

October 2021

Establishing business interruption loss due to COVID-19

Overview

COVID-19 has impacted small businesses across Australia. Businesses have closed or operated at reduced capacity, resulting in the loss of trade and profit.

Due to the extent and complexity of COVID-19 business interruption claims, test cases commenced to clarify issues related exclusions and common covering provisions. We are still waiting on the outcome of the second test case. The outcomes of the test cases will guide the application of insurance policies to small business losses.

While we wait for the outcome of the second test case, we encourage small businesses that have a claim or intend to make a claim, to gather relevant financial records now to establish the extent of their business loss. Collecting the relevant documents to support your claim while they are readily at hand may help make your claims experience easier. This will help your insurer establish business interruption losses, so any losses that are claimable can be settled in a timely manner.

If you experience a problem with your claim and lodge a complaint with AFCA, having this information ready will help us investigate the specifics of your complaint.

Establishing your business interruption

Whether your business has closed, or continues to operate in a reduced capacity, you will need to provide financial documentation to quantify the financial loss due to COVID-19. Evidence will need to show the level of reduced revenue through the period of cover.

A revenue comparison of the indemnity period to a normal or average period may assist. For existing businesses, financial performance over the same period in prior years could be reviewed to form a revenue baseline. Allowances could then be introduced based on market and other influences.

Most insurance policies outline information required to assess a claim

To substantiate financial loss, you should be prepared to submit evidence when lodging a business interruption claim.

In most instances, the product disclosure statement (PDS) that provides the terms and conditions of the insurance cover, outlines the information which an insurer requires to assess a business interruption claim.

You should review your PDS as it may highlight the information your insurer requires from you.

If you are not certain what financial information your insurer requires, you can contact your insurer or broker to seek this information.

Financial records that assist to establish business loss

We encourage small businesses that have a claim or intend to claim, to start gathering relevant financial information as soon as possible.

This list is not exhaustive. You should consider the circumstances of your loss and provide other relevant information that helps to establish your claim or extent of the loss.

Confirming income

- Trading and profit & loss accounts printout from a Management Information System (MIS) for the 12-month period prior to the indemnity period (MYOB, QuickBooks, Xero, or other management information systems used for bookkeeping)
- Separate trading and profit & loss accounts printout from MIS for the indemnity period
- Business Activity Statement (BAS) with ATO receipts to verify the gross income for the 12-month period prior to the loss and the indemnity period. Be prepared to produce the same for the previous financial years
- Receipts and details of any additional costs expended for sustaining the business during the indemnity period. This may include re-location costs for moving to, operating from, any temporary location or any other mitigation cost incurred
- Also consider any reduced business costs your business may have achieved through the indemnity period, such as holding less or no stock or reduced utilities consumption.

Confirming payroll costs in the event your policy covers payroll

- MIS payroll confirmation; or
- Payroll distribution verification (if outsourced); or
- Business transaction account bank statements referencing wages paid; and
- Evidence of monthly JobKeeper funds received/paid as a contribution to salaries/wages.

In addition to the above, the following information may be useful

- Copy of any specific government orders received
- Details of any Government (State and Federal) COVID-19 support grants received
- Subject to the circumstances of the loss, any further relevant information that establishes the extent of loss.