

# LOSSES CAUSED BY HURRICANES: ARE YOU COVERED?

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## Insurance Coverage Alert

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This hurricane season represents the first time in the history of record keeping that two Category 4 or higher hurricanes, Harvey and Irma, have struck the U.S. mainland in the same year. Within a month, Hurricanes Harvey and Irma devastated parts of Texas, Florida, Louisiana, Georgia, South Carolina, and the Caribbean, causing widespread property destruction and leaving millions of people without power. Now, Hurricane Maria, a category 5 hurricane, has made landfall in the Caribbean and caused even further destruction. These storms caused major disruptions, including mandatory evacuations, flight cancellations, and closures of airports and businesses. The economic impact caused by Hurricanes Harvey, Irma, and Maria is projected to be billions of dollars, with some predicting that Hurricane Harvey may be the costliest natural disaster in U.S. history.

Insurance is an important asset and can play a critical role in helping businesses and individuals weather the financial storm that inevitably follows the natural one. Importantly, businesses often have insurance not only for property damage losses, but also for economic losses arising from business interruption. In fact, even if Harvey, Irma, or Maria did not damage their own property, losses may arise from damage to the property of others, including important suppliers, customers, and other business partners. Businesses may also incur substantial expenses to return to normal operations.

Businesses affected by these hurricanes should seek to maximize insurance recoveries. As set forth in more detail below, businesses must promptly review all potentially applicable insurance policies and carefully assess and document losses. Importantly, businesses should consider policy provisions against their insurance policies as well as insurance law to maximize coverage.

## IDENTIFY POSSIBLE COVERAGE

A common source of coverage for many businesses will be the first-party coverage insuring the property and assets of the insured entity. Such policies may be in the form of broadly worded "all risk," "difference in conditions," or "inland marine" first-party property policies. Most of these policies also provide so called "time element" coverages including "business interruption" and "extra expense" coverages that cover loss resulting from the company's inability to conduct normal business operations.

Here are some critical coverages that may be included within property insurance policies.

### Property Damage.

Commercial property insurance typically provides coverage for loss or damage to real and personal property. Insured property is often broadly defined and in addition to providing coverage for real property, i.e., a building, it

may include coverage for furniture and fixtures, machinery or equipment, newly acquired or constructed property, or property of third parties in the care, custody, or control of the policyholder.

### **Preventing or Mitigating Insured Loss.**

Many coastal businesses took preventive measures before the hurricanes to minimize loss. Property policies commonly contain a provision that allows a policyholder to be reimbursed for costs and expenses in taking preventative measures.

### **Business Interruption.**

"Business interruption" coverage generally covers a policyholder for lost revenue or earnings resulting from property damage caused by an insured peril. Generally, in order to trigger "business interruption" coverage, there must be a covered cause of loss that results in physical damage to insured property which also causes a suspension or interruption of operations resulting in loss of income.

### **Rental Value.**

"Rental value" coverage may be available to replace rental income when a rental property is unable to be occupied. In a tourist destination such as the coast lines damaged by Hurricanes Harvey, Irma, and Maria, coverage for this particular loss of business to businesses who own rental properties may be especially critical to economic recovery. The scope of this coverage varies as there are many insurance companies who offer products targeted to the rental property market.

### **Contingent Business Interruption.**

"Contingent business interruption" provides coverage for losses as a result of damage to "dependent property," such as customers, suppliers, or other business partners, which renders that entity unable to conduct normal business operations. This coverage applies when a policyholder's own property is not damaged, but damage occurs to a third-party location, and as a result, the policyholder suffers economic losses.

### **Leasehold Interest.**

"Leasehold interest" coverage may apply when a policyholder holds a lease that is canceled by the lessor following damage to the leased premises and the policyholder is forced to secure a less favorable lease because of the cancellation.

### **Extra Expense.**

"Extra expense" coverage may apply when a policyholder incurs expenses to minimize loss in an effort to resume normal operations.

### **Actions of Civil Authority.**

"Civil authority" coverage can apply when a business suffers economic loss when an "order" of civil or military authorities prevents or limits access to the property. Like coverage for "contingent business interruption," coverage for "civil authority" may apply even when there is no damage to a policyholder's own property. Some policies may require that there be damage to property of others surrounding the insured premises while others may provide broader coverage for mandatory evacuations, curfews, or airport closures.

**Lack of Access to Insured Premises.**

"Ingress and egress" coverage is similar to "civil authority" coverage and may provide coverage for economic losses sustained when access to a policyholder's premises is blocked by a covered peril.

