


Key Business Income Concepts

Christopher J. Boggs, CPCU, ARM, ALCM, LPCS, AAI, APA, CWCA, CRIS, AINS
Sr. Product Manager
February 6, 2024

© Verisk Analytics, Inc. All rights reserved. 2/2024

1



Business Income


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

Continuing normal operating expenses incurred, including payroll

From ISO's definition of Business Income found in the CP 00 30 and CP 00 32

© Verisk Analytics, Inc. All rights reserved. 2

2




Net Income

Business Income Form:	VS.	Accounting/Finance:
<ul style="list-style-type: none">Defined as: "Net profit (or loss) before income taxes"AKA: EBT = Earnings Before TaxesWhen the risk is classified as a manufacturing operation, Net Income includes the sales value of production per CP 00 30 and CP 00 32		<p>Revenue - Expenses = Net Income</p> <p>Net income is the total income from revenue (sales and other income) after all business expenses (operating expenses, cost of goods sold (COGS), depreciation, interest, and taxes) are deducted.</p> <p>Net Profit: Taxes not subtracted</p>

© Verisk Analytics, Inc. All rights reserved. 3

3




Continuing Normal Operating Expenses

- Normal operating expenditures that continue (in whole or in part) during the time the operations are discontinued ("period of restoration") due to a direct property loss.
- Includes payroll, unless reduced or altered by the CP 15 10 endorsement as per the Business Income Report/Worksheet (CP 15 15)

© 2018 Verisk Analytics, Inc. All rights reserved.

4



"Period of Restoration"

"Period of restoration" means the period of time that:

- a. Begins: (1) 72 hours after the time of direct physical loss or damage for Business Income Coverage;


Ends on the earlier of:

1. the date the property **should be** repaired, rebuilt or replaced with reasonable speed and similar quality; or
2. the date when business is resumed at a new permanent location.

From ISO's definition of "Period of Restoration" found in the CP 00 30 and CP 00 32

© 2018 Verisk Analytics, Inc. All rights reserved.

5




2 "Period of Restoration" Triggers

- The "suspension" must be caused by **direct physical loss of or damage to** property at premises which are described in the Declarations....
- The loss or damage must be caused by or result from a **Covered Cause of Loss**.

From ISO's Business Income Insuring Agreement found in the CP 00 30 and CP 00 32

© 2018 Verisk Analytics, Inc. All rights reserved.

6




Factors That May Affect the "Period of Restoration"

1. Time to adjust the direct property loss;
2. Development of building plans;
3. Finding a contractor;
4. Building permits;
5. Site preparation including clearing the site of damaged or destroyed property;

© Verisk Analytics, Inc. All rights reserved.

7




Factors That May Affect "Period of Restoration"

6. Time to rebuild;
7. Time to restock;
8. Rehiring/hiring employees;
9. Replacement machinery and equipment; and
10. Any involvement by federal, state or local government following a loss.


© Verisk Analytics, Inc. All rights reserved.

8



"Period of Restoration" – In Perspective

- The "period of restoration" factors may not necessarily be linear or in order of importance.
- Several steps may be able to be accomplished simultaneously.



© Verisk Analytics, Inc. All rights reserved.

9

When Does the Period of Restoration End

Ends on the earlier of:

- (1) The date when the property at the described premises should be repaired, rebuilt or replaced with reasonable speed and similar quality; or
- (2) The date when business is resumed at a new permanent location.

From ISO CP 10 30 and CP 10 32

10


End of "POR" Not Same as Returning to Pre-Loss Income Levels

Although the insured has reached the end of the "Period of Restoration," the operation may not immediately return to pre-loss operational income levels.

11

The Result: Two Income Loss Periods

12



Securing Payment for Extended Business Income

ISO's base Business Income policies (CP 00 30 and CP 00 32) provide a limited amount of coverage under **Additional Coverage 5.c**. Coverage for Extended Business Income is limited to the earliest of:

- The insureds return to pre-loss operational income levels; or
- 60 consecutive days


If this length of coverage is not enough, the insured must:

- Decide how much additional coverage is needed; and
- Include that amount on the CP 15 15 (K.2).

