



# ADJUSTING TODAY

*Adjusters International Disaster Recovery Consulting*

## FROM THE EDITOR

*Business interruption (BI) claims have long been both crucial to a company's recovery and among the most intricate insurance losses to adjust. Until recently, BI protection came mostly under the firm's commercial property or equipment breakdown policies. However, that is changing with the advent of cyber insurance, which can provide BI coverage for income lost from a covered computer or network disruption.*

*While this additional dimension of protection might seem to benefit a company overall, the complexities that result when a loss triggers simultaneous BI claims that could fall under more than one type of coverage, including difficulties in calculating the loss settlement, can be very detrimental to the recovery process.*

*In this issue of Adjusting Today, Joseph S. Harrington, CPCU, discusses such overlapping of coverages, offering insight into the impact of the relative newcomer — cyber insurance. We think you will find his article to be interesting and informative.*

**Sheila E. Salvatore**  
*Editor*



## Business Interruption Coverage Times Three

***Prepare for Overlapping and Contrasting BI Provisions under Property, Equipment Breakdown and Cyber Policies***

*By Joseph S. Harrington, CPCU*

The Verve, a VoxMedia portal devoted to technology, called it the "Internet apocalypse" when, in October 2016, a sophisticated cyber-attack rendered Amazon, Etsy, Netflix, Twitter and other big Internet operations inaccessible for hours to many users.

But that incident turned out to be small-time compared to the "WannaCry" attack that crippled entire computer systems throughout the world in May 2017.



These incidents prompted many questions about online security, especially since it affected some of the most advanced and sophisticated Internet services. What does it portend for millions of establishments worldwide who can hardly expect to keep pace with skilled and determined hackers?

There is yet another question, little heard but equally pressing: What happens when an entity disrupted by a cyber attack simultaneously suffers a physical loss to property and a resulting loss of income?

Given the scope and scale of the October 2016 and May 2017 attacks, such a scenario is by no means fanciful. In fact, simultaneous losses under different policies are increasingly likely.

### **Three Coverages**

Business interruption claims could become a lot more complex as more enterprises purchase at least three types of first-party coverage, each with its own business interruption coverage built into the policy, endorsed onto a policy or included in a commercial package.

First, there is the standard business interruption-extra expense (BI-EE) coverage part included in a commercial property package, typically triggered by damage to property at insured and contingent locations by perils indicated on the package's cause of loss form. (It's possible, however, to have different property and income perils in a commercial package.)

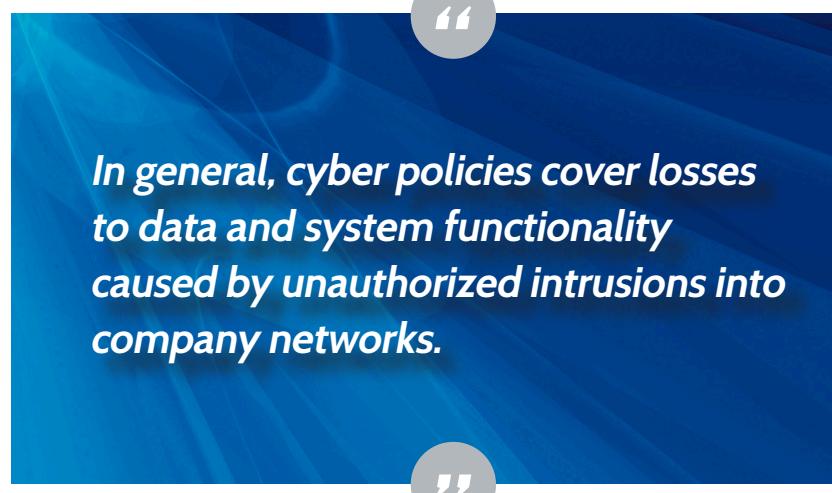
Second, there has been a significant increase in recent decades in the number and range of organizations purchasing equipment breakdown coverage, which has its own business interruption terms and conditions.

Originally known as "boiler and machinery" insurance and primarily associated with

manufacturers, equipment breakdown coverage has evolved and expanded to incorporate a vast range of electronic and mechanical equipment used in many operations, not only industrial ones.

Equipment breakdown policies typically cover loss to both the insured equipment and other property of the insured, plus related income losses and extra expenses, arising from "accidents" within the equipment such as mechanical breakdown, bursting of boilers or electrical arcing.

Third, more recently there has been a rapid increase in the number of organizations purchasing "cyber insurance," a new and rapidly growing form of



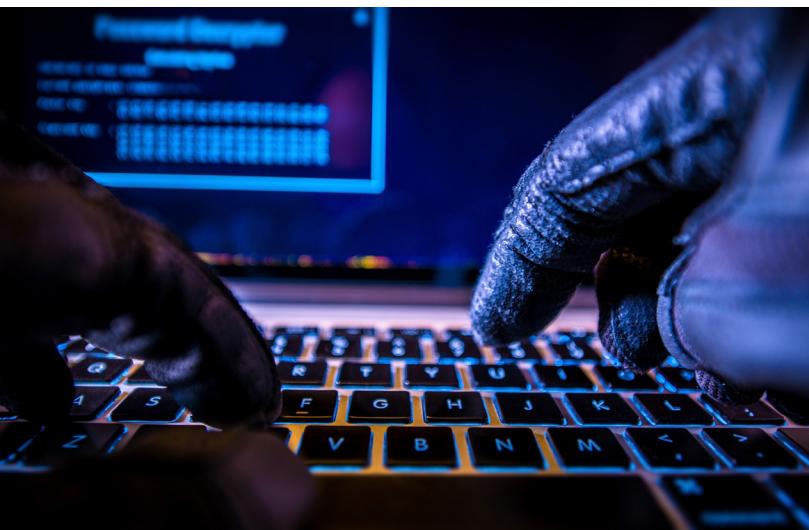
coverage that insures for first- and third-party losses arising from damage to or a breach of sensitive data on a computer network.

