Business interruption insurance: Cessation of water supply in the UK

Understanding coverage, utility supply extensions, terminal ends, and franchises

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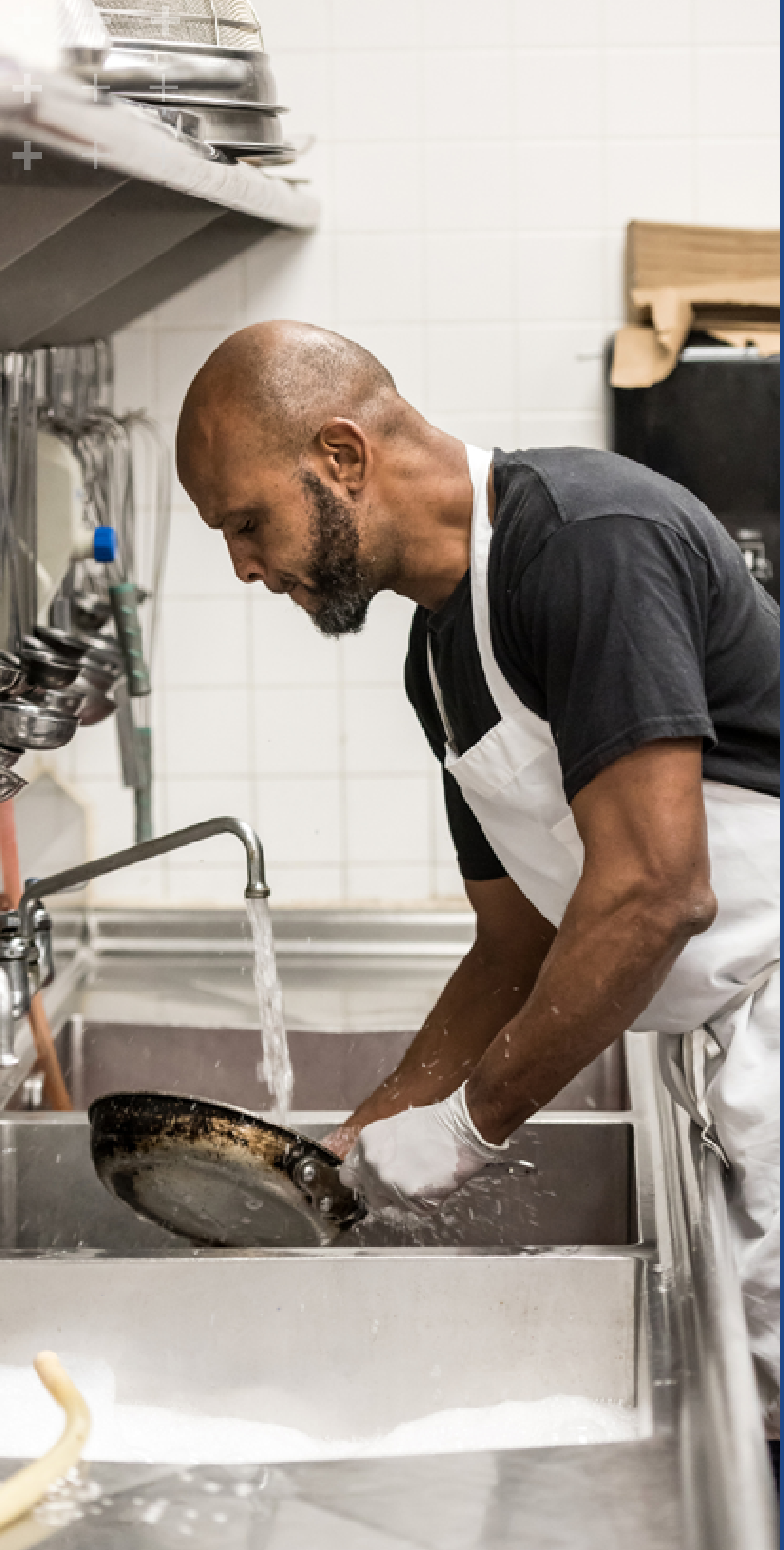


Introduction

For most UK businesses, a reliable water supply is critical to daily operations. From manufacturing plants and food outlets to hotels and hospitals, if the water supply is stopped unexpectedly this can result in significant disruption and financial loss.

