

Ecclesiastical Business Interruption Revenue Cover for Schools

Ecclesiastical recognise the importance of providing an uninterrupted education for pupils. We understand that most business interruption revenue claims following insured damage will result in additional expenditure being incurred in order to uphold the education of the pupils. The cover we provide is flexible to meet the challenges of maintaining normal operations in the event of an insured loss.

A business interruption revenue cover aims to provide financial support to a school in two main ways:

1. by paying the reduction in revenue
2. by paying the increased costs / additional expenditure the business will have to meet to keep the business operating.

The intention of cover 2 above, is to try and minimise any disruption and continue as much of the normal school operations by paying additional expenditure; and as a (positive) consequence, reduce the loss of revenue the school suffers (covered under 1. above).

A standard insurance business interruption revenue cover

Typical wordings in the market will include the following:

*The additional expenditure will **not exceed** the amount of the reduction in revenue thereby avoided.*

This means that no additional costs will be paid over and above the amount that is lost in revenue, often referred to as an 'economic limit'.

In addition to the revenue sum insured provided by the customer for a standard business interruption revenue cover, insurers may also require:

- A sum insured for any increased/additional costs of working (ICOW or ACOW) or additional expenditure items
- Potentially a sum insured for temporary accommodation expenses
- Inner limits in respect of the amount of ICOW/ ACOW / additional expenditure payable within specified time periods within indemnity period.

Our revenue basis of settlement negates the need for an *Additional Increased cost of Working (AICOW)* item generally purchased for costs over and above the economic limit in addition to revenue (subject to a sum insured) in most cases.

Examples of how these wordings might work in practice

When many schools consider potential interruptions to their operation, the obvious events that come to mind are often large fires or floods. In reality the majority we see relate to smaller losses that require additional expenditure rather than an obvious loss of revenue. The following provide examples for both small and large event scenarios.

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- The wording is **flexible** in terms of revenue and additional expenditure
- Our wording does not include any 'economic limit' within the sum insured for revenue
- If the majority of the school income relates to fees, our standard revenue cover will not require an increased / additional cost of working / additional expenditure item insured with a separate sum insured
- Any additional costs will be picked up within the revenue sum insured on a **flexible** basis as long as the costs are necessarily and reasonably incurred to maintain / resume normal school operations, within the indemnity period
- There are no inner limits in terms of how much of the sum insured can be paid within certain timeframes during the indemnity period.

Smaller (more common) claims scenario

The nature of claims we typically see involve smaller damage events. An example scenario could be damage to in-house laundry or kitchen facilities.

It is likely that if these facilities are damaged, there will be a requirement to utilise third party services during the repair / replacement period.

There is potential that these third party services may be at higher cost, compared to the in-house facility that the school (prior to the damage) has charged the fee payers in respect of this service provision.

If the school had to provide a refund to fee payers for the inability to provide these services, the reduction/ refund in fees would therefore likely be less than the additional cost of the third party service required to maintain normal operations.

A strict interpretation of a standard revenue wording, would mean that the additional expense over and above the reduction in revenue would not be covered.

As the Ecclesiastical policy has no economic limit, and the cover is **flexible** between revenue and additional expenditure, the full additional costs would be covered in order to maintain normal operations.

Alternative options for business interruption covers

- If revenue cover is not appropriate for your school, we are able to provide other options such as *Additional Costs of Working (ACOW)* also known as *Increased Costs of Working (ICOW)*.
- Other insurers may offer a *Flexible Limit of Loss* option (i.e. a flexible basis of settlement with a first loss limit). This is similar to our standard flexible basis of settlement cover but with a first loss limit meaning that there would not be cover to the school's full revenue.

Indemnity periods

In addition to selecting the most appropriate basis of settlement, it is also essential to insure for a realistic and suitable maximum indemnity period (MIP). A school should select a period for business interruption that will allow them to return to normal operating capacity. The following are important considerations when setting this period:

- Listed status of properties - planning permission and methods of construction, readily available materials or specialist tradesmen may be required to reinstate the buildings which elongates the process 'and in our experience, can take in excess of five years'
- Access to the premises for works to take place, or for temporary accommodation to be erected following a significant loss (i.e. access to inner city schools would be more difficult than rural settings) can impact on recovery time
- The availability of specific/complex equipment within classrooms (such as Design/Technology suites) which may take elongated time periods to obtain and/or install
- In the event of a serious loss, the potential for losing pupils for the full education lifetime. For example, the damage occurs when pupils are in the first year of a five year potential education, if the damage is repaired after two years, would the school expect all of those pupils to return to the school? There may be a loss of fee income for years following the reinstatement that needs to be considered.

In our experience, indemnity periods have often been calculated on the expectation that labour and materials are readily available, or that all pupils return when reinstatement complete, and although some extra time may have been built in for some planning delays, expectations are not on a "realistic" basis. It is very difficult to determine the indemnity period, however at Ecclesiastical we are happy and able to provide our valuable insight and experience to assist with this planning.

Larger claims scenario

In our experience, events such as fires in boarding houses result in a requirement to provide alternative accommodation for boarding pupils.

There are many ways in which this alternative provision is possible – the erection of temporary modular buildings on-site being most common, or off-site hotel accommodation. To ensure the appropriate standard of accommodation is provided may result in higher costs in comparison to the original in-house facilities the school (prior to the damage) has charged the fee payers for the provision of the service.

If the school were to compare the additional costs of the temporary accommodation to the potential refund of fees they would need to offer for the inability to provide the accommodation, there could be a cost differential.

In our experience, the additional costs involved in these scenarios, are likely to exceed the 'economic limit' of a standard business interruption revenue cover.

As the Ecclesiastical schools revenue wording has no economic limit, and the cover is **flexible** between revenue and additional expenditure, the additional costs to provide temporary accommodation in order to maintain normal operations would be covered up to the revenue sum insured and within the indemnity period.

