

## COVID-19: Vacant or Unoccupied Property

### Tips to Minimize Risk

With non-essential businesses closing their doors to help reduce the spread of COVID-19 or businesses ceasing operations due to uneconomic conditions, a new issue has emerged – the impact of your business premises or facility being vacant or unoccupied, which triggers a potential coverage limitation on your commercial property insurance policy.



### WHAT IS THE BIG DEAL?

Occupancy of a building or facility is a key factor in risk selection and rating. Insurance policies for commercial property are assigned rates based on a number of factors including the type of business that occupies an insured location. Any change to that occupancy may present an increase or a decrease in the risk to the insurer and has a corresponding effect on the premium for that property.

“Vacancy or Unoccupancy” fits into this category of risk factors. The lack of someone present in a building or at a facility to monitor or otherwise reduce the possibility of a claim either happening, or realizing one has already happened, increases the risk of loss. When a location becomes vacant or unoccupied, most insurers will want more information, and may want to charge an additional premium based on their assessment of the increased chance of a claim occurring. Depending on the length of the period, or the conditions of the building itself, an insurer may no longer wish to insure a location.

To address this issue proactively, insurers add a Vacancy or Unoccupancy provision to the policy, which requires the insured to notify the insurer within a stipulated time frame if an insured location becomes vacant or unoccupied. If the insured fails to notify the insurer within that time frame, certain coverages are restricted, and claims that were previously covered may be excluded. While this time frame will vary, a **common period in many policies is 30 days**, during which time the insurer must be notified, and steps must be taken to address the increased risk of loss.

### VACANT VS. UNOCCUPIED

Vacant and unoccupied have specific meanings in insurance and are uniquely defined in many policies.

In simple terms, a location is **unoccupied** when the building or facility is otherwise ready to be used for its intended purpose but is closed or otherwise unattended. A business that closes overnight is technically unoccupied during the period that it is closed, but this is not an “unusual” period of unoccupancy.

An unoccupied building or facility is **vacant** when it is has either never been occupied (in the case of a newly constructed building or facility), or, has no tenant, no ongoing business operations, and typically, no intent or expectation that the location will be used or occupied in the foreseeable future.

In most cases where businesses are closed due to COVID-19, whether voluntary or otherwise, the critical issue is not vacancy, but **unoccupancy**. However, the restriction in most policies does not distinguish between the two and insurers will need to be notified.

*Due to the date most COVID-19 emergency measures went into effect, the period of notification in policies for many businesses will be reached soon.*

## HOW ARE INSURANCE COMPANIES HANDLING COVID-19 CLOSURES TO BUSINESSES?

Insurance companies do not currently have a unified response, but most fall into one of the following **two** categories:

1. Insurers who will automatically extend or waive applicability of the restriction for temporary unoccupancy due to either forced or voluntary closures during the current pandemic.
2. Insurers who are relying on the written policy terms but may be willing to review situations with notification on a case-by-case basis. This also means that you will not have coverage following the determined period if no action is taken.

In both cases, while it is important to be proactive in finding out which category your insurer falls into and openly communicating with your Advisor—it is equally important that notification occur quickly and risk mitigation steps be undertaken as well.

*We are here to support and guide you through this process, and our feedback from many insurers has been that they will be reasonable given the current circumstances.*

## RISK MITIGATION

The main causes of loss are:

- Escape of water
- Theft
- Vandalism/malicious damage
- Fire
- Equipment restart

It is up to the Insured to ensure risk mitigation due diligence is performed and maintained throughout a vacancy or unoccupied period.

There are several steps you can take to minimize the risk of property damage to your buildings, stock, and equipment.

## OUR ADVICE TO CLIENTS

- Daily, Weekly and Monthly Site Visits
- Maintain Fire Protection Systems
- Care and Maintenance Plan for Specific Equipment
- Security & Surveillance Protocols Established and Followed
- General Maintenance Upkeep
- Restrict Access to Sites
- Environmental Hazards Safely Stored or Removed
- Be Prepared for Bad Weather
- Continue Use of Lighting
- Notify Proper Authorities & Insurer

This checklist includes best practices and general guidelines, but is not exhaustive. When dealing with a vacant or unoccupied building or facility, it is important to speak with your Insurance Advisor.

Keeping control of your costs is now more important than ever, and we would be happy to provide a review to ensure that you have the proper risk management protocols and coverages in place, and that you are maximizing the opportunity for program changes during COVID-19.



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For more information and strategies to help protect your assets and mitigate loss, contact your Iridium Advisor today.

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**LET US HELP YOU MANAGE YOUR RISK**

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