No endorsement required to lengthen period. *The Extended Business Income Additional Coverage of Form CP 00 30 and Form CP 00 32 may be extended to cover additional loss of Business Income beyond 60 days by activating this Optional Coverage in the Declarations. (Rule 51.D.)*

© 2024 Verisk Analytics, Inc. All rights reserved. 13

13




Optional Periods Available

Optional Extended Periods of Indemnity available (Per Rule 51.D.)

• 90 Days	• 270 Days	• 630 Days
• 120 Days	• 365 Days	• 730 Days
• 150 Days	• 450 Days	
• 180 Days	• 540 Days	

© 2024 Verisk Analytics, Inc. All rights reserved. 14

14




Limitations on Use

Per Rule 51.D.

- Cannot be used with the Maximum Period of Indemnity
- Cannot be used if coverage is written on a no-coinsurance basis.
- This option not available for extra expense protection

© 2024 Verisk Analytics, Inc. All rights reserved. 15

15




Dependent Property Exposures

- Business Income covers loss of business income when a covered cause of loss damages an insured location resulting in a suspension of operations.
- Damage to dependent properties is **NOT** covered by the unendorsed Business Income Coverage Form.
- Rule 51.B: *The Business Income From Dependent Properties Forms...provide coverage for loss of business income sustained when the suspension of the insured's operations is caused by direct loss or damage to described **Dependent Property**.*

© Verisk Analytics, Inc. All rights reserved. 16

16



What is a "Dependent Property" (Rule 51.B.)


Dependent Property is property that the insured depends on:

1. Contributing Location ("Suppliers")
2. Recipient Location ("Buyers")
3. Manufacturing Location ("Providers")
4. Leader Location ("Drivers")

The Dependent Property must not be owned, operated or controlled by the insured.

© Verisk Analytics, Inc. All rights reserved. 17

17



The CP 15 15

- In a sense, it's Time Element's equivalent of the property schedule in ISO's Statement of Values (CP 16 15)
- A valuable tool in the Business Income underwriting process
- Designed to help the Insured and Agent Develop the 12-month estimated Business Income exposure and the ultimate limit of coverage

© Verisk Analytics, Inc. All rights reserved. 18

18

Worksheet Details

- Four Columns
 - Two for Manufacturing
 - Two for Non-Manufacturing
- Can be Divided into Two Halves
 - Two columns on right request information about the year **ENDING**
 - Second set of columns requests information about the **UPCOMING** year (estimated data)
- The **ESTIMATED** column is for the coming policy period
- Most of the Information for Completing the Worksheet can be Found in the Year-End **Income Statement**
- Does not always follow GAAP

19

Page 1 – Information Page

- **Accrual Basis:** The BI worksheet must be completed using the accrual basis of accounting.
- **Agreed Value:** If the Agreed Value coverage option has been chosen, the insured certifies the information by signature.
- **BI Premium Adjustment (CP 15 20):** If this endorsement is used, the insured certifies the information provided in the form.

20

Page 2: Income & Expense Calculation

- **"Ending" and "Estimated"**
- **Manufacturing and Non-Manufacturing**
- **"A" Gross Sales:** Applies to both manufacturing and non-manufacturing operations.
- **"B" & "C" Finished Stock Inventory:** Only Applies to Manufacturing Risk (notice grayed-out boxes in Non-Manufacturing)

21

Page 2: Sales Value of Finished Stock

B – Deduct the Sales Value of Finished Stock at the Beginning of the Period

C – Add the Sales Value of Finished Stock at the End of the Period

Developing the **Finished Stock Value**:

- Divide inventory into component parts:
 - Cost of Unfinished Stock (Raw Material and In Process)
 - Cost of Finished Stock (Internal Cost)
- Developing the Sales Value. Two possible methods:
 - "Mark Up" (Margin) Method
 - "Percentage of Net Sales" (Percentage) Method

22

Possible Methods for Developing Sales Value

- "Mark Up" (Margin) Method

$Cost \times (1 + Profit\ Margin) = Sales\ Value\ of\ Production$
- "Percentage of Net Sales" (Percentage) Method

$Traditional\ COGS / Net\ Sales = Cost\ of\ Goods\ Sold\ Ratio\ (COGSR)$
 $Cost / COGSR = Sales\ Value\ of\ Production$

23

Page 2: Gross Sales Value of Production

D – **Gross Sales Value of Production:**
Applies only to manufacturing risks.

