

Water damage: Are you sure you're covered?

One of the tough lessons commercial property owners learned after Superstorm Sandy in 2012 was to take a good hard look at their property policies to see if they're covered for backup of sewers and drains. Water in all its forms can cause extensive and costly damage, but water that backs up from a sewer or drain is especially messy, hazardous to health and expensive to clean up. Educating yourself on this somewhat confusing, often misinterpreted coverage will tell you what to look for in a policy in order to help protect your property investment. Furthermore, following some basic maintenance guidelines can help reduce water damage and the chances that you'll even need to make a claim.

Factors that can impact coverage

What makes water damage losses confusing for commercial property owners is the false assumption that if you buy a standard commercial property policy and flood insurance, you're covered for virtually any type of water damage that could occur on your property. Most commercial property policies exclude losses stemming from a backup or overflow of sewers, drains and sump pumps, which means you may need to buy a separate endorsement that provides this coverage. Another source of confusion is the presumption that a commercial property policy responds to these types of losses in the same manner as a personal homeowner's policy. Typically that may not be the case. And, of course, different jurisdictions have different interpretations of what should be covered. So the bottom line is to work closely with your insurance agent to understand what is and isn't covered before you buy insurance coverage.

To get a better understanding of water losses and which type of policy is needed for a particular situation, a good place to start is considering where the water came from and how it got there.

Did the water come from the top down or bottom up?

A standard property policy typically covers some types of water damage, such as an interior wall damaged by rain as a result of a covered loss damaging the roof or an exterior wall. A rule of thumb is to consider where the water is coming from. Water that comes from top down, such as described above or ice dams on the roof, may be covered under a standard property policy. But water that comes from the bottom up, such as an overflowing sink drain or through your basement drains or sump pump, may not be covered under a standard property policy.

Is it backup or overflow?

You can further differentiate "bottom up" water into "backup" or "overflow." Most jurisdictions define a backup as originating off your premises causing a reversal of the direction of water from the public lines into your sewer, sump or drain lines. An overflow occurs due to a pipe blockage on your premises. Some policies will cover backup but not overflow, so it's important to understand the difference.¹

Is it flood water or surface water?

"Flood water" is defined in property insurance terms as water that overflows its natural boundary, such as a river or creek overflowing or storm surge in coastal areas. "Surface water" is defined as water that collects from rainwater in an area that would normally not be covered in water. Flood insurance policy typically covers flood water. Surface water that enters your property may or may not be covered by a policy or endorsement, so again it's vital to understand the difference.

Ideally, you would want to make sure that between your property policy, your backup of sewers and drains endorsement, and your flood endorsement, you would be covered for virtually any type of water damage scenario. But this may be possible if your backup of sewers and drains endorsement triggers under all of these circumstances:

1. both backups and overflows as defined above,
2. whether the loss is caused by an on-premises or off-premises issue, and
3. water overflow into your sump pump caused by surface water.

The table below describes some water damage scenarios and which type of insurance coverage would be most likely to cover the claim (subject to exact policy language and any restrictions or limitations*).

Scenario	Property Policy with Water Exclusion*	Backup of Sewer and Drains Endorsement*	Flood Endorsement*
A blockage in your city's main sewer line near your property causes water to back up through your sewer line into drains on your property.	NO	YES	NO
A hurricane pushes storm surge into your city streets overwhelming the city sewers, forcing water into your basement through the sump pump.	NO	NO	YES
Without your knowledge, a tree root works its way into a crack in the sewer line on your property, eventually blocking it over time.	NO	YES	NO
A pipe in your building suddenly breaks due to a worn connection and water floods from the ceiling.	YES	NO	NO
A tenant flushes a diaper down the toilet and causes an overflow into several units.	NO	YES	NO
Heavy rains cause surface water to form around your foundation, overwhelming your sump pump and water floods into your basement.	NO	YES	NO

*The coverage scenarios are provided for illustration purposes only and based on the ISO Form CP1030 for "Property Policy with Water Exclusion" and ISO Form CP10651012 for Flood Endorsement.

Maintenance: What you should know

- **Dispose of grease properly:** Cooking oil and grease washed down the drain will solidify either in the drain or somewhere in the line, causing blockage. Dispose of grease properly in a heat-resistant container.
- **Dispose of paper products properly:** Only toilet paper should be flushed. Other paper products do not deteriorate quickly and can cause problems in sewer lines on your property or in the city main line.
- **Have your lines checked for tree roots:** Have a licensed plumber scope your lateral lines to check for roots or other potential blockages if you suspect there could be a problem. You may need to have tree roots trimmed.
- **Don't use illegal plumbing connections:** Don't connect French drains, sump pumps and other flood control systems to your sanitary sewer.
- **Invest in backups to your sump pump:** A battery backup pump can help save you from a loss if there is a power failure or your sump pump fails for some other reason.
- **Consider installing a backwater prevention valve:** A backwater valve can be installed into a sewer or drain line in your basement to prevent sewer backflows. While they won't necessarily prevent all backups, they can help. Be sure to use a qualified, licensed plumber for the installation.

What to look for in backup of sewer and drains coverage

You should always work closely with your insurance agent or broker when purchasing coverage, but understanding some of the terminology and considerations will help in this conversation. Here are some pointers:

- Be sure you're covered for backups and overflows from sewers, drains and sumps.
- Make sure you understand what is considered on-premises and off-premises.
- Check to make sure you're covered for surface water entering the dwelling, either through the sump or other openings at the surface.
- If you have a flood policy and backup of sewer and drains coverage, make sure you understand which policy would prevail in a loss such as the second one in the table above. It may vary by jurisdiction.
- Be sure you understand which wear-and-tear scenarios would exclude you from being covered by any of the coverages discussed here (e.g., broken sump pumps, cracks in the foundation, etc.).
- Carefully check your coverage limits for backup and sewers and drains. Some endorsements come with their own separate limits which may not be enough to cover a substantial loss. Ideally, your limits should be included in your commercial property policy so that a covered backup or overflow loss would have the same level of coverage as any other covered peril.

A careful review of your insurance coverage and a solid maintenance program can help you prepare for the threat of water damage losses. Talk to your insurance agent or broker today.

1. Christine G. Barlow. www.propertycasualty360.com. "Homeowners' Claims: Water Back-Up, Overflow, or Discharge?" Dec. 12, 2013

References

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