

# Commercial Insurance Offerings to Mitigate Fire-Related Risks

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Businesses and people around the world are reeling from the aftermath of shutting down Heathrow Airport in London—one of the world’s busiest travel hubs—due to a fire at a nearby electrical sub-station. Early projections of the economic fallout and related travel disruptions are staggering. The fire at the sub-station not only disrupted travel plans for passengers, but also interrupted countless businesses that rely on the airport, such as airlines, logistics and freight companies, and retailers. Fortunately, these businesses may be able to mitigate their losses through their commercial property policies and policies covering supply chain disruptions. We discuss some of the insurance offerings that may respond to fire-related losses (as well as other losses from other perils) and ways to maximize coverage.

## **Property Coverage—Covering Physical and Economic Losses From Fire Damage to *Your* Property**

Physical damage to a business’s property imposes costs to repair or replace the damaged property and can disrupt the business resulting in economic losses. Fortunately, many commercial property policies provide “all risks” coverage, meaning *any* cause of physical loss or damage—fire, wind, hail, etc.—is covered unless it is otherwise excluded. In addition, many commercial property policies also cover the loss of profits resulting from disruption to the business caused by the covered peril. In the case of the electrical fire at the sub-station, the policyholder may be covered for the cost of repairing the damaged property and the profit that would have been earned if the fire did not occur.

## **Contingent Business Interruption (CBI) Coverage—Covering Economic Losses Resulting From Fire Damage to *Someone Else’s* Property**

Even if a business’s property is not physically damaged, it may be able to recover economic losses resulting from disruptions to another business on which it depended. This type of coverage is commonly known as contingent business interruption coverage, and it is triggered when physical loss or damage to another business causes a disruption to the policyholder’s business resulting in

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economic loss. Issues may arise, however, concerning which third-party businesses qualify as suppliers or customers on which the policyholder is dependent; this issue often turns on whether the impacted business had a “direct” relationship with the insured business and the specific policy language. Businesses reliant on Heathrow Airport to fulfill their business obligations may have a claim if they experienced a loss due to, for example, delivery delays, order cancellations or the need to arrange for other ways to transport cargo.

### **Extra Expense Coverage—Covering the Added Costs Incurred as a Result of the Fire Damage to Your or Someone Else’s Property**

Many commercial property policies also cover the “extra expenses” a policyholder incurs after it sustains a direct physical loss or damage, or when it sustains a covered contingent business interruption loss. “Extra expenses” are those added expenses that the policyholder incurred as a result of the covered event. For example, extra expenses can include the added costs to receive goods for sale or replacement goods, as well as increased transportation, labor and logistical costs. In the case of the fire at the electrical sub-station that shutdown Heathrow Airport, extra expense coverage could pay for temporary relocation, and costs associated with alternative logistical arrangements like the rerouting of goods.

### **Supply Chain Coverage**

When a business that serves as an element in a supply chain experiences a disruption, the result is usually delays and the need to reassess logistics and operations that rely on the impacted business for deliveries, transactions and just-in-time inventory. While there is no “standard” form for “supply chain insurance,” this insurance is available as an “all risks”-type coverage. Besides covering disruptions caused by property damage to a supplier or a dependent property, supply chain insurance can be customized to cover losses caused by a wide range of events, including production issues (e.g., supplier assembly line malfunctions). For example, supply chain insurance may respond to events like natural disasters and regulatory changes that disrupt a business’s operations.

### **Tips to Maximize Insurance if Loss Occurs**

- **Ensure You Have Proper Limits:** Policyholders should review their commercial insurance policies to make sure, for instance, that all structures (including new ones) are covered, the amount of coverage provided has kept pace with the increasing costs to rebuild property in the area, and the available policy limits can cover the value of the inventory currently at hand. Policyholders should also consider identifying the third-party businesses on which their businesses depend so they can avoid an after-the-fact dispute over whether a business qualifies. Policyholders should also leverage brokers and other business partners to ensure that their coverage aligns with industry standards.
- **Consult Outside Coverage Counsel:** Policyholders should engage coverage counsel that can help analyze insurance terminology, and provide specialized guidance and assistance on improving policies’ terms and conditions to maximize coverage if a loss occurs. Increased limits are helpful only if the underlying coverage terms are strong and there are no problematic exclusions to allow the policyholder to access the full limits.
- **Document All Aspects of the Loss:** Policyholders should keep records on the losses suffered, including documenting all physical damage, the amounts paid to prevent further damage or to remedy existing damage, and the amounts lost because of the disruption of business activities, including lost income.
- **Document All Claim-Related Communications:** Policyholders should also keep a record on

all claim-related conversations and communications with insurers and other parties involved in handling the insurance claim. This can be helpful, for example, if litigation is necessary.

- **Mitigate the Losses:** Policyholders should consider taking all reasonable efforts to mitigate the property and business losses following a loss as such efforts can be a condition to coverage. Policyholders should also keep track of and document all those mitigation efforts.
- **Be on Time:** Insurance policies generally place a time limit on filing claims. Indeed, insurers commonly cite late notice of a claim as the basis for denying a claim. Policyholders should thus submit insurance claims within the time periods identified by their policies and pay particular attention to other policy deadlines, such as the time to submit proof of loss and suit limitations provisions.

## Takeaway

Events like fires at major hubs of global travel and trade can cause significant physical loss or damage, lost profits, extra expenses and supply-chain disruptions. Commercial policyholders operating such businesses must ensure they are able to protect against these events and resultant losses. Policyholders should carefully review their existing insurance policies to determine which coverages exist, and whether additional or modified terms are warranted if a loss occurs. Each line of coverage should be carefully analyzed and, if needed, modified before a fire-related claim arises.

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