



Explanation of terms and conditions

Business interruption indemnity periods



Making claims clear



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At AXA, we want to make dealing with us simple and trouble free, so you can get back on your feet as soon as possible after a loss.

We know the last thing you need when you make a claim is to find any surprises in your policy conditions or get tied up in legal language.

We've put this guide together to help you understand how your business interruption indemnity period can affect your claims, and what to consider when choosing the right indemnity period for your business.



Business interruption indemnity periods



Business interruption insurance compensates you for the income or profit you lose if your business is disrupted or out of action after an incident. It can help keep your business going at a difficult time.

Your indemnity period tells you how long this protection will last. But many businesses find it hard to predict how long they might be affected after an incident and work out what cover they need.

Getting this wrong can mean you don't get as much as you expect when you come to claim.

What is an indemnity period?

In business interruption, indemnity period means the maximum period during which compensation can be paid for loss of income or profit. Any claims after this period won't be covered.



What do I need to consider?

Here are some of the things you should consider when choosing the right indemnity period for your business to make sure your claims will be covered.



How long will it take to recover?

Think about how long the disruption will last. Once you are trading again, how long after that will it take for your revenue or profit to get back to pre-incident levels?

Do you have a business continuity plan?

If you don't have a tried and tested plan, it could take you longer to get up and running after an incident.

What could delay your repairs?

- If you need to rebuild, how long will the construction take?
- Is it an old building with planning restrictions?
- Do you need local authority approval?
- Is there any asbestos that needs to be removed?
- Is there access to the site for plant and materials?
- Do you need to get materials from abroad?



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Are you a tenant?

If you don't own the buildings, you won't have control over building repairs. If your landlord doesn't have enough insurance, it may delay them taking action. The courts tend to be lenient with landlords and allow them long periods to decide what to do.

Will you need to relocate?

If there is no suitable space on site for you to reopen, you may need to relocate. Depending on the nature of your business and the locations available locally, your options may be restricted, which could further delay recovery.

Do you need to replace plant machinery or vehicles?

There can be long lead times involved if you need to repair or order new plant machinery or specialised business vehicles.

Will your staff work extra hours to help you recover quickly?

Are your employees willing to work overtime, or on a different site, to help you regain lost business quickly?

If not, it could push back your return to pre-incident levels.

Will there be any impact from your supply chain?

If your supply chain will be impacted by your business interruption claim think about the implications this may have on your suppliers.

Will they be able to respond to increased demand to help you return to pre-loss levels of materials or, if you need to temporarily suspend supplies, will they be able to provide the supplies you need as soon as you are ready for them?

What indemnity periods are available?

The most common period is 12 months. However, it might be worth considering a longer period of between 2-4 years depending on the answers to the questions above.



Indemnity periods and the sum insured

Don't forget that if you increase your indemnity period, you will need to increase the amount you insure accordingly.

If you don't, you will only be insured for a proportion of your expected cover and your claim could be reduced.

In choosing how much insurance to buy, you should also consider whether you still have to pay suppliers or honour other contractual commitments even though you are not generating income. This can add significantly to your business interruption costs.

Example

A country house, which made a lot of its income from spa breaks, suffered a fire in their spa. This caused damage to the building, contents and the heating equipment and pumps for the swimming pool. The owners had a 12 month indemnity period.

The hotel was in a listed building, so the repairs had to be approved by the local authority, which insisted that special materials were used. These took several months to source. The specialist contractor had trouble finding employees with the right skill sets.

The swimming pool plant had to come from an overseas company and was held up due to production and transport issues.

As a result of these delays, the hotel spa was not fully operational until more than a year after the fire. Bookings were affected for a further year, as it took time for customers to return. However, the hotel was not covered for lost earnings in the second year as the maximum indemnity period was only 12 months. This meant the amount they received in compensation for business interruption was much less than they anticipated.



Get in touch

If you have any questions about this document, please get in touch with your usual AXA contact or your insurance broker.





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