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Considerations for Insurance Providers Handling Commercial Claims from Winter Storm Uri

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A record-breaking natural disaster, Winter Storm Uri, is slated to result in the largest amount of insurance claims in Texas history from a single event. The winter storm swept through the state causing widespread power outages, water shortages, frozen pipes that burst and flooded buildings, snow or ice damage to buildings, fires, car accidents and deaths. Reportedly, insurance providers are already seeing a torrent of claims amounting to more damages than the last major natural disaster to affect the state, Hurricane Harvey, which resulted in more than $20 billion in insurance claims. Experts predict a large number of claims will be for damage to commercial properties as well as claims for business interruption coverage.

The following highlights some issues to consider related to these claims.

Evaluating Types of Coverage

First, the policy should be thoroughly evaluated to determine what types of coverage are provided. Most policies will cover damage to the insured property as a result of a covered event, in this case the winter storm. Insured property typically includes buildings and other structures, equipment, supplies, and other personal property. Water damage caused by burst pipes or collapsed roofs due to the weight of snow or ice may fall under this coverage; however, given the rarity of snow and ice events of this magnitude previously in Texas, damage caused by the weight of snow or ice may result in novel issues under Texas law.

Business Interruption Coverage

Another type of coverage that will likely come into play is business interruption coverage. If a business had to shut down due to property damage, power outages, or water shortages, the business may have a claim for business interruption coverage based on revenue and earnings lost during the time of closure. In some instances, business interruption coverage also includes utility service interruption coverage; however, the cause and/or location of the utility service interruption coverage may be at issue under some policies.

A related type of coverage that may be at issue is contingent business interruption coverage. This coverage often operates similarly to business interruption coverage except the covered business's own property need not have been damaged. This coverage is triggered if the policyholder can demonstrate that they lost earnings or revenue as a result of damage to property of another business or person that leads to that business or person being unable to provide its goods or services to the policyholder or being unable to take the policyholder's goods or services.

Disputes over business interruption claims frequently focus on the amount of lost earnings and revenue at issue. Also, utility service interruption claims typically must be supported by documented damage to utility equipment within a specified distance of the policyholder's covered property. Therefore, documentation is key for all sides when addressing a business interruption claim.

Time Limits for Policies

Another issue to note is that some policies cover loss of income and related expenses only for a specified period of time after a covered event occurs. For example, utility service interruption coverage often specifies an interruption period of 24 to 48 hours before coverage applies. General business interruption coverage may also state a time limit for the amount of days the policy will cover loss of earnings or revenue. If a policy does not define a specific time period, it may be tied to the time it would take a policyholder to resume normal business operations while engaging in reasonable mitigation efforts under the circumstances. Because many individuals and businesses were without power and water for a number of days as a result of Winter Storm Uri, addressing these time limitations in policies will be key.

If you have questions, please contact one of the authors or your Baker Donelson attorney.