Whilst rare, there have been several recent notable occasions where problems within the water suppliers' networks have caused widespread disruption, for example in North Wales[1], or Tunbridge Wells in Kent[2].

Business interruption (BI) insurance is designed to help businesses weather such storms by covering loss of income and additional costs when an insured event occurs, however cover won't always apply.

For the majority of policies, coverage that might be triggered in the event that the water supply is stopped will depend on whether it has been specifically requested and added to the policy; even then it will be subject to what caused the water supply to stop and may be subject of a franchise or deductible.

This article explores these key aspects, providing guidance for businesses and insurers navigating claims following an interruption to water supply.

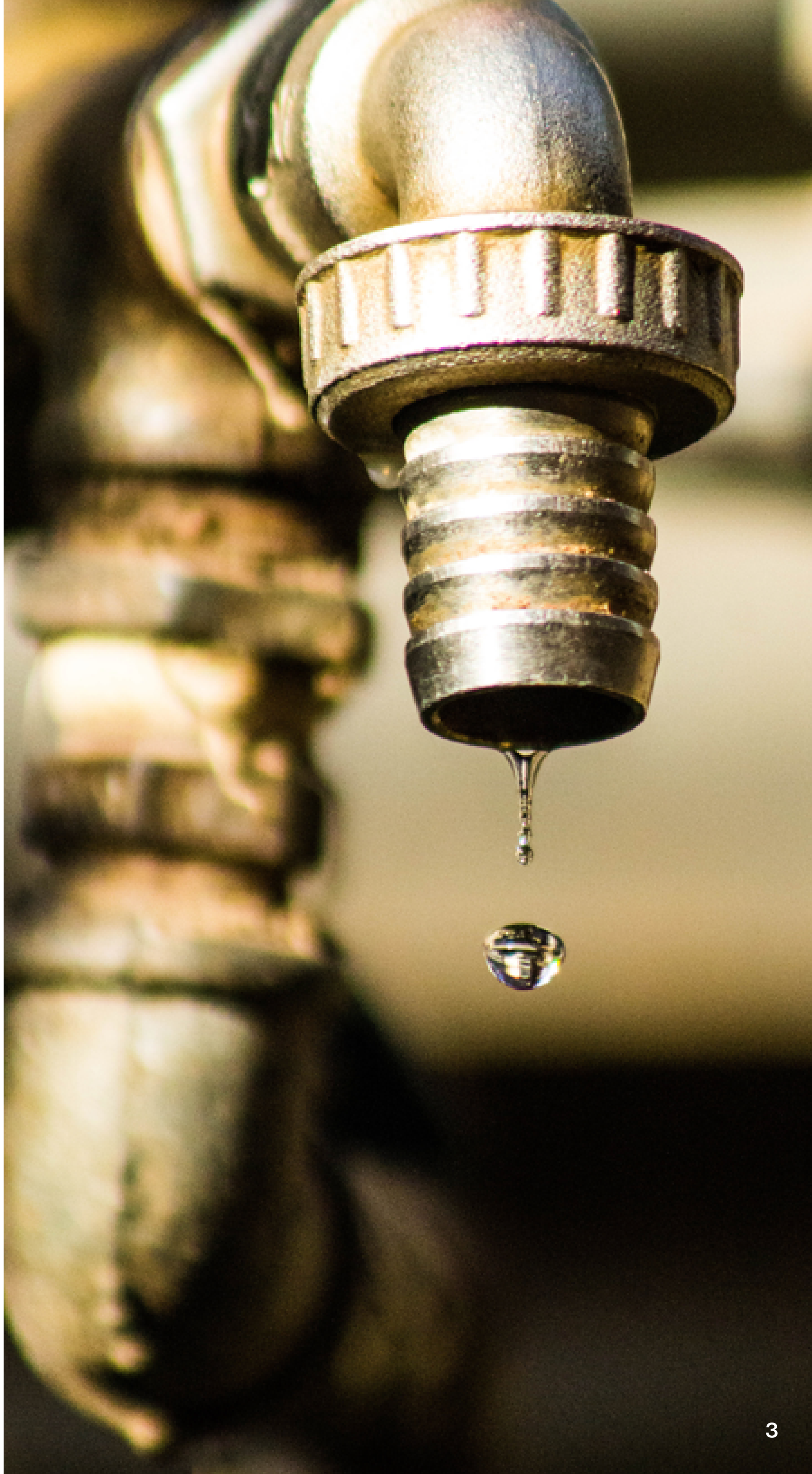
[1] https://www.dailypost.co.uk/news/north-wales-news/live-updates-burst-main-leaves-32262965?int_source=nba