Property/Value	CPP	BI
Raw Materials	X	
Stock in Process	X	
Cost of Finished Product	X	
Sales Values of Finished Stock Sold but not delivered	X	
Sales Value of Finished Stock not yet sold		X

24

Verisk

Page 2: Cost of Sales, Unrealized Income & Collection Expenses

E – Deduct Cost of Sales, Unrealized Income & Collection Expenses

Cost of Sales:

- Prepaid Freight – Outgoing
- Returns & Allowances
- Discounts

Bad Debts. Any spike will likely be considered a part of business income.

Collection Expenses. Any increase in collection expenses will likely be paid either as Business Income or as an "Extra Expense"

Page 2 of 6 © Insurance Services Office, Inc. 2017 CP 48 18 18 18

25

Verisk

Page 2: Net Sales & Total Revenues

F – Net Sales / Net Sales Value of Production

- Net Sales applies to non-manufacturing risks.
- Net Sales Value of Production applies to manufacturing risks.

G – Other Earnings

- Commissions or Rents
- Cash Discounts Received
- Other Income

Added to the amount in "F"

H – Total Revenues

Page 2 of 6 © Insurance Services Office, Inc. 2017 CP 48 18 18 18

26

Verisk

Page 3: Subtracting Expenses

Five Deductions to Arrive at 12-Month Business Income

1. *Cost of Goods Sold.* (See page 5 for instructions)
2. *Cost Of Services Purchased From Outsiders...To Resell, That Do Not Continue Under Contract*
3. *Power, Heat and Refrigeration Expenses That Do Not Continue Under Contract (if CP 15 11 is attached)*
4. *All Payroll Expenses Or The Amount Of Payroll Expense Excluded (if CP 15 10 is attached)*
5. *Special Deductions for Mining Properties* (See page 6 for instructions)

Page 3 of 6 © Insurance Services Office, Inc. 2017 CP 48 18 18 18

27

Verisk

Page 5: Cost of Goods Sold

Calculation of Cost of Goods Sold	12 Month Period Ending		Estimated For 12 Month Period Ending	
	Manufacturing	Non-Manufacturing	Manufacturing	Non-Manufacturing
Inventory at Beginning of Year				
Cost of Raw Materials Consumed				
Cost of Factory Supplies Consumed				
Cost of Merchandise Sold				
Cost of Other Supplies Consumed				
Inventory at End of Year				
Cost of Goods Available for Sale				
Less: Inventory at End of Year				
Cost of Goods Sold				

Complete the calculation for the period ending and the upcoming policy period.

Steps in the Process

1. **Begin** w/inventory at beginning of the year (this excludes finished stock as broken out earlier)
2. **Add:** Cost of Raw Stock purchased during the year (Mfg.)
3. **Add:** Cost of Factory Supplies Consumed during the year (Mfg.)
4. **Add:** Cost of Merchandise Sold
5. **Add:** Cost of Other Supplies Consumed

Equals: Cost of Goods Available for Sale

28

Verisk

Page 5: Cost of Goods Sold

Calculation of Cost of Goods Sold	12 Month Period Ending		Estimated For 12 Month Period Ending	
	Manufacturing	Non-Manufacturing	Manufacturing	Non-Manufacturing
Inventory at Beginning of Year				
Cost of Raw Materials Consumed				
Cost of Factory Supplies Consumed				
Cost of Merchandise Sold				
Cost of Other Supplies Consumed				
Inventory at End of Year				
Cost of Goods Available for Sale				
Less: Inventory at End of Year				
Cost of Goods Sold				

From the: Cost of Goods Available for Sale

Subtract: Inventory on Hand at the End of the Year

FINAL NUMBER: Cost of Goods Sold

29

Verisk

Page 5: Cost of Goods Sold

Calculation of Cost of Goods Sold	12 Month Period Ending		Estimated For 12 Month Period Ending	
	Manufacturing	Non-Manufacturing	Manufacturing	Non-Manufacturing
Inventory at Beginning of Year				
Cost of Raw Materials Consumed				
Cost of Factory Supplies Consumed				
Cost of Merchandise Sold				
Cost of Other Supplies Consumed				
Inventory at End of Year				
Cost of Goods Available for Sale				
Less: Inventory at End of Year				
Cost of Goods Sold				

