

Dealing With Indirect Loss

One major duty of a business owner is to protect his or her company's assets. The logical focus may be on handling threats to your tangible assets, such as buildings, equipment, office furniture, etc. However there is another area of concern that is critical for survival. Consider the following:

Example: Paula's Dry Cleaning suffered a minor fire caused by a short-circuit in a dryer. While the actual fire damage was negligible, it was accompanied by a lot of smoke and residue. The dryer could be repaired and cleaned in a few days, but the premises would take three weeks to properly clean and decontaminate.

In this case, the business owner's loss of use of her store was a far greater loss than the actual damage to the physical item (dryer). Depending upon the type of loss and the type of business you operate, intangible or indirect losses (also known as Time Element losses) may threaten your operation's financial health as seriously as any direct loss.

The term Time Element describes losses to businesses that occur because of the time needed to repair or replace property that has suffered direct damage. The longer repairs take, the greater the amount of the time-related loss.

Direct Versus Indirect Damage

Direct damage refers to tangible damage to property. A fire occurs to a warehouse. That warehouse has experienced direct damage. Time element damage is not as clear. It refers to property being damaged or destroyed and then the business must stop operations until the property is repaired or replaced and normal operations resume. The amount of the loss is not always dependent on the value of damaged property. Rather, it is related to the impact the loss has on regular operations.

Insurable Vs. Business Risk

Tangible losses are not the sole cause of time element losses. Any event that interrupts operations causes a time element loss.

Example: A printing plant's employees go on strike for two months, closing down operations.

Example: A local restaurant featuring Australian cuisine loses 80% of its business when customers' tastes change.

However, these are business risks and are not eligible for protection under most insurance contracts.

Securing Coverage

If you decide to purchase coverage against indirect loss, be sure that it addresses any loss of business income as extra expenses that are created by a direct loss. Getting adequate protection means you'll have to determine the level of income coverage you may need, the likely length of business interruption you may suffer and the importance of continuing operations. Once you determine your priorities, you can find matching coverage.

Example: An insurance agent's office is severely damaged by fire. She keeps a full set of backup files at a remote location. The agent will not actually lose any income because of the loss of her office, but she will need to rent temporary replacement space, furniture, equipment, communications services, etc. She will also incur significant costs to notify clients and insurers and other expenses to maintain her operation while she rebuilds or finds a new office.

You have invested a lot in your business. It is important to be sure that you take the steps to deal with both direct and indirect sources of loss. As usual, it is always a good idea to discuss your questions and needs with an insurance professional.

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