[2] https://www.itv.com/news/meridian/2025-12-03/warning-that-water-is-not-safe-to-drink-as-supply-is-restored-in-tunbridge-wells

Standard business interruption cover: the basics

BI insurance is provided for most businesses as part of a commercial property policy; cover is typically triggered when damage to insured property is caused by perils such as fire, flood, or storm. However, a cessation of water supply is rarely the result of physical damage at the insured's premises. Instead, it is often due to an issue elsewhere in the utility providers' treatment works or distribution systems, such as a burst main or damage at a pumping station.

To address such risks, many insurers offer extensions to BI policies, known as "Public Utilities" or "Utility Supply" extensions, which broaden the scope of cover to include losses arising from failure of utilities, such as electricity, gas, telecommunications, and water.



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Utility supply extensions: what's covered?

A typical utility supply extension will indemnify the insured for loss resulting from the accidental failure of the water supply, provided the interruption lasts for a minimum specified period, often referred to as a "franchise". The causes of interruption might include accidental damage and breakdown, however deliberate acts by the utility provider are normally excluded.

It is crucial to review policy definitions and exclusions. Some policies will only cover cessation of supply if caused by physical damage at the premises of the utility supplier, whilst others have broader triggers, such as any accidental failure. Exclusions often apply to interruptions caused by drought, or temporary disconnections for maintenance.

