

SPECIAL REPORT

WHY A 12-MONTH ACTUAL LOSS SUSTAINED BUSINESS INTERRUPTION COVERAGE IS NOT A GOOD IDEA

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Factors That Can Delay Rebuilding Process

After a significant loss such as a fire there are a variety of factors that need to be accomplished before rebuilding is complete. Some of these factors are as follows:

1. In the event of a fire access to the premises will be denied while the police and fire officials investigate the damage.
2. The insurance company, once having access to the premises, utilizes its experts to investigate the loss to determine if coverage applies and, if so, is subrogation a possibility against another party that possibly caused the loss.
3. Plans must be drawn by an architect in order to rebuild the building as it stood and with construction changes that may be required by upgraded building codes.
4. Debris must be removed from the land and an environmental assessment may be required by state officials if the land was contaminated because of the loss such as a fire.
5. The insured will need to interview contractors and once a contractor is selected the contractor will have to put together the costs to rebuild the building.

6. The insurance company will have to review bids that have been received and obtain their own bids in order to determine if they could rebuild the building less expensively.
7. Once the bids are complete, the insured will have to obtain a building permit and that requires a review of the plans by the city officials. It is also possible that the zoning and building use requirements have been changed since the original construction. This could require a waiver use by the zoning board or other city officials. This type of waiver use requires public hearings and public notice which takes time.
8. After the building permit is received, the contractor will have to order the steel and other building materials required. Some of these materials may not be readily available or may have to be fabricated.
9. Weather could delay the rebuilding process and, in the event the rebuilding is as a result of an overall area disaster, subcontractors and materials may not be available.
10. Even without weather and material delays, the time to rebuild a larger building can be extensive.

12-Month Actual Loss Sustained Business Interruption

1. If your coverage is written on a Business Owners Policy (BOP) you most likely have no maximum limit of payment and will be covered for your actual loss of business income, but only up to 12 months. If you feel you can resume your operations within 12 months, then you may have adequate coverage.
2. If your coverage is written on a Commercial Property Insurance Policy, you will have other options that include specific limits, but no definitive timeframe other than you must proceed diligently to repair or replace the damaged property or to relocate permanently.

Other Related Reports

Other related reports on this topic are offered by Marsh and McLennan Agency LLC on our website: www.mma-mi.com or by contacting the author.

Suggested readings:

- Coinsurance Clauses Can Be Devastating
- The Three Deadly Sins Of Property Insurance
- The Property Insurance Seesaw

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