INDUSTRY INSIGHT:

Business Interruption
Self-Storage Cover Review

If your self-storage business stopped tomorrow, what happens next?

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Business Interruption:
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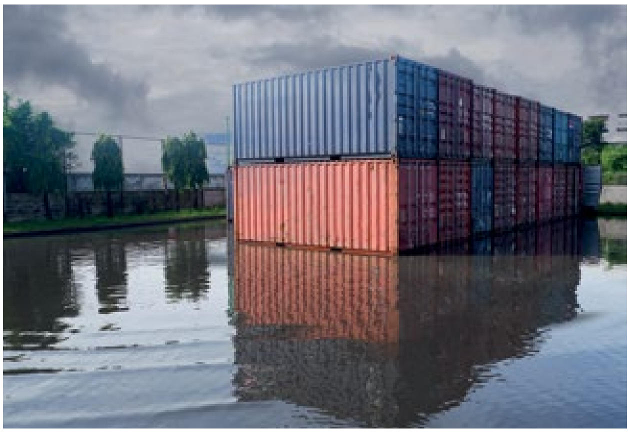
In simple terms, Business Interruption insurance is designed to help protect a business's income when an insured event, such as a serious fire or flood, prevents or restricts normal trading. Property insurance may respond to the physical damage caused, but Business Interruption is concerned with the financial consequences that come afterwards.

It can be one of the more challenging areas of insurance to consider because it raises a straightforward, but uncomfortable, question: if something serious happened tomorrow, how would your business continue to operate?

The guide below sets out some practical ways to approach this cover, along with key points worth considering. One useful approach is to picture a worst-case scenario following a major event and work through the questions below to see whether you are comfortable with your position. For example, how would your business respond if a self-storage facility or an external container-based site suffered a serious fire or flood?

There are a number of factors to consider within Business Interruption insurance, and the cover can be structured to respond to different types of events. Depending on how much risk a business is comfortable retaining or transferring, you can choose the level of cover and premium that is appropriate. The key is to understand the choices available and make an informed decision.

Insurance can be difficult to navigate at the best of times. When renewal comes around, it can also be tempting to view it as another business expense rather than an important part of protecting the business. Business Interruption is a good example of why that approach can be risky. It requires you to consider a worst-case scenario, understand how your business operates and estimate what recovery could look like. Doing that while managing the demands of everyday operations is not easy.



But it is worth making the time to work through these questions. The stakes can be high, and if the worst happens, a serious loss could leave your business significantly exposed. Having the right cover in place can play a major role in helping a business recover properly following a serious loss. Underinsurance remains a common issue for UK businesses, particularly when sums insured, limits or recovery periods have not been reviewed carefully.

Business Interruption usually needs insured damage first

A key point with most Business Interruption policies is the ***material damage proviso***. In plain English, this means the Business Interruption cover will usually only respond where there has first been insured physical damage to property, caused by an insured peril. An insured peril means an event covered by an insurance policy, for example fire, flood, storm or another insured cause of damage.

For example, if a fire at an indoor self storage facility, or damage to containers at an external container-based site, is insured physical damage, the related loss of income may then be considered under the Business Interruption section, subject to the policy wording, limits and conditions. If the underlying event is not insured physical damage, the Business Interruption section may not respond.

It Is also worth noting that the physical damage does not always have to be insured under the same policy as the Business Interruption cover. For example, where a self storage operator rents the building and the building is insured under the landlord's policy, that may still satisfy the material damage proviso, subject to the wording, limits and conditions that apply.

Choose the right basis: gross profit or gross revenue

Business Interruption cover is commonly arranged on either a gross profit or gross revenue basis. Which is best will depend on the business and how easy it is to calculate the true loss following an insured event.

In short, the question is whether you want to insure the income you would lose, or the profit left after costs that genuinely stops.

A gross profit basis allows certain "uninsured working expenses" to be deducted, such as material costs that genuinely stop when the business stops. The result is the insurable gross profit but it requires careful calculation. If expenses are incorrectly treated as stopping after a loss, the business could be left underinsured.

For many self storage operators a gross revenue basis may be the more suitable option. As service-based businesses rather than manufacturing businesses, there are fewer costs that genuinely stop when income stops. In other words, many key costs, such as rent, wages, finance costs and utilities, may continue even if trading is disrupted. A gross revenue basis can therefore be simpler to calculate, easier to explain and may reduce the risk of underinsurance where costs are deducted that would not actually stop after a loss.

Work out which parts of the business could stop and what could continue

As mentioned above, self storage income can come from different areas, including unit rental, sale of packaging materials and padlocks, sale of customers insurance or protection products, administration fees and other ancillary income. After a major event, would the whole site be unable to trade, or could certain parts of the business continue to operate?

For example, if only part of the facility is affected, could unaffected units continue to be occupied and billed? Could customers still access certain areas of the site? Would you be able to offer temporary storage elsewhere, or would trading be significantly restricted until the premises are repaired or replaced?

The answer may look different depending on whether you operate an indoor facility or an external container-based site. For example, part of an indoor facility may be inaccessible, while on an external site the issue may be site access, security, utilities or damaged vacant containers leading to an inability to move customers into alternative containers.