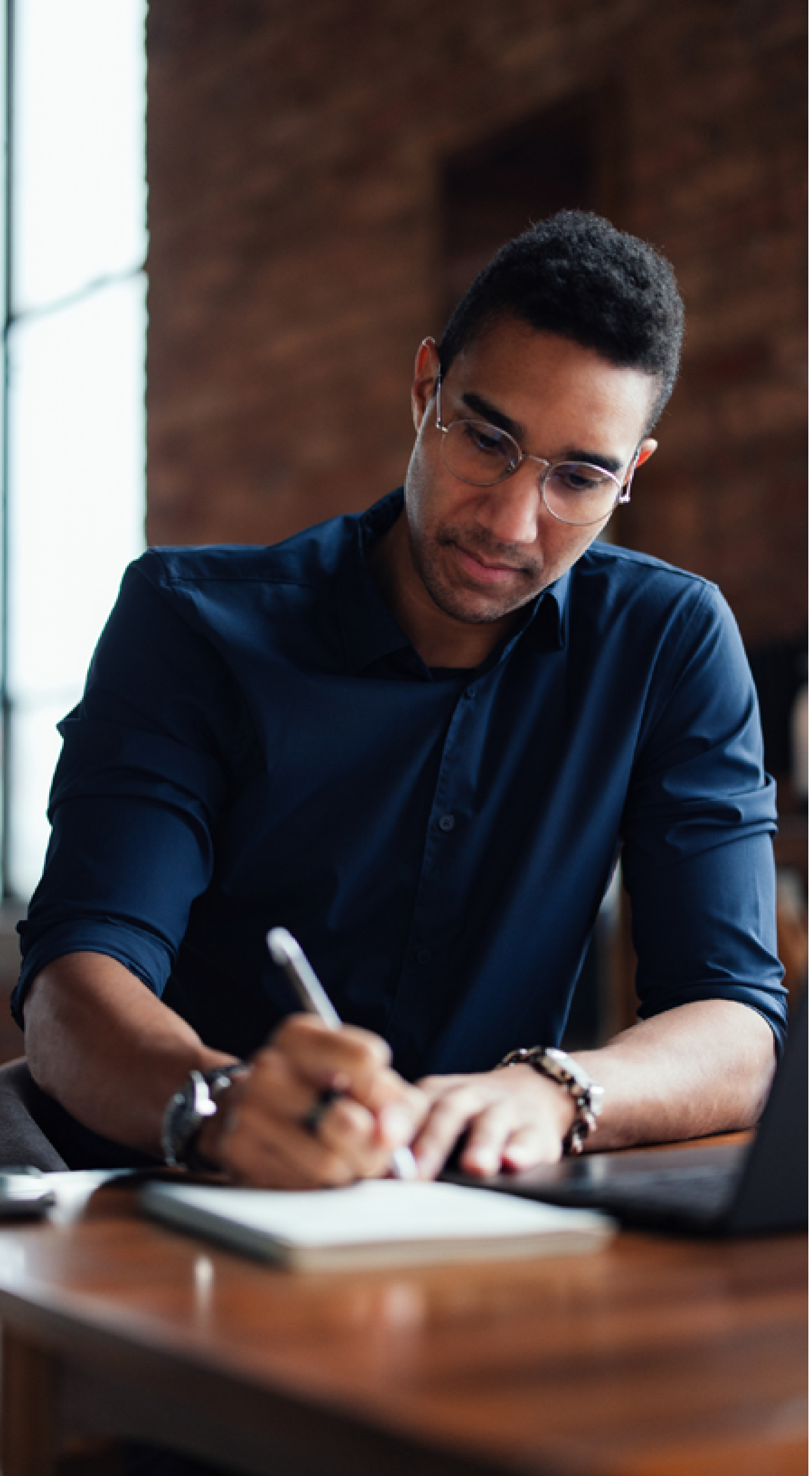
2

Terminal ends: where does cover begin and end?

Many policies will require that "Damage" as defined in the policy wording occurs at the utility supplier's premises. This automatically excludes instances such as burst water mains that rarely occur on the premises of the utility supplier.

For these instances, cover needs to include consideration for "terminal ends" cover. This will normally be triggered by an unexpected cessation of supply at the insured's premises, without the requirement for Damage to have occurred at a water treatment works or pumping station (as examples).

For example, if a water main bursts in the street outside a restaurant, causing a cessation of supply, a policy including terminal ends cover would likely respond, whereas a policy limited to the supplier's premises may not. This distinction can be critical when adjusting these types of claim.



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Franchises and time excesses: the threshold for claims

Most utility supply extensions are subject to a "franchise" or "time excess"– a minimum period for which the interruption must last before cover is triggered. Commonly, this might be set at four, eight, 12 or 24 hours. If the interruption lasts for less than the franchise period, the policy will not respond at all.

It's important to distinguish between a franchise and a time excess, or time based deductible. With a franchise, if the interruption exceeds the stated period, the policy will indemnify the insured for the entire period of interruption, including the franchise period itself. With a time excess or deductible, the policy only covers losses arising after the excess has elapsed. For instance, with a 24-hour time excess, only losses occurring after the first 24 hours would be covered.

This can have a significant impact on the quantum of a claim, especially for businesses where even a short interruption to water supply can cause major disruption.