To date, cyber policies are mostly available from surplus lines carriers and are far less standardized than most property or equipment breakdown forms.

In general, cyber policies cover losses to data and system functionality caused by unauthorized intrusions into company networks. In some cases coverage is available for loss of income and extra

expenses incurred when a computer system or network is disrupted or shut down by an insured cyber peril such as a virus, hacking or denial-of-service attack.

As the cyber insurance market grows, coverage responds under some — but not all — policies to financial losses, liability claims, extortion (“ransomware”) and the costs associated with legal, forensic and notification expenses in the wake of a data breach.



### Contrasts and Overlaps

Seasoned property claim professionals are well aware of the conflicts that can arise when business interruption coverage is provided under two separate policies or coverage parts.

Such conflicts are common enough that a “Joint or Disputed Loss Agreement” has become a standard feature of equipment breakdown policies; an equivalent provision is often added to a property policy when equipment breakdown coverage is written by a different carrier. Under such agreements, insurers jointly pay the full recovery to the insured and then later resolve any dispute among themselves over which policy covers the loss — and how much of it.

Hard as it is to determine the extent of a physical loss due to a particular peril, it’s even more difficult to determine shares of responsibility for an income loss. Structures and contents, including equipment (which could be either), are physically distinct but work together to generate earnings in common. Assigning shares of an income loss is among the most contentious issues adjusters face.

It’s likely to get even more contentious as more and more organizations add cyber insurance to their first-party coverage and as business interruption is covered under more and more cyber policies.

Given the recent attacks, it’s not hard to imagine simultaneous or related losses caused by property, equipment breakdown and cyber perils, each of which could trigger income and extra expense coverage:

- Terrorists or saboteurs could plan simultaneous physical and cyber attacks, causing equipment failure in the process.
- Cyber criminals could tamper with automated building controls, disrupting the functioning of equipment and effectively vandalizing a location.
- In the wake of a natural disaster, hackers trolling for “soft spots” could take advantage of network vulnerabilities created by physical losses or by the distraction of company staff.

In each case the insured could be faced with business interruption coverage provisions subject to different limits and sublimits, different waiting periods and dollar deductibles, different conditions for justifying extra expenses, and different time limits for an insured period of restoration.

### Maintaining a Distinction

Generally speaking, property, equipment breakdown and cyber insurers are *trying* to maintain

a distinction among losses attributable to property, equipment breakdown and cyber perils — and to have policies cover losses on the basis of what caused the loss.

For example, some sample cyber policies reviewed for this article explicitly exclude coverage for losses arising from damage caused by “natural” or “physical” perils. Presumably, the intent is that those losses would be covered under a property policy and its accompanying business interruption coverage.

Whether carriers are *succeeding* in maintaining the distinction based on perils or whether it is ultimately worth trying, remains to be seen.

For one thing, there’s the usual challenge of determining the cause of a loss from a pile of rubble or a smoldering ruin. Beyond that, one wonders if peril-based distinctions can be sustained if loss mitigation and loss recovery are more related to the damaged property than to the peril.

For example, there are many organizations today whose value lies almost entirely in information stored and utilized electronically; the value of their buildings and personal property may be almost incidental by comparison. A cyber loss could be devastating to such an organization — and the means for mitigating and recovering from the loss would generally be provided by or in conjunction with the cyber insurer.

Yet if the cyber loss arose from a property peril, the property carrier would generally be liable under the prevailing industry approach for paying recovery. That recovery could be woefully insufficient (from the insured’s perspective) if it falls under one of the often-low sublimits for damage to data found in standard income coverage forms.

## Income Coverage

For purposes of this article, we consider the following forms:

- The CP 00 30 Business Income (and Extra Expense) Coverage Form, developed by the Insurance Services Office (ISO), and the most commonly used standard BI-EE form.
- The Equipment Breakdown Coverage 6671 developed by the Hartford Steam Boiler Inspection and Insurance Co. (HSB), a leading provider of equipment breakdown insurance; this also includes language from ISO.
- Four cyber insurance forms, two from major U.S. carriers and two from the London market.

The ISO and HSB forms were published in a compilation of policy forms published by The Institutes; the cyber forms were provided by national wholesale broker Tennant Risk Services, Hartford, Conn., under the condition that proprietary policy provisions be kept confidential.

The four cyber policies referenced here are not typical of that evolving market, according to Tennant’s President and CEO Robert Sargent, who says they offer more comprehensive coverage than most cyber forms.

“Cyber policy forms are far from standard,” he cautions. “Many offer severely restrictive and confusing coverage, which will not be helpful to adjusters. And because the market is so new, there is a fair amount of coverage customization going on.”

Indeed, other cyber forms reviewed for this article did not appear to offer income coverage at all.

## Coverage Grants for Business Income and Extra Expenses

Table entries are paraphrased summaries and not authoritative.

Actual claims must be adjusted on the basis of specific wording in applicable policies.

