



COVID-19 COVERAGE – VACANCY EXPOSURES

With the emergence of the Coronavirus Disease (COVID-19), questions around business impacts and potential coverage have surfaced.

The purpose of this communication is to give a high level overview of an emerging exposure for property and business owners—changes in building occupancy. As businesses shut down temporarily or even permanently, a partially vacant structure could impact coverage for a tenant or building owner. Insurance policies typically set clear parameters and definitions as to when a building or space is considered vacant, along with associated limitations in coverage that result. As policy wording varies, please contact your PayneWest representative for consultation and guidance if you believe this bulletin may apply to you.

BUILDING OWNERS

When is a building considered vacant by the insurance policy?

Typical business owners policies (BOP) and commercial policies (CP) have common standards as to when a building is considered vacant. It starts with the standard of less than 31% of total square footage:

- Rented to a lessee or sub-lessee is being used to conduct customary operations, and/or
- Used by the owner of the building to conduct customary operations.

For purposes of this coverage, buildings that are being constructed or renovated are not considered vacant.

TENANTS

When is a tenant's rented space considered vacant by the insurance policy?

The same BOP and CP policies state that a space or building is considered vacant when it ...”does not contain enough business personal property to conduct customary operations.”



HOW IS COVERAGE IMPACTED IF A BUILDING IS CONSIDERED VACANT?

In these same standard policies, coverage is only impacted if the building has been vacant (as deemed by the above standards) for 60 consecutive days before the loss occurs. If this is the case, the following causes of loss are no longer covered:

- Vandalism
- Sprinkler leakage, unless you have protected the system against freezing
- Building glass breakage
- Water damage
- Theft or attempted theft

For losses that are still covered in the event of vacancy, the policy states the settlement of the claim will be reduced by 15%.

Policy language may vary from one insurance company to the next. The above language is representative of some policies, but not all. Please read your policy and contact your PayneWest representative for assistance.

WHAT CAN BE DONE TO BEST PROTECT A VACANT BUILDING OR UNIT?

We all hope the current economic situation does not lead to buildings to be vacant for more than 60 days. Some risk management tips include:

- Try your best to make the building appear occupied. This can include such things as cancelling mail service and maintaining the exterior to include landscaping.
- Security measures can also fend off potential thieves and vandals. Short of hiring an outside security firm, you should conduct regular walkthroughs and inspections. You can also keep the exterior and interior areas well lit with timers and motion sensors. A monitored security system with affiliated signage is also a potential deterrent.
- For protection against water and other related losses, you should shut off utilities that are not necessary to protect the structure.
- Maintain adequate heat, and check on heating systems periodically. This will help reduce freezing exposure.

*ALL COVERAGE DEPENDS ON WHAT IS IN THE POLICY AND HOW THE INSURANCE COMPANY INTERPRETS ITS POLICY.