Choose a realistic recovery period

The indemnity period is the maximum length of time your Business Interruption cover can respond for loss of income following an insured event. It usually starts from the date of the incident and continues until the business has recovered to its pre-loss or expected position, or until the selected time limit is reached, whichever comes first.

Selecting the right indemnity period is critical. If the period is too short, the cover may stop before the business has properly recovered.

Cover is commonly arranged over periods such as 24, 36, 48 or 60 months, although the available period will depend on the insurer's appetite and the nature of the risk.

Some things to consider are:

- The time needed to clear debris and make the site safe
- The time needed to obtain planning permission, especially if the layout, unit mix or infrastructure is being updated
- Repairing or rebuilding the facility
- Reinstating access systems, lifts, lighting, CCTV, alarms, fire protection and other site infrastructure
- Returning occupancy, storage rental levels and trading levels to their pre-loss position

If you rent an indoor self storage facility:

- Whether you are contractually required to continue paying rent while the building is unusable
- The time needed for the landlord to repair or rebuild the premises
- Whether with insurers agreement you may need to find an alternative site
- The time needed to negotiate a lease, move in and complete any required fit-out
- Restoring occupancy, storage rental levels and trading levels

If you operate an external container-based site:

- Removing or replacing damaged containers
- Lead times for replacement containers
- Repairing site surfaces, fencing, gates, CCTV, lighting, power, drainage or access systems
- Restoring safe customer access to the site
- Returning occupancy, storage rental levels and trading levels to their pre-loss position

In today's environment, these steps can take longer than many expect.

Allow for future growth

While the business is rebuilding and returning to its pre-event financial position, you may also have expected growth during that period. This is especially important if you are considering cover beyond 24 months, such as 36, 48 months or longer.

Think about the extra costs needed to keep going

Business Interruption insurance does not only deal with lost income. Many policies also include Increased Cost of Working (ICOW), but the exact position depends on the wording. ICOW can cover reasonable extra costs incurred to help reduce the loss of income during the indemnity period. Examples could include temporary premises or alternative storage options, additional security, temporary customer communications, overtime, additional rent or other costs needed to restore safe customer access, provided those costs are necessary and help reduce the overall loss. Insurers will usually apply an economic test, e.g. for every 99p spent, there must be at least £1 saved, so the cost must be justified by the loss it helps avoid.

Additional Increased Cost of Working (AICOW) is an optional extension that can be added to Business Interruption cover. It may help with extra expenses that support the continuation or restart of the business, even where those costs do not directly reduce the loss financially. AICOW usually has a separate sub-limit. Examples could include an advertising campaign to reassure customers, keeping key staff employed during downtime, temporary customer communications, or customer goodwill initiatives.

What information should you gather?

Before reviewing your Business Interruption cover, it helps to have the right information in front of you. This does not need to be perfect, but the more realistic the assumptions are, the easier it is to set cover that reflects how the business actually operates.

- Your latest accounts or management figures
- Current turnover or gross revenue figures
- Projected growth over the next 24, 36 or 48 months
- A split of income between storage rental, sale of packing materials and padlocks, sale of customers insurance or protection products, administration fees and any other key income streams
- Fixed costs that would continue after a loss, such as rent, salaries, finance payments and utilities
- A realistic view of how long it could take to rebuild, relocate or return to normal trading levels
- Any on-going rent payment obligations if the premises are leased.

Once you have that information, the following checklist can help you sense-check whether your Business Interruption cover reflects how your business would actually respond after a serious loss.

Business Interruption checklist

- Have you considered the worst-case scenario, such as a serious fire, flood or major damage to your premises or site?
- Specifically for Container self storage, have you checked whether the underlying damage would be insured under the material damage section, so the Business Interruption cover can be considered?
- Have you allowed for all parts of the business that could be affected, including storage rental, sale of packing materials and padlocks, sale of customers insurance or protection products, administration fees and other ancillary income?
- Have you thought about what parts of the business could realistically continue trading after a loss?
- Have you chosen a recovery period that allows enough time for debris removal, planning, repairs or rebuilding, replacement containers, fitting out and rebuilding occupancy or storage rental levels?
- Have you allowed for expected growth over the full indemnity period, not just last year's figures?
- Have you considered whether Additional Increased Cost of Working would be useful for costs that protect the long-term position of the business?
- Have you checked that your sums insured, limits and projections have been reviewed recently, rather than simply rolled over from last year?
- Have you spoken to your broker if you are unsure whether the cover, limit or indemnity period is still suitable?

So in summary

Business Interruption cover is not just about choosing a figure at renewal. It is about understanding how your business would actually cope after a serious loss, how long recovery might take, and what support would be needed to keep trading or rebuild /recover.

There is no one-size-fits-all answer. The right cover will depend on your premises, income streams, customer base, appetite for risk transfer and future plans. The important thing is to review it properly, rather than simply rolling last year's figures forward.

Interested to know more?

If you would like to discuss your current Business Interruption cover, or sense-check your limit and indemnity period, please call us today on 01273 739 961. Our team will be happy to help.