	<b>ISO CP 00 30 Business Income (and Extra Expense) Coverage Form</b>	<b>HSB Equipment Breakdown Coverage Form 6671</b>	<b>Summary of provisions in proprietary cyber forms</b>
<b>Business Income coverage grant</b>	Covers actual loss of "business income" (defined as net income plus normal continuing expenses) due to a full or partial suspension of operations caused by physical damage.	Covers actual income loss plus necessary expenses to reduce the loss.	Commonly covers loss of income and extra expenses resulting from a disruption or interruption of a computer system.
<b>Extra Expense coverage grant</b>	Covers extra expenses to avoid or minimize a suspension of operations. Also, covers expenses to repair and replace property to the extent those expenses reduce the covered income loss.	Covers reasonable and necessary EE to continue operations during restoration period.	Commonly covers all reasonable extra expense, without explicit reference to impact on loss.
<b>Provision for lost rents</b>	Can be included in or excluded from BI, or insured exclusively, as indicated in the declarations.	Not explicitly addressed; potentially covered if not excluded.	Typically not addressed.
<b>Expediting expenses</b>	Included in extra expense coverage.	Covers reasonable extra cost of temporary repairs and to expedite permanent repairs.	Typically included in extra expense coverage.

*... property, equipment breakdown and cyber insurers are trying to maintain a distinction among losses attributable to property, equipment breakdown and cyber perils – and to have policies cover losses on the basis of what caused the loss.*

A commercial account with the three types of coverage discussed in this article is likely to have three different business income coverage grants; one each for standard BI-EE coverage, equipment breakdown coverage and cyber insurance. Of these coverage grants, two of them — equipment breakdown and cyber — technically apply only to the portion of income lost due to an equipment accident, system disruption or other specified loss.

Thus, when confronted with an income loss covered under two or more policies it must be determined what portion of the lost income should be assigned to which policy. This is made more daunting by the fact that there is precedent, upheld at times in litigation, for an insurer to deny coverage for an income loss on the basis that circumstances would have prevented an insured from earning income anyway.

In one case, a court upheld a denial of income coverage for an insured that had to close to repair

a floor damaged by an insured peril. By chance, the repairs were done during and immediately after a blizzard, and the insurer denied coverage on the basis that the business would not have earned income even if it was open; the court agreed.

This example raises a question: Can simultaneous losses trigger mutual denials of income coverage?

Suppose an insured's operations are suspended due to physical damage by a covered property peril and the insured cannot fulfill orders until damaged property is repaired or replaced?

If there were simultaneous equipment and cyber losses, could the equipment and cyber insurers deny their shares of otherwise collectible income coverage on the basis of the concurrent property loss? Conversely, could the property carrier deny its share of income coverage for a period when an equipment or cyber loss would prevent resumption of operations?



*... when confronted with an income loss covered under two or more policies it must be determined what portion of the lost income should be assigned to which policy.*

## Covered Property and Covered/Excluded Perils

*Table entries are paraphrased summaries and not authoritative.*

*Actual claims must be adjusted on the basis of specific wording in applicable policies.*

	<b>ISO CP 00 30 Business Income (and Extra Expense) Coverage Form</b>	<b>HSB Equipment Breakdown Coverage Form 6671</b>	<b>Summary of provisions in proprietary cyber forms</b>
<b>BI-EE coverage trigger</b>	Damage by a covered peril to any property at an insured location.	An "accident" to "covered equipment" that generates, transmits, and/or utilizes electricity; or equipment that operates under vacuum or pressure.	Inability of a computer system or network to function properly in the wake of a data loss.
<b>"Contingent" or "dependent" locations coverage</b>	No coverage, but can be added by endorsement.	Provided under separate sublimits for "interruption of service" and "interruption of supply" caused by an accident to covered equipment at locations other than an insured location.	Forms don't typically reference contingent locations explicitly, as networked systems commonly operate through servers in different locations that create the intangible "cloud."
<b>Perils insured against</b>	Basic, Broad, Special, or other perils (such as earthquake and flood) as indicated in accompanying causes of loss form or endorsements.	A fortuitous "accident" within covered equipment that causes direct physical damage to that equipment.	Expressed in a wide range of ways, most covering loss from some form of external intrusion into a network but differing on whether losses arising from internal causes are covered.
<b>Perils excluded</b>	Established in chosen cause-of-loss form. NOTE: Causes of loss included in the equipment breakdown definition of "accident" are typically excluded in property cause-of-loss forms; these include boiler explosion, mechanical breakdown and electrical arcing.	No coverage for any peril other than an accident as described above. Coverage is explicitly excluded for equipment accidents arising from fire, explosion, windstorm, and other property perils.	Commonly exclude losses from property perils and losses covered under other policies, including equipment breakdown policies.

Another area of contrast among the three types of coverage is in the nature of the property loss and the perils that can trigger income coverage.

Property claim professionals are familiar with certain well-established distinctions between equipment breakdown insurance and standard property coverage. The former covers only income loss arising from physical damage to "covered equipment" by internal "accidents;" the latter covers income loss resulting from physical damage by an insured peril to any property at an insured or contingent location, whether or not it is covered property for purposes of physical loss coverage.

However, BI coverage under the ISO CP 00 30 and its equivalents does not automatically extend to income losses arising from damage at contingent locations; several endorsement options are available from ISO for providing income and extra expense coverage for BI-EE losses arising from physical loss occurring at contingent locations, which ISO forms refer to as "dependent properties."

In contrast, a standard equipment breakdown form includes built-in coverage under separate sublimits for income lost due to interruption of "service" or "supply" resulting from an accident to covered equipment at a location other than an insured location.

