PERSPECTIVES

Analyzing Business Income Losses Following Ingress/ Egress & Service Interruptions

Our perspectives feature the viewpoints of our subject matter experts on current topics and emerging trends.

INTRODUCTION

The first two papers in this series—*Handling Business Income Loss During Hurricane Season* and *Projecting Revenues for Business Income Losses During the Pandemic*—largely emphasized impacts from the pandemic and the resulting complexities when analyzing business income losses. This paper, while intended to be a continuation of that discussion, focuses more on catastrophe-related perils that could impact any business in a post-pandemic and/or stabilized economy. Specifically, this paper addresses ingress/egress limitations and power outages.

INGRESS/EGRESS

Scope

Ingress and egress are terms utilized to reference the act of entering and leaving a location. In the insurance world, ingress/egress business interruption coverage refers to losses arising from the lack of access to a property which is triggered without the need for an order of civil authority. Ingress/egress losses are often supported by publicly available data which serves to document the cause, duration, and scope of the route closure. This documentation helps the carrier and its representatives to evaluate and/or estimate the applicable period of indemnity.

Policy Limitations

Frequently we see ingress/egress policy language specifying whether property damage must occur and/or outlining the requirements for such; however, that is not always the case, and often this can be seen as ambiguous. In our prior paper, *Handling Business Income Loss During Hurricane Season*, the authors discuss how this topic has been widely debated in the court systems.

In addition to determining whether coverage is afforded for a particular loss, there may be a separate limitation limiting covered business interruption losses to a particular time frame which is often shorter than the traditional business interruption coverage affords. The forensic accountant will always need to work with the adjuster and/or carrier to determine applicable policy limitations and/or instructions that are relevant.

Loss Measurement

Foregoing any specific policy wording limiting the loss, the forensic accountant will need to work closely with the insured to understand the key areas of the business that are impacted due to the ingress/egress limitation. This portion of the investigation would include, but is not limited to, asking questions such as:

- Is the source of access limitation by waterway, roadway, or air?
- Is access totally or partially limited?
- Are the insured's operations totally or partially limited?
- What is the expected duration of these impacts?
- Is there any potential for mitigation during the impact period?

Involvement of a forensic accountant on the front end of a claim to gain a full understanding of the impacts is often integral to a successful and smooth claims process, particularly in circumstances in which the period of indemnity is long and alternative plans are made to continue business operations. In these scenarios, the forensic accountant can work with the insured to understand whether incurring a significant amount of extra expenses would result in reduced business income losses. If not, discussions can be had with the insured regarding potential policy limitations prior to incurring extra costs. Alternatively, if the incremental costs are justified to reduce the business interruption losses, the forensic accountant can work to quantify these losses in real time and work toward a more seamless adjustment to the claim. Having the proper team in place to discuss these issues on the front end will ultimately lead to a more seamless claims handling process.

As with any business interruption loss, impacts at one location could have trailing impacts throughout the marketplace; thus, it may become apparent during the adjustment process that shortfalls in the insured's business are unrelated to the ingress/egress limitations directly. The forensic accountant can help to identify these issues and the amounts applicable to such for discussion and policy determination purposes.

POWER OUTAGE

Scope

Like ingress/egress losses, power outage impacts can also be widespread; however, documentation for these losses is often not as readily available as those of ingress/egress. Often, the business owner is the source needing to provide documentation to support cause, timeline, and scope of power outage impacts specific to their location. This documentation often comes in the form of alarm records and/or letters from the business's utility company outlining the specific dates and times during which the property was without power.

Policy Limitations

Relevant policy language is integral to understanding and quantifying these losses. Specifically, a waiting period is a deductible frequently seen for these types of claims. The typical waiting periods are 24, 48 or 72 hours. Imagine if power outage coverage was triggered every time the power went out, and the onslaught of claims that would ensue. The waiting period deductible helps to weed out the claims that have measurable and impactful losses. Once a loss is confirmed to have exceeded the waiting period additional investigation is often conducted into the source of such outage. It is not unheard of to see situations where downed overhead lines causing an outage do not trigger coverage while damage to the main power station does.

Loss Measurement

Understanding a business's operations and impacts resulting from a power outage can be integral in accurately measuring the resultant losses. Commonly, even if the insured's location is physically without power, they can continue operations in some way, which will result in mitigating revenues upon reopening. Are the employees able to work remotely? Are customers still placing orders despite the outage, which will be fulfilled upon reopening? Does the insured deal in "impulse buy" products, the sales of which cannot be made up later?

Additionally, in catastrophic situations where utility capacities are limited, utility companies may institute rolling power outages to ensure all customers are afforded some opportunity for power. In these cases, it is imperative for the forensic accountant to have a clear understanding of the most likely applicable waiting period and how many are applicable per the policy language. If the insured location is frequently subject to controlled rolling power outages—and over a long period of time, but never more than 24 hours apart—would the insured have any covered loss?

Finally, depending on the anticipated duration of the outage, it may make sense for the insured to take steps to mitigate its losses with an alternative source of power. As with the mitigating impacts discussed for the ingress/egress coverages, it is important to discuss these expenses with the insured as early in the process as possible to ensure all parties fully understand how coverage will, or will not, be afforded for any extra expenses.

CONCLUSION

As with all business interruption losses, the forensic accountant works closely with the carrier, insured, and/or their representatives to ensure amounts calculated are limited to, and in accordance with, that which is covered under the insurance policy. In some cases, when multiple perils are impacting the insured concurrently, the forensic accountant will look to the adjuster to provide direction as to which deductibles, waiting periods, etc., are applicable. Additionally, depending on the limiting factors, the forensic a ccountant is often tasked with isolating the relevant issues and quantifying losses for each timeframe so that the insurance company has sufficient information to quantify covered losses by peril/area of coverage.

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Jennifer Engle is a Senior Vice President in J.S. Held's Forensic Accounting practice. She provides expert analysis, reports, and testimony on a variety of forensic and investigative accounting matters. Her experience includes investigating and quantifying losses arising from alter ego allegations, business partnership disputes, sexual discrimination accusations, wrongful death, personal injury, patent infringement, and defamation claims, among others. She has provided expert witness testimony in both state and federal courts. Jennifer has also been involved in non-litigation matters concerning the evaluation and quantification of economic damages including lost profits, major construction costs, stock and contents, product liability, lost wages, and fidelity losses.

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