



COVERAGE INSIGHTS

Provided by MST Insurance Solutions, Inc.

Civil Authority Coverage Explained

Often available as a supplement to commercial property coverage, business interruption (BI) insurance can offer much-needed financial protection for lost income, typical operating costs and certain extra expenses when an organization's usual business activities are interrupted by covered events. This coverage generally applies when an organization is forced to pause its operations due to direct physical damage caused by a range of perils, such as fires, theft, vandalism and some forms of adverse weather.

Nevertheless, BI insurance may not cover all possible situations. Depending on an organization's exposures, it may be necessary to secure additional coverage through policy extensions. For example, civil authority coverage is a BI provision that can help reimburse lost income and some extra expenses an organization may incur during government-mandated business closures prompted by loss of or damage to nearby property due to a covered peril, usually within a defined radius (e.g., between 1 mile and 5 miles).

Like any insurance offering, civil authority coverage comes with specific conditions and exclusions. By reviewing these characteristics and related best practices, organizations can better determine whether they need such coverage and understand how it will apply to different scenarios. This article provides an overview of civil authority coverage, key features and requirements, common disputes and limitations, and practical guidance for policyholders.

Coverage Overview

At its core, civil authority coverage indemnifies a policyholder for loss of business income when a government entity restricts access to the insured premises due to direct physical loss of or damage to nearby property arising from a covered event. This

provision can also offer financial protection for certain extra expenses that the policyholder reasonably sustains (beyond typical operating costs) amid the disruption to keep operations running. These expenses may include moving to a temporary business location during the government-mandated closure of the original premises, expedited shipping fees for essential materials and overtime wages for employees who are asked to work additional hours to minimize operational downtime.

Civil authority coverage may be triggered by a variety of scenarios, but some of the most common include:

- A citywide curfew imposed due to ongoing civil unrest that disrupts an organization's usual business hours
- A temporary road closure stemming from a nearby fire that cuts off access to an organization's storefront
- A local evacuation order prompted by a large-scale natural disaster that forces an organization to close its doors until the storm passes

Key Features and Requirements

Several conditions must be met for civil authority coverage to apply. These conditions are outlined by the following policy features and requirements:

- **Physical damage**—The government-mandated business closure must stem from direct physical loss of or damage to nearby property other than the insured's premises. Additionally, the damage must be due to a peril that's covered by the policyholder's BI insurance.
- **Government involvement**—The disruption to business operations must result from a direct or



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otherwise official order from a government entity. Examples include the passing of new legislation or the formal declaration of a state of emergency and related crisis response policies.

- **Property accessibility**—The government-mandated business closure must prohibit physical access to the insured premises. In other words, there must be no legal way for employees or customers to access the business property, such as through an alternative route that safely avoids roadblocks or a different property entrance.
- **Timing**—Coverage for a qualifying event is subject to a waiting period. This period refers to the amount of time that must pass after the physical damage and subsequent government-mandated business closure occur until coverage can be triggered. The waiting period for civil authority coverage can range from 24 hours to 72 hours. Further, coverage for a qualifying event only lasts for as long as the policyholder's BI insurance allows. This time limit spans a short period—usually between 15 days and 30 days—though some policies may extend longer.

Common Disputes and Limitations

Depending on policy wording, there may be some ambiguities regarding the triggers for civil authority coverage. In particular, some disputes have arisen from policyholders questioning what constitutes “prohibited access” to insured premises during government-mandated business closures. While policyholders may seek protection for perils that lead to partial closures or limited access to business property, insurers often dispute these claims, requiring a total lack of access to qualify for coverage.

Especially since the COVID-19 pandemic, there have also been some disputes regarding whether property damage is essential for civil authority coverage to apply and whether government actions should always be deemed mandatory in the context of business closures. However, it's important to note that this coverage is intended for short-term, local incidents involving direct physical losses rather than prolonged, widespread events like public health crises. This concept, in conjunction with unfulfilled coverage requirements, led most insurers to deny claims stemming from pandemic-related disruptions.

In addition to these disputes, civil authority coverage carries some limitations. Generally speaking, if a peril is excluded from coverage under a policyholder's commercial property and BI insurance policies, any government-mandated business closure or other event related to that peril won't qualify for civil authority coverage. Common exclusions include earthquakes, flooding, smoke damage, acts of war, terrorism and biological agents.

Practical Guidance for Policyholders

Considering the unique characteristics of civil authority coverage, here are some guidelines policyholders can follow to ensure ample protection:

- **Review policy language.** Policyholders should carefully read the terms and conditions of their civil authority coverage to confirm the presence and scope of this provision. Any questions regarding policy wording should be promptly addressed to prevent misunderstandings and confusion during the claims process.
- **Keep necessary documentation.** Most BI insurance policies outline certain documents required for filing a claim. As it pertains to civil authority coverage, these documents may include a government-issued proof of closure order, photos and videos showing evidence of nearby property damage, and written calculations of business interruption losses. Policyholders should have plans in place for collecting and maintaining these documents.
- **Purchase additional coverage as needed.** Many policyholders may need more protection than a standard BI insurance policy and civil authority provision can provide. In these instances, it's crucial to work with trusted insurance professionals to determine key exposures and obtain proper coverage limits and endorsements.

Conclusion

Government-mandated closures and related business disruptions can impact any organization. By securing ample BI insurance and civil authority coverage and understanding how it works, organizations can minimize the financial fallout stemming from these closures and promote continued operational success. Contact us today for more insurance solutions.