As for cyber insurance, the “property” to which coverage applies is not entirely clear or standardized. Traditional concepts of insured property and insured locations are often not relevant to losses that are largely intangible.

In some cyber policies coverage extends only to data that is corrupted or breached. Sometimes there is no need for any “damage” at all, tangible or intangible, to trigger a network disruption and a covered income loss. In other cyber policies, however, coverage may extend to physical damage to a computer network, from internal and/or external perils, as well as the corruption, loss or exposure of data.

Cyber policies often exclude income coverage for losses arising from property and equipment

breakdown perils, although the wording of the exclusionary provisions is inconsistent.

Each of the three types of business income coverages include some type of waiting period and/or dollar deductible, which can vary greatly due to the different types of losses.

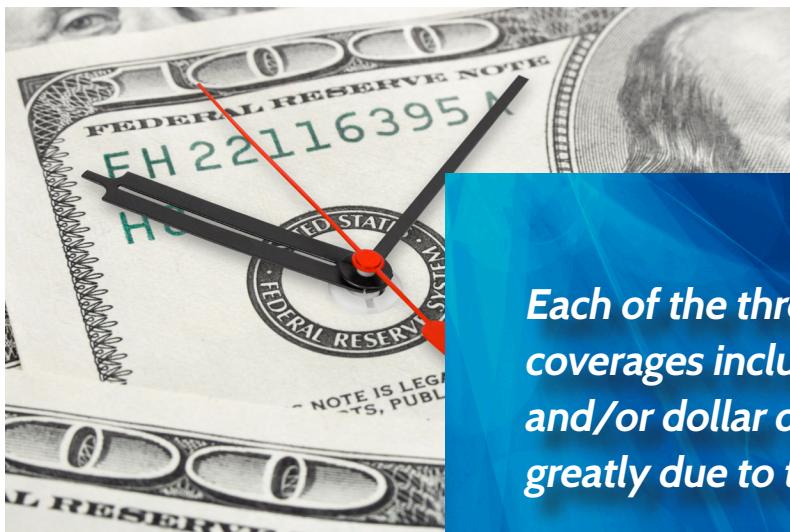
The standard ISO BI form includes a built-in 72-hour waiting period deductible for income coverage, with an option available for allowing coverage to kick in 24 hours after a suspension of operations.

The waiting period deductible for equipment breakdown income coverage is often established to coincide with the property deductible. Indeed, many carriers allow equipment breakdown to be

## Limits and Deductibles

*Table entries are paraphrased summaries and not authoritative.  
Actual claims must be adjusted on the basis of specific wording in applicable policies.*

	<b>ISO CP 00 30 Business Income (and Extra Expense) Coverage Form</b>	<b>HSB Equipment Breakdown Coverage Form 6671</b>	<b>Summary of provisions in proprietary cyber insurance coverage forms</b>
<b>Policy limits</b>	A single limit for BI-EE coverage established in the declarations.	All income and extra expense coverages subject to separate declared sublimits that fall under the general equipment breakdown limit established in the declarations.	Typically has its own aggregate limit(s), sometimes subject to hourly and coverage sublimits.
<b>Deductible(s)</b>	Automatic 72-hour waiting period deductible unless amended by endorsement or dec page entry.	If indicated in the declarations, deductibles can be dollar, time, multiple of average daily value, or percentage of loss.  Multiple deductibles can apply to any one accident, unless a combined deductible is indicated in the declarations.	Time-element deductible typically included; commonly lasting less than a day and expressed in hours.  Where included, dollar deductibles are typically indicated on the declarations.
<b>Coinsurance</b>	Coinurance percentage indicated in the declarations. Coinurance does not apply if coverage is subject to a maximum period or monthly limit of indemnity; coinurance is suspended for 12 months under agreed value coverage.	Coinurance applies separately to each insured location according to a formula established within the policy.	Not commonly subject to coinsurance.



***Each of the three types of business income coverages include some type of waiting period and/or dollar deductible, which can vary greatly due to the different types of losses.***

endorsed onto a property policy as an additional peril triggering the existing income coverage. The challenge arises when carriers deliberately or inadvertently implement different waiting period deductibles for property and equipment breakdown income coverage.

Suppose you have a property policy with a 24-hour income deductible, and equipment breakdown coverage with a 72-hour income deductible. Suppose also that you have a common scenario where an equipment accident causes a fire and that either the accident or the fire on its own would have forced a suspension of operations.

Common practice would have the property insurer cover income losses due to the fire loss starting 24 hours after the event and lasting through the period needed to repair or replace the covered property, or through a number of days stated in the policy. Recovery may also be subject to aggregate and per-month dollar limits.

In our example the equipment breakdown insurer would be responsible for at least part of the income lost after 72 hours following the equipment accident and up until the equipment is restored to working order. Under the given terms, the property insurer

could be on the hook for 48 hours of income loss between the 24-hour property deductible and the 72-hour equipment breakdown deductible.

Now inject cyber insurance into this mix.

E-commerce works in much shorter timeframes than traditional commerce. An hour of "downtime" at the wrong time, such as "Cyber Monday," can result in millions of dollars in lost sales. For that reason declared waiting period deductibles for cyber income coverage are often far shorter than those for property and equipment breakdown coverage, often less than a day.

In our example of a fire caused by an equipment accident, it would be expected that employees would quickly evacuate, leaving sensitive information literally and virtually exposed. If a network disruption occurs and is rectified before the cyber time deductible, the "cyber" portion of the income loss could be uninsured unless it fell under the low limit for the supplemental income form coverage for "Interruption of Computer Operations" (see chart on page 10). If the loss extends into the cyber coverage period, the share of the overall income loss attributable to the network disruption must be determined.