**Service Interruption.**

"Service interruption" coverage covers loss due to lack of incoming utilities.

**Claim Preparation.**

"Claim preparation" coverage generally covers the policyholder for the costs associated with compiling and certifying a claim.

**Advance Payments.**

Businesses often cannot afford a protracted adjustment period. Many policies expressly require that insurers pay losses as incurred while the full extent of the loss is being adjusted.

**FLOOD INSURANCE**

Coverage for damage directly caused by flooding should be covered under a policyholder's flood insurance policies. Flood coverage may be included in a private insurance policy or through the National Flood Insurance Program (NFIP). Flood coverage, including policies issued through NFIP, generally include coverage for damage caused by storm surge, which can have a devastating impact during a hurricane.

**IDENTIFY POTENTIAL COVERAGE ISSUES**

Faced with a large property damage or business interruption claim, insurers may raise a number of potential limitations or restrictions on coverage. Based on our experience, here are common issues raised by insurers:

**What caused the loss?**

As with most hurricanes, there may be multiple causes of loss, including high winds and floods. It is important to determine and properly characterize the cause of loss because policies may exclude or limit coverage for certain causes of loss. Courts have taken different approaches in determining the cause or causes of loss or damage. Some courts subscribe to the "efficient proximate cause doctrine," which allows coverage if a loss would not have occurred but for the occurrence of a covered peril. Another approach is the "concurrent causation" doctrine, which permits coverage if at least one cause of the loss is covered by the policy. Some insurance policies contain "anticoncurrent" causation language, which purports to exclude or limit a loss if any part of the causal chain involves the excluded or limited peril. State laws vary and causation issues can be, and often are, nuanced and complex.

**Does an exclusion apply?**

Insurers often respond to a claim by asserting that various exclusions in the policy apply to bar or curtail coverage. Some of the exclusions that insurers may assert in response to a hurricane claim may include a flood

exclusion and a service interruption exclusion. Of course, the applicability of an exclusion depends on the policy language as well as the determination of the cause of loss.

### **Did the interruption result from damage by an insured peril to property of the provider of the service?**

In the case of a claim resulting from loss of income or extra expenses associated with loss of electrical power or other services, did the interruption result from damage by an insured peril to property of the provider of the service? Some policies purport to exclude business interruption coverage arising from interruptions in electrical service. Other policies have language explicitly promising business interruption coverage for losses arising out of service interruptions (including service interruption to suppliers of the policyholder) but purport to require that the interruption resulted from damage to property of the service provider. Policy language in this context varies considerably, and a policyholder must review carefully its own policy's wording to assess the availability of business interruption coverage arising out of the interruption of services.

## **CLAIM PRESENTATION**

Most policies include specific provisions for presenting a claim. The manner in which a claim is presented can have a significant impact upon recovery. This cannot be understated. Policyholders should be proactive in assembling an insurance recovery team, including working with accountants and claim professionals as well as insurance coverage counsel. At a minimum, a policyholder should consider the following common policy provisions.

### **Notice of Loss**

Most policies require the insurer be notified as soon as practicable or within a specified time frame after circumstances that may lead to a claim. Policyholders should seek to notify all potential insurers.

### **Proof of Loss**

Property policies generally require a sworn proof of loss summarizing the amount and extent of the damage or loss. The insurer may require this proof of loss within a specified timeframe though it is not uncommon for insurers to agree to extend this deadline. A policyholder should consider requesting a written agreement extending the time for submission of a proof of loss (and potentially other policy conditions) depending on the nature of the loss.

### **Suit Limitation**

Policies may include "suit limitation" provisions, which provide that an action to recover under a policy is barred if not initiated by a certain timeframe. In some states these provisions are not enforceable while in other states they are enforceable. Therefore, businesses should consult counsel to determine the limitations period that may be applicable to their claim.

## CONCLUSION

Businesses that have suffered losses because of Hurricane Harvey, Irma, or Maria should not overlook the significant financial protection that may be provided through their insurance policies. Businesses should act carefully and proactively to maximize coverage. Experienced insurance coverage counsel is often needed to assess the viability and strength of a policyholder's claim, in dealing with the insurers' loss adjusters, and in maximizing the policyholder's potential insurance recovery. K&L Gates has represented clients in dealing with claims arising from hurricanes, floods, other natural disasters, and all manner of complex insurance claims for over 30 years and maintains a group dedicated to assisting policyholders in assessing and prosecuting insurance coverage claims.

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