

This is a guide only.

Business Interruption Claims

Financial Calculations and Requirements to assess a claim

Business Interruption claims can be challenging. To assist, we have developed a general guide on how Hollard Commercial Insurance (Hollard) (The issuer of RelyOn Insurance) may calculate your financial loss.

Every claim is different and individual circumstances will always be taken into consideration when they complete their assessments.

Business Interruption insurance is cover for your business losses caused by the event claimed. To assess your claim they need financial information from you to calculate those losses.

We encourage you to refer to the policy schedule and Product Disclosure Statement (PDS) for individual coverage details. The starting point for assessing your loss is usually calculating your Gross Profit. There is a difference between the accounting terms and terms used in Insurance policies. Accounting Gross Profit is a company's profits earned after subtracting the costs of producing and selling its products—called the cost of goods sold (COGS).

The Insurance gross profit means the amount by which the sum of the Turnover and the amount of the closing stock and work in progress exceeds the sum of the opening stock and work in progress and the amount of the Uninsured Working Expenses.

The following table sets out a simple example of how the rate of Gross Profit or the cost of making your product may be calculated.

	Estimated Turnover	Rate of Gross Profit %
Turnover*	\$750,000	100%
Purchases or the cost of making your product	\$337,500	
Gross Profit	\$412,500	55%

*Turnover is the total sales made by a business in a certain period

The rate of Gross Profit is the amount of turnover less purchases, with turnover being 100%, so in this example the Gross Profit is 55% of the turnover.

Factors Hollard may take into account when considering a Business Interruption claim

Factors besides the revenue your business may have lost are also taken into account when calculating your Business Interruption financial loss such as:

Expenditure Reduction

Expenditure reduction is the operational expenses that have reduced during the period of interruption when compared to your previous expenses incurred at the same period from the previous year. A few examples are reductions in advertising, cleaning costs, rent payable, wages, electricity etc.

They will also factor in any JobKeeper Payments the insured business might have received during the interruption period as part of the savings for wage expenses. JobKeeper Payments were directly made by the Australian Government for the purpose of reducing payroll expenditure for employers.

Government Grants

Hollard will also factor in any non-repayable income grants or loans received by our insured's as 100% Gross Profit revenue when calculating any Business Interruption settlement entitlements.

For example, these grants could include the ATO Cash Flow Boost and some State/Territory Government COVID-19 grants where applicable.

Source: | IAS 20 Accounting for Government Grants and Disclosure of Government Assistance

Hollard have set out below an example of a basic Business Interruption calculation for the indemnity period

XYZ Café (Insured)

The café owner has successfully operated in Brisbane for the last three years. The insured submits a claim due to a reduction in trading performance over the 12-month indemnity period due to an insured event.

The insured has Business Interruption cover for Gross Profit to a limit of \$470,000 over a 12-month indemnity period which is sufficient to cover the insureds interruption for the indemnity period in the event of a claim.

The insured has an annual turnover of \$750,000 prior to the event. During the covered event the Café had a reduction in turnover to \$400,000 for the covered indemnity period.

Pre-event turnover	\$750,000
Actual turnover	\$400,000
Adjusted shortage in turnover	\$350,000
Rate of Gross Profit	55%
Shortage in Gross Profit	\$192,500 (55% of the shortage in turnover)
Less expenditure reduction	\$110,000
Net claimable amount	\$82,500
Less Government grants	\$55,000
Total business loss	\$18,500

Information you will need to provide

Claims relating to a loss arising from Business Interruption will require a number of documents and information so that your claim can be assessed. You are encouraged to lodge a claim if you believe you have suffered a financial loss due the COVID-19 event.

Our [Business Interruption Claims Info page](#) includes information on support and resources available, the claim form and a list of documents required to make a claim.

Download our **Business Interruption Required Documents** (<https://www.relyoninsurance.com.au/wp-content/uploads/2021/10/RelyOn-BI-Required-Documents.pdf>) to get a list of the documents we need from you for your claim.

Please note that Hollard may require additional information not listed within the Business Interruption Required Documents List to assess your loss.

Other factors that Hollard take into consideration when assessing Business Interruption claims include:

Allocated Increased Costs of Workings (AICOW)

The cover provided under this Item is limited to the increase in the cost of working (not otherwise recoverable under another section of your cover) where that cost has necessarily and reasonably been incurred:

- during the policy period;
- as a result of the Damage;
- for the purpose of avoiding or diminishing reduction in Turnover, Revenue, Weekly Revenue or Rent Receivable and/or resuming and/or maintaining normal Business operations and/or services.

When Hollard cover a claim for AICOW, they will not pay more for any one claim than the amount which is the greater of:

- a) \$25,000; or
- b) the Sum Insured for 'Additional increase in cost of working'.

An example of AICOW is an increase in cleaning requirements to comply with Government orders to be COVID-19 safe.

Underinsurance

If the sum insured for Business Interruption on Gross Revenue or Gross Rentals is less than 80% of the annual revenue (or its proportionately increased multiple where the indemnity period exceeds 12 months), the amount payable by Hollard will be proportionally reduced.

If the sum insured on Gross Profit is less than the sum produced by applying the rate of Gross Profit to 80% of the annual turnover, the amount payable by Hollard will be proportionally reduced.

Other Policy Benefits

There may be other policy benefits available to you as part of the RelyOn Business Interruption policy and once again we encourage you to review your PDS as well as review your policy schedule to ascertain the coverage that may be available for the insured location.