## Restoration Periods and Other Provisions

*Table entries are paraphrased summaries and not authoritative.*

*Actual claims must be adjusted on the basis of specific wording in applicable policies.*

	<b>ISO CP 00 30 Business Income (and Extra Expense) Coverage Form</b>	<b>HSB Equipment Breakdown Coverage Form 6671</b>	<b>Summary of provisions in proprietary cyber forms</b>
<b>Period of restoration</b>	Begins immediately after direct loss for EE coverage and 72 hours later for BI coverage. Ends when property is repaired or replaced or operations resume at a new location.	Begins immediately after an insured accident and extends to the time covered property is or could have been repaired or replaced.	Often begins after discovery of a data breach and ends with the restoration of the system to normal functioning or a specified number of days, whichever is earlier.
<b>Extended period of indemnity</b>	Built-in limit of 60 days of extended BI coverage can be modified by dec entry up to two years.	Can be established in the declarations.	Where included, typically indicated in the declarations.
<b>Newly acquired locations</b>	Covers BI/EE arising from damage by insured perils at newly acquired locations, subject to a built-in sublimit for each location.	If selected on the declarations, BI/EE coverage extends to newly acquired locations up to a number of days specified in the declarations, and subject to a single declared sublimit for newly-acquired locations.	Typically not addressed explicitly.
<b>Locations in course of construction</b>	Covers BI/EE arising from damage by insured perils at new structures or alterations of existing structures; subject to the basic BI/EE limit.	BI/EE coverage automatically extended to expansion or rehabilitation of declared locations.	Typically not addressed explicitly.
<b>Civil authority</b>	Covers BI/EE arising from acts of a civil authority following damage from a covered peril; subject to its own waiting period deductible and effective period.	Typically not addressed explicitly.	Typically not addressed explicitly.
<b>Impact of policy expiration</b>	Coverage continues for an insured loss that began before the expiration date, up until time and/or dollar limits specified in the declarations.	Coverage continues for an insured loss that began before the expiration date, up until time and/or dollar limits specified in the declarations.	Coverage typically continues for an insured loss that began before the expiration date, up until time and/or dollar limits specified in the declarations.

What can complicate coverage on the front end of an income claim can also complicate it on the back end, as standard BI-EE, equipment breakdown, and cyber policies can each have separate, distinct — and conflicting — provisions defining the extent of a recovery period and any extended indemnity period that follows.

Property and equipment breakdown policies are typically written on a loss sustained basis; the “clock

starts running” on income losses from the moment physical loss or an equipment accident forces a suspension of operations.

Since it is not uncommon for data breaches to go undetected, cyber policies are often written on a discovery basis. The extent of an income loss may have to be determined by identifying a breach after it happened and estimating the amount of income lost as a result.

This raises the possibility that an income loss already settled on the basis of property or equipment breakdown provisions may have to be revisited to reflect losses that may have actually arisen from a previously undetected cyber breach.

As with waiting period deductibles, underwriters will usually try to coordinate property and equipment breakdown restoration periods, plus any extended periods of indemnity.

Generally speaking, equipment breakdown and cyber income restoration periods will start sooner and end sooner than a restoration period under standard business income coverage provided by a property carrier.

Underwriters cannot, however, coordinate the circumstances that determine the length of time it takes to get different components of an operation back in working order. Adjusters will have to deal with that.

***What can complicate coverage on the front end of an income claim can also complicate it on the back end ...***



## Computer/Data-Related Provisions

*Table entries are paraphrased summaries and not authoritative.  
Actual claims must be adjusted on the basis of specific wording in applicable policies.*

	<b>ISO CP 00 30 Business Income (and Extra Expense) Coverage Form</b>	<b>HSB Equipment Breakdown Coverage Form 6671</b>	<b>Summary of provisions in proprietary cyber forms</b>
<b>Computer/ data-related provisions</b>	Base BI and EE coverage does not apply to suspension of operations caused by loss to or corruption of electronic data.  Additional coverage under a \$2,500 sublimit for "Interruption of Computer Operations" caused by viruses and coding designed to damage a computer system.	Will pay reasonable, necessary costs to restore lost data up to a data restoration sublimit.	Focus of coverage.

There is yet another complicating factor for claims that can arise from simultaneous property, equipment breakdown and cyber losses: Separate provisions in property and equipment breakdown forms addressing computer- and data-related losses.

ISO CP 00 30 includes a general exclusion for losses arising from a suspension of operations due to loss or corruption of electronic data. The form then gives back some data coverage through an additional coverage with a separate \$2,500 sublimit for "Interruption of Computer Operations" caused by viruses and coding designed to damage a computer system. Inclusion of the word "designed" suggests that the coverage responds only to malicious attempts to disrupt a system; it does not pay for losses arising from defects in the insured's own coding.

The HSB equipment breakdown form does not address computer- and data-related income losses as such, but provides coverage for restoring data lost due to an equipment accident under a separate data restoration sublimit.

Claimants seeking maximum recovery may look for ways to invoke these coverages — even for insureds that have separate cyber income coverage. That's because income limits in cyber policies generally eat into an overall aggregate limit.

Generally speaking, the more a cyber policy pays toward an income loss, the less it has available to pay for other cyber losses.

