Business Interruption

Determining the right maximum indemnity period

We're committed to being here for businesses, delivering support that helps determine the right level of insurance cover. Helping to make sure adequate business interruption protection is in place, is one way in which we're doing this, ensuring businesses have a length and level of cover that won't leave them underinsured should a claim occur.

Working out the right level of cover means considering all the factors that can affect the length of time it could take to get back to business at the level expected, were it not for the interruption. Remember that many businesses' income will likely be higher in future years than it is today – it's that future income we're protecting. There are three key stages to consider when assessing how long it might take to fully recover following a major loss:

Pre-rebuild → **Rebuilding the premises** → **Rebuilding the business**

When considering each of these stages it's important to recognise that many of these factors are outside of the businesses' control and can lead to unexpected delays, extending the amount of time it will take to recover.

Without the right level of business interruption cover, businesses are at significantly increased risk of never recovering following a loss – a potentially devastating consequence for the business owner, employees and other parties associated with the business.

Business Interruption Calculator

The Aviva Business Interruption Calculator is an online tool that helps make sure businesses have the right level of cover, using key information about the business to recommend the level of cover required, as well as the indemnity period, should there be a major loss.

Pre-rebuild

Rebuilding a premises doesn't happen right away. There are a number of, often slow-moving, steps that need to be taken before the rebuild can begin.

Investigation time

Large losses, particularly fires, will often be due to a criminal or negligent act. As such, they'll require investigation by the fire authority, police, Health and Safety England and insurance company. In certain circumstances, for example if a premises is declared a crime scene, it could take six months or longer before the business can regain access to the site.

Site access, clearance and pollution

The remains of the building could be structurally unsound and will need to be 'made safe' before the site can be accessed and safely cleared. Any site pollution will also need cleaning up in accordance with safety regulations. For example, chemicals spread by extinguishing water or asbestos fibres contained in the roof spread by smoke.

Planning permission

The planning process can take considerable time and, while council officers can decide smaller planning applications, larger applications are normally decided by the major planning committee involving councillors. Even relatively modern properties may encounter additional planning requirements for rebuild to include environmental/carbon-neutral features and/or flood alleviation measures. In exceptional situations, the additional planning time can be considerable. For example, a sports club in London waited nearly 18 months before it received planning permission to make sure it met carbon-neutral requirements.

Viability of location

As towns and cities expand and the nature of an area changes, it may not be possible to obtain planning permission to rebuild an industrial premises. This may mean a new build premises for a particular industry may no longer be allowed in an area that has become predominantly residential or affected by environmental considerations.

Rebuilding the premises

Once the site has been cleared and planning permission obtained, there are further factors that may affect the actual rebuild period.

Location

Properties in built-up urban areas or close to major roads, railways or rivers may have access issues, require road closures or necessitate restricted working hours. For example, damage to a city-centre cinema required local authority permission for roads to be closed while cranes were brought in for repair work.

Listed properties and conservation areas

If a property is required to meet special architectural or historic character regulations there may be a delay in obtaining suitable materials or in engaging craftsmen who can do the work.

Building contractors and materials

Major UK projects may reduce the availability of labour and materials to carry out the rebuild. Also, materials and labour availability can be acutely constricted by global and economic events out of any of our control.

Fitting out and approvals

Once the main structure is built it can take considerable time to fit the premises out for the needs of the trade and for these to be approved by a regulatory body. For example, food premises need to be fitted out with non-combustible hygiene panels and approved by trade associations such as the British Retail Consortium.

Rebuilding the business

Once the premises have been rebuilt, there are still other considerations before a business can hope to get back up to speed.

Machinery and plant

While the planned replacement of one item of machinery may not be an issue, the unplanned replacement of all machinery and plant can take considerable time.

Existing machinery may be obsolete, bespoke or require alterations to be fit for purpose.

Often, machinery is manufactured abroad, meaning long lead times. Once delivered, machinery will then take time to install, commission and run in.

If the lead time on machinery is long or needs things such as reinforced foundations, extensive connecting pipework or extraction, it's unlikely that a business will be able to find, or install, replacement machinery in temporary premises.

Even where machinery and plant are easily replaced, it can take many more months to replace custom tools and moulds.

Supplies

There may be issues with replacing lost or damaged stock. Increasingly, products are manufactured in the other countries with specified manufacturing slots which can't easily be repeated, and long lead and shipping times. Often a limited amount of stock is manufactured, such as for fashion seasons, and no more will be manufactured.

For example, a business had to order products six months ahead in order to fit in with the manufacturing slots of their Chinese supplier. With shipping added, it could be up to nine months before lost stock is replaced.

Customers

While some customers may be retained by operating from temporary premises, it's unlikely that businesses be able to retain/recover the majority of their customers until the business returns to the rebuilt premises with fully operational new machinery. The time taken to recover customers must therefore be added to the rebuild/machinery replacement time. This time will depend on the size of the customer base, how competitive the market is and where the business sits within that market.

For example, a supplier to a major national retailer lost a contract that made up a large part of their business. It took them two years to replace this with alternative smaller contracts.

Seasonality

Seasonality can also have an impact on recovery. A business that does a large percentage of their business at one time of the year – Christmas, for example, may find that if they suffer a loss just before this peak, the business might struggle to be back in full operation by the time Christmas rolls around the next year.

The three fundamentals of business recovery

The ability of a business to recover after a major loss relies on it being prepared in three core areas:

Property sums insured

Sufficient insurance needs to be in place to cover the costs of reinstating or repairing the damage to buildings, contents and stock. A shortfall in cover isn't payable as part of a business interruption claim but can often lead to unnecessary delays.

Business continuity planning

While having a business continuity plan may not reduce the maximum indemnity period needed, it's one of the most effective tools in ensuring that a business recovers. A well-developed and regularly reviewed and tested business continuity plan can not only help protect the business, but can also be useful in reassuring customers that measures have been taken to protect the ongoing success of the business – and, by extension, theirs.

Business Interruption Calculator

The Aviva Business Interruption Calculator uses key information about businesses to recommend the level of cover required, as well as the indemnity period should a major loss be suffered.

The results from the Aviva Business Interruption Calculator are offered on an as-is basis, without any warranties or guarantees. Aviva isn't responsible for any inaccuracies or incomplete information. It's important to make sure that any actions taken are suitable for the specific needs of the business.