Business interruption coverage: what happens to income after a shutdown

When a business has to close its doors unexpectedly, the loss of income can be more damaging than the event that caused the closure. A fire, a natural disaster, or even a public health order can force operations to stop for days, weeks, or months. During that time, fixed costs like rent, loan payments, and payroll still need to be met. Business interruption coverage is designed to bridge that gap, replacing lost income and helping a company survive until it can reopen.

This type of coverage is often packaged with a commercial property policy, but it is a distinct product with its own rules and limits. Understanding how it works, what it covers, and where the gaps lie is essential for any business owner who wants to protect their financial stability against the unexpected.



What business interruption insurance does

Business interruption insurance compensates a business for the income it would have earned if the shutdown had not happened. It typically covers net profit that would have been generated, plus ongoing operating expenses such as rent, utilities, and payroll. The goal is to keep the business financially whole during the period of restoration, not to provide a windfall.

Coverage kicks in after a covered loss, usually defined as physical damage to the insured property that forces a suspension of operations. For example, if a fire damages a restaurant's kitchen and the health department requires the business to close for repairs, the policy would pay for lost income and continuing expenses during the closure. The period of indemnity starts after a waiting period (often 24 to 72 hours) and continues until the property is repaired or replaced, up to the policy limit.

What is covered and what is not

Standard business interruption policies cover income lost due to physical damage to the insured premises. They also cover extra expenses incurred to speed up reopening, such as renting temporary space or paying overtime to contractors. Some policies include coverage for contingent business interruption, which applies when a key supplier or customer suffers a shutdown that affects the insured business.

There are notable exclusions. Most policies do not cover losses from a pandemic or virus outbreak, as those are considered non-physical damage events. Flood and earthquake damage are often excluded and must be added separately. Utility outages, even if they force a shutdown, are not covered unless they result from physical damage to the insured property. And if a business is shut down by a government order without physical damage to its own premises, coverage may not apply without a specific endorsement.



How lost income is calculated

Determining the amount of lost income can be complex. Insurers look at the business's financial records from the 12 months before the loss, projecting what revenue would have been during the shutdown period. They consider seasonal fluctuations, growth trends, and any changes in the business that would have affected earnings. The policy then pays the difference between actual revenue during the shutdown and the projected revenue, minus any expenses that are no longer being incurred.

For a business with strong historical data, this calculation is straightforward. For a newer business or one with irregular income, the insurer may use a simplified formula based on

industry averages. In either case, keeping accurate financial records is critical for a smooth claims process.

Payroll and employee considerations

Payroll is often one of the largest expenses a business faces during a shutdown. Many business interruption policies allow the business to choose whether to include payroll in the coverage. If payroll is covered, the policy reimburses wages paid to employees during the closure. If it is not covered, the business can lay off staff and save that expense, but it may face higher costs when trying to rehire after reopening.

Some policies offer a payroll endorsement that limits coverage to key employees or provides a set dollar amount per employee per day. Business owners should think carefully about how they want to handle payroll in a shutdown scenario and discuss options with their insurance advisor. The right choice depends on the business's cash reserves, the skill level of its workforce, and how hard it would be to replace employees after the closure ends.

Beyond payroll, the policy may also cover the cost of temporary staff or overtime needed to get the business running again. These extra expenses fall under the extra expense coverage that is often bundled with business interruption insurance.

Coverage for business assets and property damage

Business interruption coverage is closely tied to property insurance. The same event that damages a building or equipment also stops income. But property insurance pays only to repair or replace the physical assets, not to replace the income lost during the repair period. That is where business interruption fills a critical gap.



When you look at your overall insurance program, you need to consider both the cost of repairing physical damage and the cost of being out of business while repairs happen. A policy that covers the building but not the lost income leaves the business vulnerable to financial collapse. The phrase "coverage for business assets" applies here in two senses: the tangible assets like equipment and inventory are protected by property insurance, and the intangible asset of ongoing income is protected by business interruption coverage.

In practice, many business owners underestimate how long a shutdown can last. A fire that destroys a retail store's interior may take six months or more to rebuild. During that time, the business still has to pay rent on the lease, make loan payments on equipment that was not

damaged, and maintain insurance on the empty building. Business interruption coverage is designed to pay those costs and keep the business from defaulting on its obligations.