### Other Forms

Complications also arise under policy forms that include their own provisions for cyber-related

income coverage. While ISO provides such forms, for our purposes we'll consider forms from two other advisory organizations serving the property/casualty insurance industry:

- The American Association of Insurance Services (AAIS)
- The Mutual Services Office, Inc. (MSO)



***Generally speaking, the more a cyber policy pays toward an income loss, the less it has available to pay for other cyber losses.***

AAIS dates itself from 1931 and MSO was founded in 1944. Both chose to remain independent of ISO when the latter was created in 1971 through the merger of other rating bureaus.

MSO's Businessowners policy includes a built-in coverage extension for "loss of income from interruption of computer operations."

The coverage pays up to a declared limit for lost income and related expenses due to a necessary interruption of operations following an interruption of computer operations caused by hacking, a virus or a specified cause of loss.

Unlike the discovery-based income coverage typically offered in cyber forms, the MSO form provides computer interruption coverage on a loss-sustained basis.

AAIS is descended from inland marine rating organizations and remains an industry leader in product development for that line. Among other things, AAIS revived the use of first-party "output" coverage with the 1993 filing of its Commercial Output Program (COP), a widely-recognized successor to the old "manufacturers output policy."



In general, output policies combine coverage for property and inland marine exposures into a single form or a few coverage parts with a single rating procedure, as opposed to numerous rating procedures for coverages added individually by endorsement.

In keeping with the broad coverage that characterizes output policies, the COP's income coverage part includes built-in coverage extensions (under the income limit) and supplemental coverages (under separate sublimits), including one for lost earnings and extra expenses arising from electronic computer hacking or a computer virus.

To trigger the income coverage, the virus or hacking must:

- Cause physical loss or damage to covered computers, networks, and/or websites of the insured; or
- Result in a denial of access to or service from the insured's computers, networks, and/or website.

There is a built-in waiting period deductible of 12 hours for loss of income due to physical loss or damage to computers, networks or websites, but no waiting period for loss of income arising from denial of access or service.

#### A "Simple" Scenario

Given all these variations, there is much to consider when addressing an income loss — components of which could be covered under different types of policies.

Imagine this event:

A windstorm damages an insured building, disrupting onsite power distribution and causing electrical arcing that damages covered

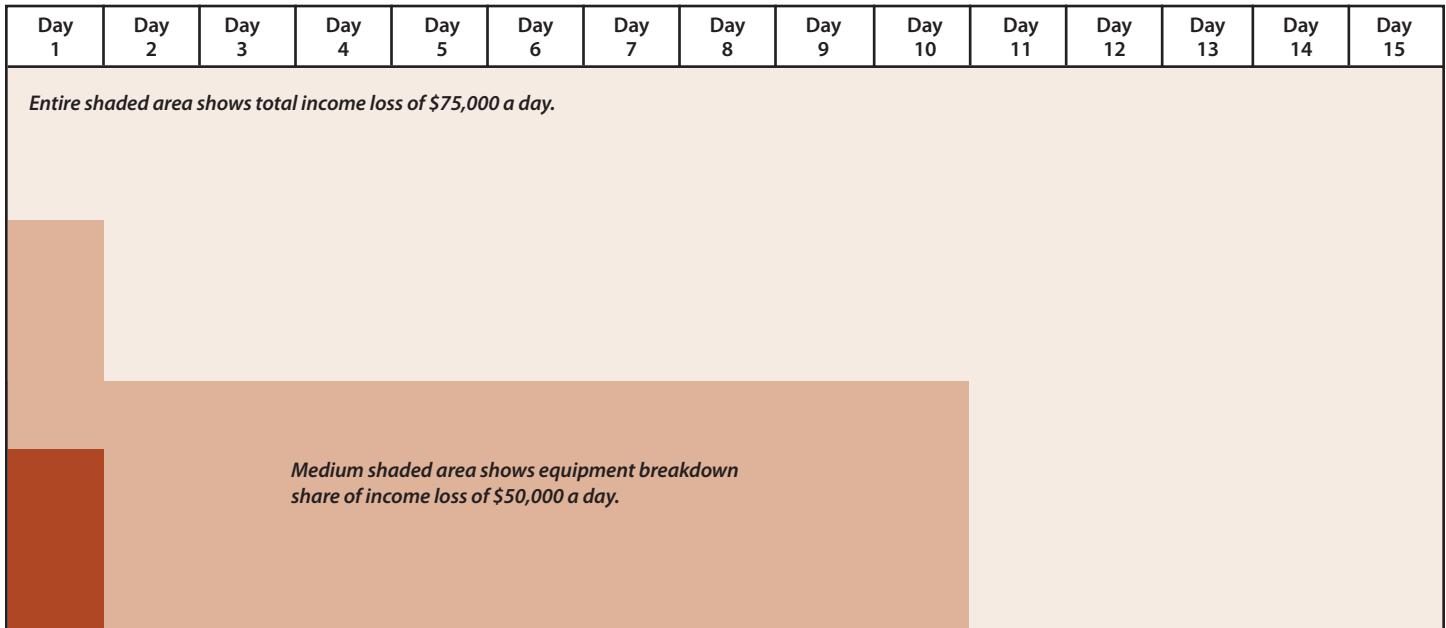
equipment. This event also disables information security systems and online criminals capitalize by stealing data and implanting disabling codes to hide their tracks.

