

# Income protection: business expenses or business interruption insurance?

By Lee Davidson

The real combination should be all three covers but many dentists are confused by the differences between these insurance policies.

Adequate business interruption insurance cover should be a huge part of dental practices risk management programme. If your practice suffers from a disaster such as a fire there is a staggering 80% chance you will not be in business 12 months after suffering from such a loss\*. Put another way, there is a 1 in 5 chance you will survive.

The reason for providing this article is there are misconceptions about Business Interruption Insurance and from speaking to clients and practices everyday it is evident that the importance of such cover is or misunderstood.

Let us start by creating a scenario. Your practice has three surgeries and a turnover of \$1m per annum. On a Monday morning, you turn up for work to discover your premises are on fire. According to the fire department, the blaze had been started by the fast food establishment two units away. The first thing you do is call your Insurer and begin the claim process. The policy you have will replace the contents and the insurer sets about sending you a claims form.

It is evident from the damage you will not be trading at the premises for some time. There is considerable structural damage to the whole strata. Just how are you going to contact the patients that are booked in today, tomorrow and in the days ahead to cancel the appointments? The income already lost will be considerable and on a turnover of \$1m a year, each day closed is costing you approximately \$4000 a day. Just as importantly, what do you think they will do about the work they are booked in for? Chances are the patients will not be able to wait for their dentist's work and these patients will be forced to seek an alternative dentist.

Many dentists in this scenario believe that this sort of incident can be claimed for under either income protection insurance or business expenses insurance. This is not the case.

Income Protection Insurance will cover you as an individual if you develop a condition such as cancer or break a leg. It will not cover you when your business suffers from an insured peril.

Business Expenses Insurance will not pay-out either. This type of policy is designed to cover non income generating expenses such as business mortgage expenses and amongst other things accountant costs when a sickness or accident claim has been lodged. Neither income protection nor business expenses cover will provide you with funds to hire temporary equipment or premises so you can go about your business whilst your premises are being rebuilt.

It is good advice to create a disaster recovery plan which documents how your business will attempt to cope and reopen elsewhere in such a scenario. Carefully consider all the different things you would need to do to achieve this. Contacting patients, suppliers, staff would all be crucial, as would having an idea of vacant premises which may be available. This could include neighbouring practices with capacity to let you rent rooms temporarily.

Not insuring the revenue of the practice is a short sighted view. Some clients simply state they would retire if their business suffered from a fire or other disaster. In this scenario, I regularly ask them about the goodwill in the practice. By not attempting to keep the business running, you are giving your patients to neighbouring practices and reducing your super fund at the same time. This obviously does not make financial sense, so why would you take the chance in this scenario?

When business is affected by such disasters, your premises could take anything up to 12 months or beyond to reopen. Sites which suffer from fire damage have to be hosed down. Then the debris has to be cleared, architects need to be employed to draw up plans and planning permission may have to be submitted. After all this, the builders have to build! If you are closed for this length of time, how would you make an income and pay your own bills in this time? You may be forced to become a salaried dentist at another practice but did you really start your own business to do that?

As a result of the above you should immediately check you are insured correctly. The correct sum will depend on what policy you have, but typically you should insure for either the gross revenue of the business or the gross

revenue less variable cost.

Income within dental practices has changed dramatically in recent years and the majority of practices we speak to for the first time are under insured. Under insurance causes problems when you claim as insurer penalise you via an "Average" clause or you simply receive an income which is not enough to keep your business running.

If insured correctly and disaster does strike, the insurer will provide the sum insured to hire temporary premises so that you can continue seeing patients and earn income. Business Interruption cover does much more than simply providing other premises. In our scenario above, we assumed a three surgery practice. If you operate from a CBD location, space may be at a premium and you may not be able to find other premises of a similar size available and you may have to take a site where you can operate two surgeries. This would affect the amount of income you can generate. Providing you have the correct sum insured, the insurer will provide you with the difference between what you have earned and what you were earning pre loss, for up to the indemnity period insured.

Continuing the scenario above, once your site has been rebuilt and you are able to return to your premises the insurer does not stop helping at this point. It is unlikely that income will return to normal straight away. Patients will have been lost and you will need to market and advertise heavily to attract them back. The insurer will continue to pay the difference between what you are earning and were earning pre loss. This continues for the length of the indemnity period ensuring you have the best possible chance of business survival.

Business interruption claims such as this are rare and as a result of the frequency of such claims, the rate charged by insurers is charged accordingly. Such claims are also time consuming. There is considerable discussion which goes into such claims settlements. This will undoubtedly involve your accountant and other staff. This is happening at a time you will want to focus on seeing patients as they provide the income of the practice. As a result, liaising with Insurers will certainly not be high on your agenda during this time. Further help is available through "Claims preparation costs", which will provide you with professional help to manage your

claim. Other additional help can be found in "additional increased cost of working" which provides income for incidentals including but not limited to marketing costs, access to funds whilst the insurer releases funds or loss of interest on funds because you have used them to help the business during this crucial time.

This can all be insured under business interruption insurance.

It is all too common for practice owners to simply renew existing policies without considering how their practice has changed or what exposures they face in today's world. Many practices today prefer preventative treatment. Reviewing your business insurance policy should be no different. If your current insurance broker has not discussed your cover with and you have simply been sent an invoice, carefully consider the points raised within this article. ♦

Should you want a free copy of our specially designed risk management tools for dentists or would like Dental Essentials to offer you a free impartial review of your insurances you can contact Dental Essentials on 1300 136 339.

**Protecting the Future**

**dental**  
ESSENTIALS  
Safeguard Success

1300 136 339

- Practice Insurance
- Public Liability
- Workers Compensation
- Professional Indemnity
- Income Protection & Life
- Home, Motor, Travel
- Market leader in Practice Insurance
- Specialised dental industry insurer for a decade
- Products developed exclusively for dentists
- Continual product improvement in line with rapidly evolving dental industry
- No hassle claims and majority settled within seven days of lodgement

www.dentalessentials.com.au

Join Dental Protection [www.dentalprotection.org](http://www.dentalprotection.org) to receive a \$200 rebate on Practice Insurance!

AFS License 238917