rates and factors from your individual companies.

- (1) The Comprehensive base loss cost for Business Income And Extra Expense Coverage is: \$0.28.
- (2) Divide the Limit of Insurance by 100 and multiply the result by the base loss cost: $(\$10,000 \div 100) \times \$0.28 = \$28$.
- (3) Multiply the result by the Extended Business Income Additional Coverage factor for 30 days' coverage: $\$28 \times 0.90 = \25.20 .
- (4) Multiply the result by the factor for a 72-hour Business Income Coverage waiting period: $\$25.20 \times 1.00 = \25.20 .
- (5) Since the Limit of Insurance applies in total to multiple items of scheduled property and the Limit is not adequate to cover the estimated business interruption exposure, multiply the result of Paragraph (4) by the appropriate factor in Paragraph **B.5**. To determine the appropriate factor, divide the Limit by the estimated business interruption exposure determined in Paragraph **A.2.g.** and then convert the result to a percentage: $\$10,000 \div \$40,000 = 0.25 \times 100 = 25\%$. Based on Table **A1115.B.5.**, the Insurance To Exposure factor is 2.50. Thus, the Comprehensive premium is \$63: $\$25.20 \times 2.50 = \63 .
- (6) Since Collision is a covered cause of loss, the above steps are repeated using the Collision base loss cost of \$0.55 for Business Income And Extra Expense Coverage. The result is a Collision premium of \$123.75: $(\$10,000 \div 100) \times (\$0.55 \times 0.90 \times 1.00 \times 2.50) = \123.75 .