Then, consider this highly simplified coverage scenario:

- Total income loss: \$100,000 a day for 15 days, amounting to \$1.5 million; subject to a 24-hour deductible under a standard business income policy;

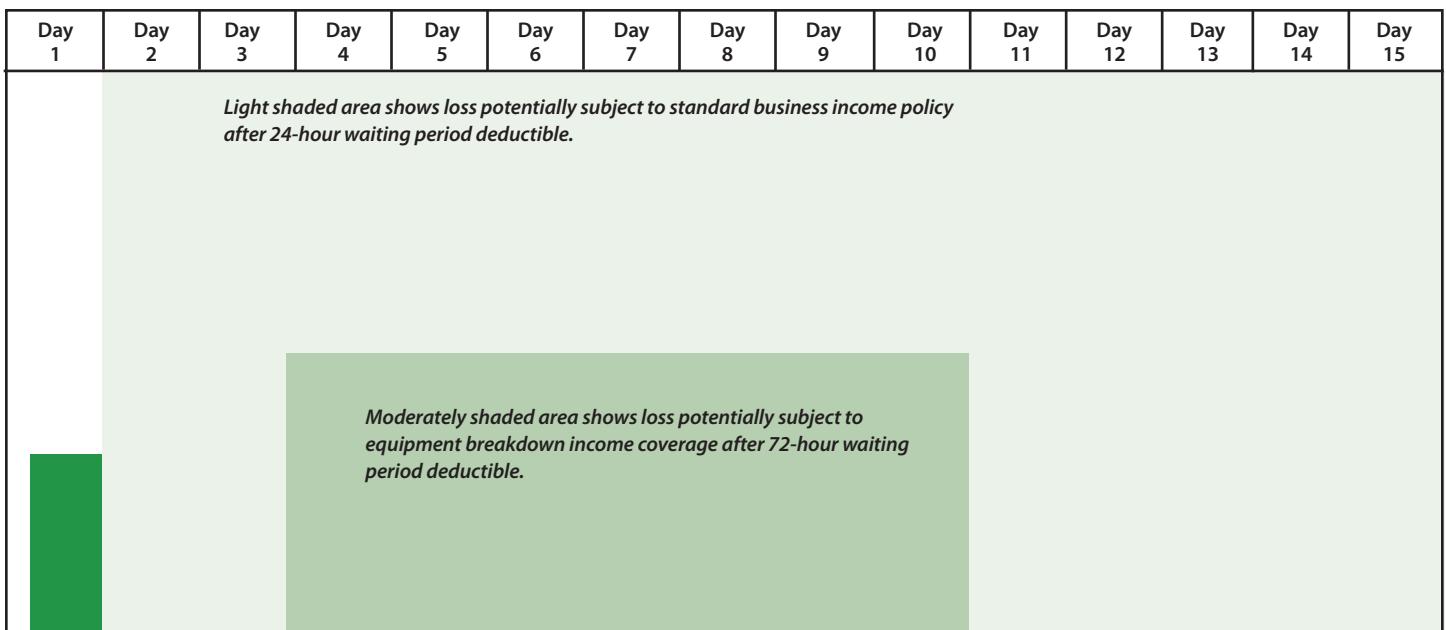
- Share of income loss due to equipment breakdown: \$50,000 a day for 10 days, amounting to \$500,000; subject to a 72-hour time deductible under an equipment breakdown policy; and
- Share of income loss due to cyber disruption: \$2,000 an hour for 18 hours, amounting to \$36,000; subject to a six-hour time deductible in a cyber policy.

### **This is How the Loss Would Look:**



*Dark shaded area shows cyber income loss of \$35,000.*

### **Is This How the Recovery Would Look?**



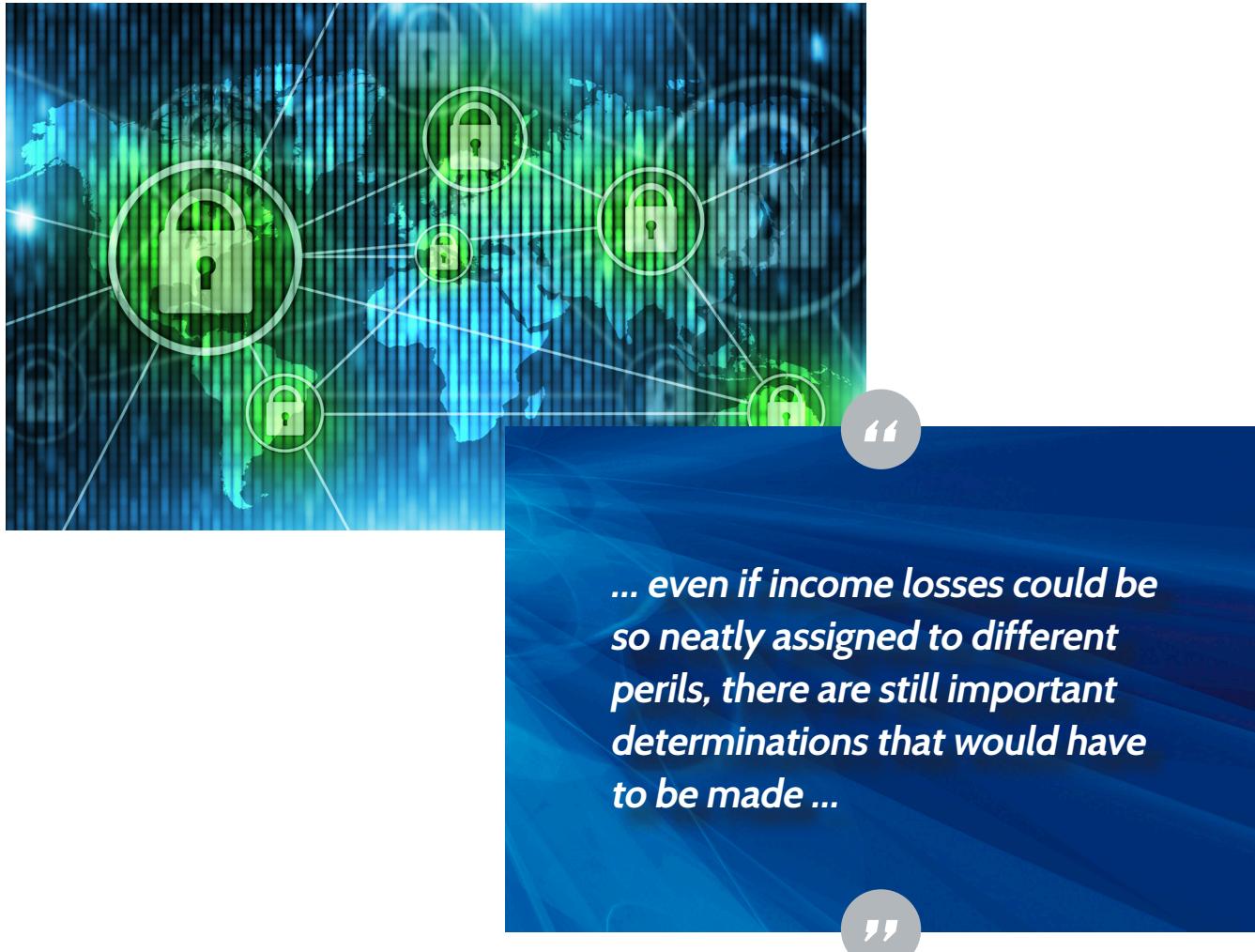
*Dark shaded area shows cyber income coverage after six-hour waiting period deductible.*

