

Help Your Clients Navigate Vacant Property and Business Income Pitfalls

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In March 2020, the COVID-19 pandemic shut down millions of businesses and created both a public health crisis and an economic crisis around the world. One of the victims of the global economic slowdown has been the commercial real estate market. With widespread retail shutdowns and millions more people working from home, there are more vacant properties than ever.

While vacant properties are troubling for their owners and managers, they are also a serious challenge for insurers. Concerns about security, theft, vandalism, and unattended utilities make these properties a lot less attractive to underwriters. Insurers that will write the coverage are charging higher rates, setting higher deductibles, offering limited-time policies, requiring regular security at the property, and insisting that utilities remain on so burglar and fire alarms can function.

Business Income Protection Is Increasingly Hard To Get For Commercial Clients

Business income (BI) insurance was originally designed to cover losses in income when a building was uninhabitable due to property damage caused by a covered cause of loss. For example, if your building sustained direct damage and could not be used for a period of 16 days, your BI coverage would cover some of your lost income during that time period. The insurer was motivated to make your property inhabitable again, as quickly as possible, to control the scope of the BI payout.

With COVID, the scenario is very different. Loss of income isn't triggered by property damage and the insurer can't just fix the property so the insured can generate income again.

Because of this, insurers are reluctant to offer the same scope of BI protection that they offered in the past. When BI is included, the coverage comes with certain conditions.

Businesses Must Accurately Estimate Their Revenues, Based on Today – Not the Past

Let's say a client manufactures and sells widgets and has \$250,000 in BI coverage. But during a pandemic, income is way down. If the client suffers a fire and has to close down, do they have \$250K of coverage? Or maybe a client operates a hotel that's normally at 90 percent capacity but was at 15 percent last year due to the pandemic. Does it make sense that the hotel can collect 100% of its business income coverage if it has a fire? Insurers don't think so.

So, businesses that have vacant property due to the pandemic need to adjust their business income estimates for that time period. Their coverage will be adjusted accordingly, and they should receive a credit. If those values haven't been adjusted, there will be issues when a claim is filed. Most property policies stipulate that an insured must suffer direct damage such as a tree falling on the building in order to trigger a loss, and then BI protection will kick in. But there's still a lot of legal gray area about whether COVID should be a covered peril.

Are We About To See A Tsunami Of BI Claims?

The jury is still out on the compensability of BI claims caused by COVID. A judge in a recent Ohio [case](#) ruled that COVID can trigger a business income loss. There are also some carriers who have failed to delineate clear exclusions or cause of damage in their policies that have had to pay BI claims. So the industry is rightfully concerned that courts will overturn damage claims and open a floodgate of BI claims. That could bankrupt the industry.

How Can Agents Better Serve Their Commercial Clients?

If the carrier has agreed to continue covering an existing client's vacant property, make sure the insured is doing everything they can to appease the carrier. This may include:

- Hiring security
- Maintaining building check logs
- Keeping the utilities turned on
- Reviewing and adjusting business income estimates

If you need coverage for a client's vacant property, partner with Socius. We understand every business has its own story, and we need to advocate for clients, tell their unique stories, and do the extra legwork necessary to get them the coverage they need.

Contact us today to see how we can help you better serve your commercial clients with vacant property during these challenging times.

Please contact your Socius producer to discuss available coverage solutions.



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