30

Page 3: Subtracting Expenses

Industry And Expense	12 Month Period		Estimate For 12 Month Period	
	Manufacturing	Non-Manufacturing	Manufacturing	Non-Manufacturing
Power, Heat And Refrigeration				
CP 15 11				
CP 15 10				
CP 15 09				
CP 15 08				
CP 15 07				
CP 15 06				
CP 15 05				
CP 15 04				
CP 15 03				
CP 15 02				
CP 15 01				

Cost of Services Purchased from Outsiders... To Resell, That Do Not Continue Under Contract

- Applies to outside services billed by the insured as part of their services
- If there is a contract requiring payment regardless of production, then this cost is NOT deducted.

© Verisk Analytics, Inc. All rights reserved. Page 3 of 4

31

Page 3: Subtracting Expenses

Industry And Expense	12 Month Period		Estimate For 12 Month Period	
	Manufacturing	Non-Manufacturing	Manufacturing	Non-Manufacturing
Power, Heat And Refrigeration				
CP 15 11				
CP 15 10				
CP 15 09				
CP 15 08				
CP 15 07				
CP 15 06				
CP 15 05				
CP 15 04				
CP 15 03				
CP 15 02				
CP 15 01				

Power, Heat And Refrigeration Expenses That Do Not Continue Under Contract

- If the CP 15 11 is attached
- Most commonly seen with manufacturing operations

© Verisk Analytics, Inc. All rights reserved. Page 3 of 4

32

Page 3: Subtracting Expenses

Industry And Expense	12 Month Period		Estimate For 12 Month Period	
	Manufacturing	Non-Manufacturing	Manufacturing	Non-Manufacturing
Power, Heat And Refrigeration				
CP 15 11				
CP 15 10				
CP 15 09				
CP 15 08				
CP 15 07				
CP 15 06				
CP 15 05				
CP 15 04				
CP 15 03				
CP 15 02				
CP 15 01				

All "Payroll" expenses or the amount of payroll expenses excluded

- If CP 15 10 is attached
- Based on several options (i.e., position, days, contracts)

© Verisk Analytics, Inc. All rights reserved. Page 3 of 4

33

Page 3: Subtracting Expenses

Special Deductions for Mining Operations

- Royalties (unless specifically included in coverage)
- Actual depletion, commonly known as unit or cost depletion (not percentage depletion)
- Welfare and retirement fund charges based on tonnage
- Hired trucks
- (From page 6 of the worksheet)

Total is placed on appropriate line

34

Page 3: 12-Month Business Income Exposure

**TOTAL Revenue (Line "H")
(-) Specified Costs (page 3)
Business Income Exposure For 12 Months**

35

Page 4: Additional Expenses

Two Additional Expenses

- Extra Expenses (If CP 00 30)
- Extended Business Income and Extended Period of Indemnity

Result is total BI Limit for 12 months.

36

Verisk

Page 6: Mining Properties

Supplementary Information		
Calculation Of Special Deductions - Mining Properties	12-Month Period Ending:	Estimated For 12-Month Period Beginning:
Royalties, Unless Specifically Included In Coverage	\$	\$
Actual Depletion, Commonly Known As Unit Or Cost Depletion (not percentage depletion)	+	+
Welfare And Retirement Fund Charges Based On Tonnage	+	+
Hired Trucks	+	+
Enter This Figure In Item I. On Page 3.	\$	\$

Page 6 of 6 © Insurance Services Office, Inc., 2011 CP 15 15 10 12

37

Verisk

No part of this presentation may be copied or redistributed without the prior written consent of Verisk. This material was used exclusively as an exhibit to an oral presentation. It may not be, nor should it be, relied upon as reflecting a complete record of the discussion.

© Verisk Analytics, Inc. All rights reserved.

38

Verisk

Christopher J. Boggs, CPCU, ARM, ALCM,
LPCS, AAI, APA, CWCA, CRIS, AINS
Sr. Product Manager
Christopher.boggs@verisk.com

© Verisk Analytics, Inc. All rights reserved.

39