We'll leave it to readers to do their own "back of the envelope" calculations of the recovery. Our point here is that, even if income losses could be so neatly assigned to different perils, there are still important determinations that would have to be made:

- Can the additional data loss coverages in the income and equipment forms be tapped to fill in for the cyber deductible?
- What responsibility would the property insurer have for "equipment" or "cyber" income losses that extend beyond the limits and the restoration/extended indemnity periods of the equipment breakdown and cyber policies?

Readers can certainly imagine other complicating factors. Sargent, of Tenant Risk Services, observes that, "because of the complexity of some cyber events, there could be partial coverage under even more policies, so coverage questions may not be purely binary" (one policy or the other).

The potential complexity of simultaneous income claims doesn't end with property, equipment breakdown and cyber coverages, although we focused on these because they address core operations in a growing number of enterprises.



In 2014, ISO introduced business income forms and rating for mobile equipment and commercial auto insurance, establishing on a standardized basis a fourth set of income limits, deductibles and restoration periods for exposures found in a wide array of accounts. ISO and AAIS also provide for income coverages for inland marine coverages.

When it comes to business interruption claims, insureds and insurers alike will face an ever more complex new world. It is important to be aware of these complexities and their impact on both sides of the insurance equation. Policy drafters must be aware as well, so the intent and application of income coverage is as clear as possible for those who provide and those who depend on this vital form of insurance protection.

*The author thanks Arthur L. Flitner, CPCU, ARM, AIC, AU, senior director of knowledge resources at The Institutes, for his review and comments as this article was prepared.*

**When it comes to business interruption claims, insureds and insurers alike will face an ever more complex new world.**

**ABOUT THE AUTHOR***Joseph S. Harrington, CPCU, ARP*

Mr. Harrington is an independent insurance writer and communications specialist. He served for over 20 years as communications director for the American Association of Insurance Services (AAIS). His work has been published in *Best's Review*, *Rough Notes*, publications of The Institutes, and elsewhere.



**CORPORATE OFFICE**  
126 Business Park Drive  
Utica, New York 13502  
800.382.2468  
Outside U.S. (315) 797.3035  
FAX: (315) 272.2054

[Editor@AdjustingToday.com](mailto:Editor@AdjustingToday.com)

**WEB ADDRESSES**  
[AdjustersInternational.com](http://AdjustersInternational.com)  
[AdjustingToday.com](http://AdjustingToday.com)

**PUBLISHER**  
Ronald A. Cuccaro, SPPA

**EDITOR**  
Sheila E. Salvatore

**ADJUSTING TODAY** is published as a public service by Adjusters International, Inc. It is provided for general information and is not intended to replace professional insurance, legal or financial advice for specific cases.

Copyright © 2017 Adjusters International, Inc. Adjusters International ® and the AI logo are registered trademarks of Adjusters International, Inc.

Follow *Adjusting Today* on Facebook & Twitter:



[Facebook.com/AdjustersInternational](https://www.facebook.com/AdjustersInternational)



[Twitter.com/AdjustingToday](https://www.twitter.com/AdjustingToday)

AT17 3048

**Adjusting Today Basis for Institutes CE Courses**

The Institutes, the leader in providing knowledge solutions for risk management and the property/casualty insurance industry, offers continuing education courses based on technical information compiled from issues of *Adjusting Today*. The courses —

"Valuing a Property Insurance Claim" and "Natural Disasters:

Coverage Issues" — include seven modules each and are approved for credit by insurance departments in most states. They are offered to property insurance producers, adjusters or both, depending on the state, for up to three continuing education credit hours per course. More information is available at [CEU.com](http://CEU.com).