

The Gulf Oil Spill: Will Insurance Cover Your Business's Lost Income in Pennsylvania?

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The Gulf Oil spill has created massive losses. Estimates of losses and the rate of the oil leak seem to grow by the day. Some experts predict that oil will enter the Gulf Stream and make landfall along the East Coast, creating an even greater financial impact.

Insurance covers many of the losses associated with the oil leak. For example, Transocean, the owner of the oil rig that burned and sank, has already collected approximately \$500 million in insurance recoveries for its physical loss. Transocean's insurers are also covering losses associated with oil that leaked from the rig (very little), but denying responsibility for oil leaking from the well itself. On the other hand, BP is largely self insured for the cost of the cleanup and has already spent over \$2 billion. It has pledged to create a compensation fund of another \$20 billion. It is impossible to estimate BP's total liability associated with the spill.

Although the fate of BP and its partners is fascinating, many businesses are more concerned about whether they will be able to recover for their loss of income caused by the oil spill. Fishermen and beachfront hotels are already experiencing the impact of the oil. The spill, however, will affect businesses farther inland too. For example, restaurants may experience shortages of seafood from the Gulf and goods transported through ports along the Louisiana coast may be delayed.

Businesses directly affected by the oil spill may be able to recover their lost income through business interruption insurance. Although the specifics of business interruption coverage vary from policy to policy, the general idea behind the insurance is to provide compensation to a business that unexpectedly loses income because of an accident or disaster. Basic business interruption coverage may only indemnify the business for lost income caused by direct physical harm or damage to property. For example, this type of coverage protects a business if its building burns down and it loses profits because it cannot operate for weeks or months. This coverage may help businesses located directly on the coast, but it is of little use to businesses that are not physically impacted by the oil spill.

In addition to basic business interruption coverage, some property insurance policies include contingent business interruption coverage. Under this coverage, even if a business is not directly physically impacted by the spill, it may be able to recover its lost income. Contingent business interruption insurance protects a business from losses caused by a supplier's inability to deliver goods to the business. For example, a manufacturer in Pennsylvania may have to cease production because delays in shipping, caused by the oil spill, prevent its supplier from delivering a vital component. Contingent business interruption coverage may also cover loss of business income attributable to damage to the property of a customer, which prevents it from purchasing goods or services.

Overall, business interruption insurance varies from policy to policy and the rules governing the coverage vary from state to state. A business experiencing loss of income due to the oil spill, or other circumstances out of its control, should begin by reviewing its insurance policy. Depending on the coverage and the conditions, a business may be able to recover its lost income, even if it is not directly physically impacted.

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