

Catastrophic Loss Events...Understanding Insured & Uninsured Exposures

A headline from a Canadian Underwriter article from this summer¹ read, "[Oilsands companies not expected to make insurance claims from Fort McMurray fire.](#)" Despite having to halt production for several weeks at a potential cost of millions of dollars, why were there no business interruption claims made by these companies?

Business Interruption (BI)² or "Gross Profits" covers the sustained loss of profits directly resulting from the inability to carry on business at a location due to a physical loss to property insured under the policy. (The gross profit is calculated as revenue minus the cost to earn the revenue).

The ability to generate revenue from sales could be interrupted at any time. BI coverage is commercial insurance covering loss of income suffered by a business when damage to its premises by a covered cause of loss causes a slowdown or suspension of operations. Coverage applies to loss suffered during the time required to repair or replace damaged property.

The key is the loss must take place at a location shown on the BI Schedule of Locations and there must be an insured value indicated under "Profits" on the declaration pages of the policy. In the vast majority of situations, for a BI claim to qualify as an insurable loss, the following conditions must be met:

1. Loss must result from interruption of business at a scheduled location
2. Loss must result from direct physical loss to property insured by a peril insured against
3. Property must be on premises of a location specified in the schedule
4. Loss is subject to a 30 day waiting period

As a result of the Fort McMurray wildfire, BI losses met conditions #1 and #4, as losses of business revenue were at scheduled locations and the interruption lasted longer than



the 30 day waiting period. Losses did not, however, meet #2 as there was no direct physical loss to property insured that caused the shutdown. Although there was wide-spread damage resulting from the Fort McMurray wildfires (a peril insured against), the oilsands production locations were shut down due to a lack of manpower to operate. As a result of the wildly spreading fires, there were Civil Authority evacuation orders issued by the Regional Municipality of Wood Buffalo. So, because these conditions were not met, and especially because there was no physical property loss directly to the insureds' own property, potentially there is no BI claim.

An Example of a BI Gross Profits Claim:

The following is an example of a potentially claimable BI Gross Profits loss:

Your company has a solar generation facility located on the roof of your service centre garage. As a result of a fire, your building is destroyed and the rooftop solar panels are no longer generating electricity to sell under your FIT contract. For the eleven months it will take to rebuild the facility and the solar generation equipment, you are unable to generate and realize this revenue stream. Business Interruption insurance could make up this loss, indemnifying for your profits and covering certain fixed expenses attributable to that scheduled location.

¹ "[Oilsands companies not expected to make insurance claims from Fort McMurray fire.](#)" *Canadian Underwriter*, 11 Jul. 2016. Web. 25 Oct. 2016.

² "Glossary of Insurance and Risk Management Terms," USA: IRMI, 13th edition, Jun. 2015: 52. Print.

The following are potential MEARIE Subscriber scenarios where there could be loss of revenue or business interruption, but no claim would result:

1. A train derailment causes fire and an environmental spill which results in an evacuation order for the surrounding area. The environmental spill results in the closing of the area until clean-up can be completed. The district heating plant is shut down for three months until the evacuation order is lifted and employees could return. The district heating plant was a scheduled location that had BI coverage in the event of an interruption loss. The plant requires a stationary engineer on site at all times during operation as part of its licensing requirements, due to jurisdictional statutory legislation related to pressure vessels on-site. While the business interruption loss for production and revenue resulted from the evacuation order, physical access was still possible (ingress/egress coverage did not apply), but there was no physical damage at the district heating plant, so there would be no business interruption claim.
2. A run of the river hydro generating facility is unable to generate electricity due to low water levels resulting from prolonged drought. As part of the site license, when the river's flow rate drops below a certain threshold, water cannot be diverted from the river to the generating station, as a further reduction in river flow may adversely affect fish spawning migration. The location was a scheduled location that had purchased business interruption insurance. As a result of the prolonged drought over the summer and resulting low river flow they were unable to generate electricity for two months resulting in a loss of profits. Although there is a loss of revenue, there would be no BI claim as there was no physical loss or damage to the generating station and the loss was not caused by a peril covered by the policy.

Solutions beyond Traditional Insurance...Storm Damage Recovery

The above scenario from Fort McMurray describes a high profile event which caused both insurable and uninsurable losses. **A new solution MEARIE is developing is intended to provide coverage for Storm Damage Recovery**, beyond your standard property insurance.

The intent of a Storm Damage Recovery policy is for use as a **replacement or in conjunction with Z-factor applications in the event of T&D line damage resulting from an extreme weather event**. It is a unique product coverage to rebuild (restore) distribution lines and poles in order to resume power distribution following a storm with specific criteria. The policy would cover:

- Extra expense for labour, overtime, contract labour, materials, vehicle rental or other concerns or other similar necessary emergency expenses.
- Certain specified electrical transmission and distribution lines, line transformers and equipment or apparatus connected therewith in the course of reconstruction or repair

Coverage is triggered by damage to poles and wires, caused by a weather event, defined as a Named Storm or an Unnamed Storm. The delineation point for physical assets is beyond 1000 feet from a scheduled building, transformer station or substation. This is a new product MEARIE is excited to be launching soon. More details will be provided in coming weeks.

MEARIE continues to work to expand its offerings to include non-traditional risk management and risk transfer solutions, specifically for LDC operations. While it is important to understand not all losses may be covered by insurance, there are opportunities for further risk management. MEARIE would be pleased to discuss your individual company business interruption or other uninsured exposures and how we can help.

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Gary Durie, Manager
Risk Management & Underwriting Services
905.265.5355 | 1.800.668.9979
3700 Steeles Avenue West, Suite 1100
Vaughan, Ontario L4L 8K8
gdurie@mearie.ca | mearie.ca

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