How to choose the right limit

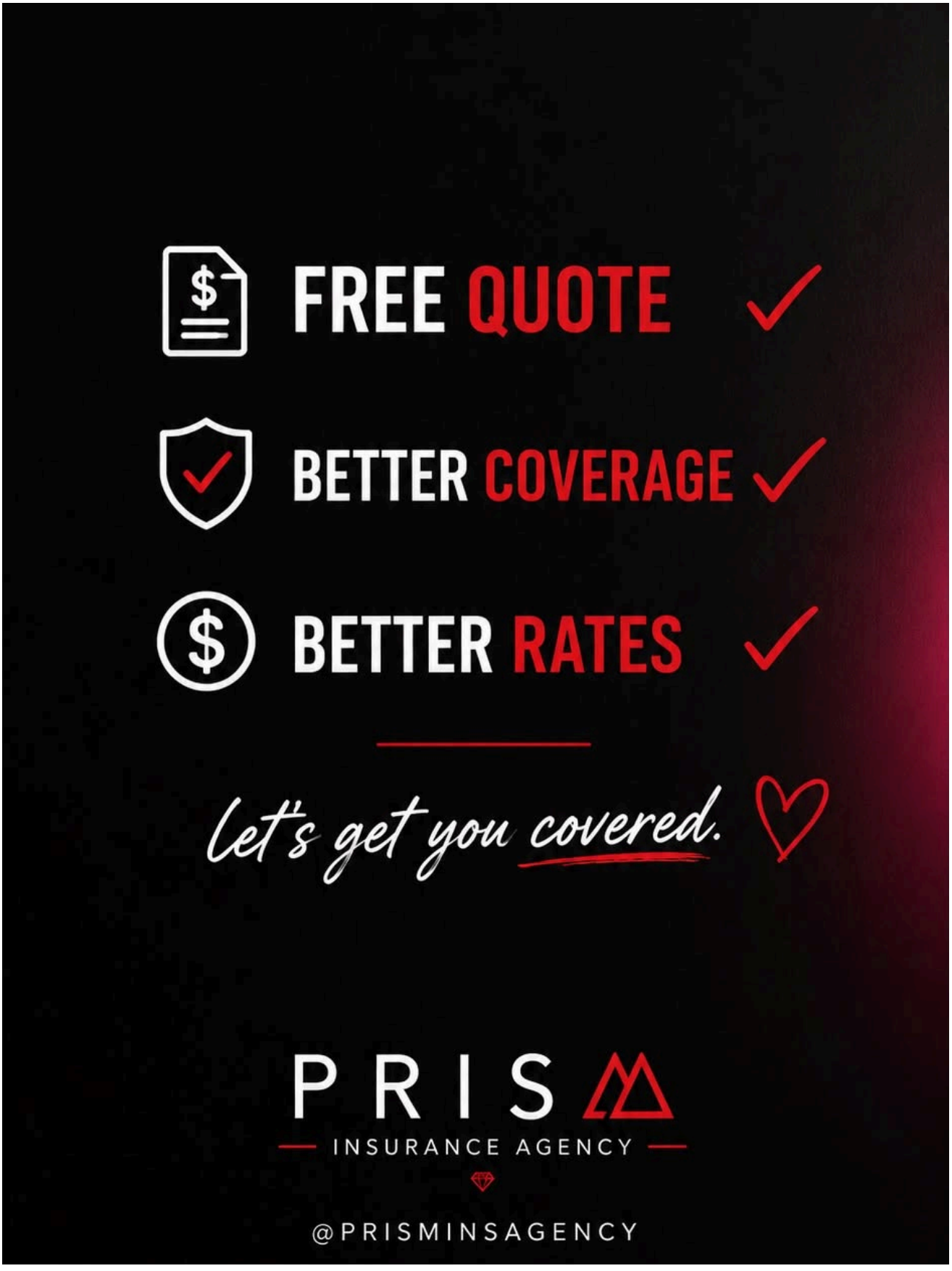
Setting the right limit for business interruption coverage requires a realistic estimate of how long it would take to get back to full operation after a worst-case event. The limit is usually expressed as a dollar amount per month of coverage, multiplied by the number of months the policy will pay. Some policies offer a flat limit, while others use a percentage of the property value.

A common recommendation is to insure for at least 12 months of lost income, since many businesses take that long to recover from a major loss. But the exact number depends on the type of business, the availability of contractors, and local building codes that may slow down repairs. A restaurant with custom kitchen equipment may need longer than a clothing boutique that can be restocked quickly. An office that needs specialized wiring for computer servers may face delays that a general retail store would not.

Business owners should review their projections annually and adjust limits as revenue grows or changes. A policy that was adequate three years ago may leave a growing business underinsured after a loss.

What to do if you need to file a claim

If a covered event forces a shutdown, the first step is to notify the insurance company as soon as possible. The insurer will assign a claims adjuster who will need access to financial records, including profit and loss statements, tax returns, payroll records, and any contracts that show ongoing expenses. The more documentation the business can provide, the faster the claim can be processed.



It is important to keep track of every expense incurred during the shutdown, including temporary relocation costs, extra marketing to inform customers of the new location, and any

costs related to cleaning or repairing the premises. The adjuster will compare these actual expenses against what the business would have spent if operations had continued normally.

Business owners should also be aware that coverage for business assets may include inventory that was damaged or destroyed. Separate from income loss, the business can claim the value of inventory that is no longer salable, which may help offset some of the financial blow. But the inventory claim is handled under the property portion of the policy, not the business interruption portion, so it is important to understand which part of the policy covers each loss.

Putting it all together

Business interruption coverage is not a luxury for large corporations. It is a practical tool for any business that depends on a physical location to generate revenue. A shutdown can come from many causes, and the financial impact often lasts far longer than the immediate event. By understanding what the coverage includes, how limits are set, and what documentation is needed for a claim, a business owner can make an informed decision about the level of protection that makes sense for their operation. That protection, combined with a solid property policy, provides a safety net that keeps the business from falling through the cracks when the unexpected happens.