

BUSINESS INSURANCE.

Climate-related power outages raise risk, coverage issues

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Businesses should step up their risk management plans for power outages in extreme weather, including reviewing insurance coverage, as climate-related catastrophes increasingly cause concerns over utilities' ability to keep power flowing, experts say.

Business interruption exposures and computer data losses can lead to significant claims and trigger insurance disputes after outages, they say.

The winter storm and freeze that hit Texas and the South earlier this year and the wildfires in numerous states, particularly in the West, have underscored the need to review business continuity plans and coverage for outages.

An increase in the frequency of extreme temperatures is resulting in more power outages, said Maryann Johnson, Philadelphia-based senior managing director, property and energy claims, at Beecher Carlson Insurance Services LLC, a unit of Brown & Brown Inc.

"Every business is different, but all businesses are impacted," Ms. Johnson said.

Depending on their size and resources, companies should consider having backup power generation onsite or the ability to plug in temporary power, if they can source it, she said.

The Texas winter storm, [which hit in February](#), was a two-fold event, said Jonathan Price, senior director, risk and insurance, at Main Event Entertainment Inc., a Dallas-based bowling and indoor entertainment chain. "We had a difficult time getting to our locations due to road conditions. We were also impacted by having no power when we were ready to operate."

Trusting in emergency preparedness plans and communication are critical, he said. "For us, the best risk management strategy is not worrying about product loss or increased labor cost during the crisis but communicating with our guests to make sure they come back for the experience they originally came here for."

Main Event Entertainment has service interruption coverage and is in the middle of submitting its business income loss analysis to its insurer, Mr. Price said. Where the company had physical damage at its locations, "it's clear based on the policy that it is covered, and that the subsequent business interruption loss is covered," he said.



Some of the company's locations did not have physical damage but had utility or power loss. "Those are questions we are still evaluating with the insurer, but we expect there to be coverage for that as well," Mr. Price said.

In the case of utility outages, standard business interruption coverage would not necessarily respond to claims, said Gary Marchitello, chairperson of Willis Towers Watson PLC's North American property team in New York.

A business would need to have service interruption coverage or off-premises power coverage. Such coverage typically carries a sublimit of up to \$5 million, \$10 million or \$50 million, depending on the size of the company, he said.

Policy wordings can vary and have different terms and conditions, Ms. Johnson said. "Businesses are always faced with some uninsured loss, and at a minimum that's going to be their deductible, but that could also be the entire event if the power outage isn't the result of something covered under the policy," she said.

In addition, policies usually include waiting periods, which can be 24 or 48 hours, Ms. Johnson said. "The waiting period means you have to be without that power for that length of time before there's any consideration of coverage under the policy," she said.

Rhonda Orin, managing partner at Anderson Kill PC, said businesses should make sure they have adequate coverage for computer data loss that stands alone and "doesn't hinge on something that could end up excluding computer data loss if it comes from a power failure."

Power outages can damage inventory depending on the business, and cause property damage if there's a fire or another event in connection with the power failure. "Almost invariably, no matter what business you are in, it can impact your computers," Ms. Orin said.

Sudden outages and rolling outages are different; one is an accident, and the other is intentional, she said. "Policies cover accidents, but intentional things can be extremely closely related back to them," Ms. Orin said.

When a deliberate action is taken, coverage will depend on policy language, she said.

Ahead of peak hurricane season, businesses should think about how their claim would look if a Category 3 hurricane hits, said Vince Morgan, a partner at Houston-based law firm Bracewell LLP. "Are there any weaknesses or gaps in coverage?" he said.

If there is a loss, businesses need to marshal their forces to respond and track the expenses and lost sales and begin the claims process as quickly as they can, Mr. Bracewell said.

Some policyholders in the Texas storm couldn't get power, while others could, but the cost increased by 3,000 times its normal rate, he said. "Some companies had to buy that and try to protect their properties from damage. That should be covered, too. Any expenses you reasonably incur to protect property against further damage is usually recoverable under commercial property policies," he said.