4

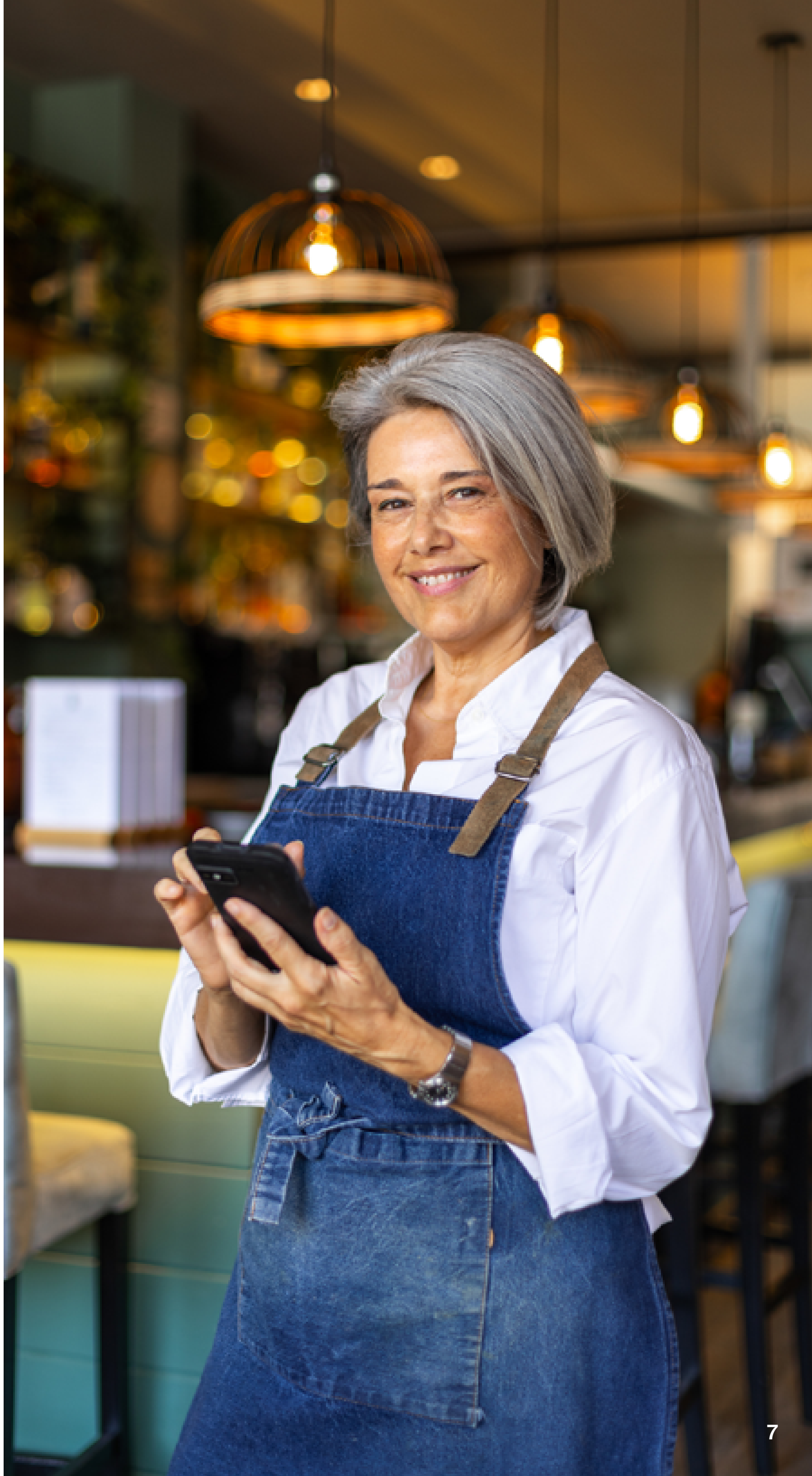
Other key considerations

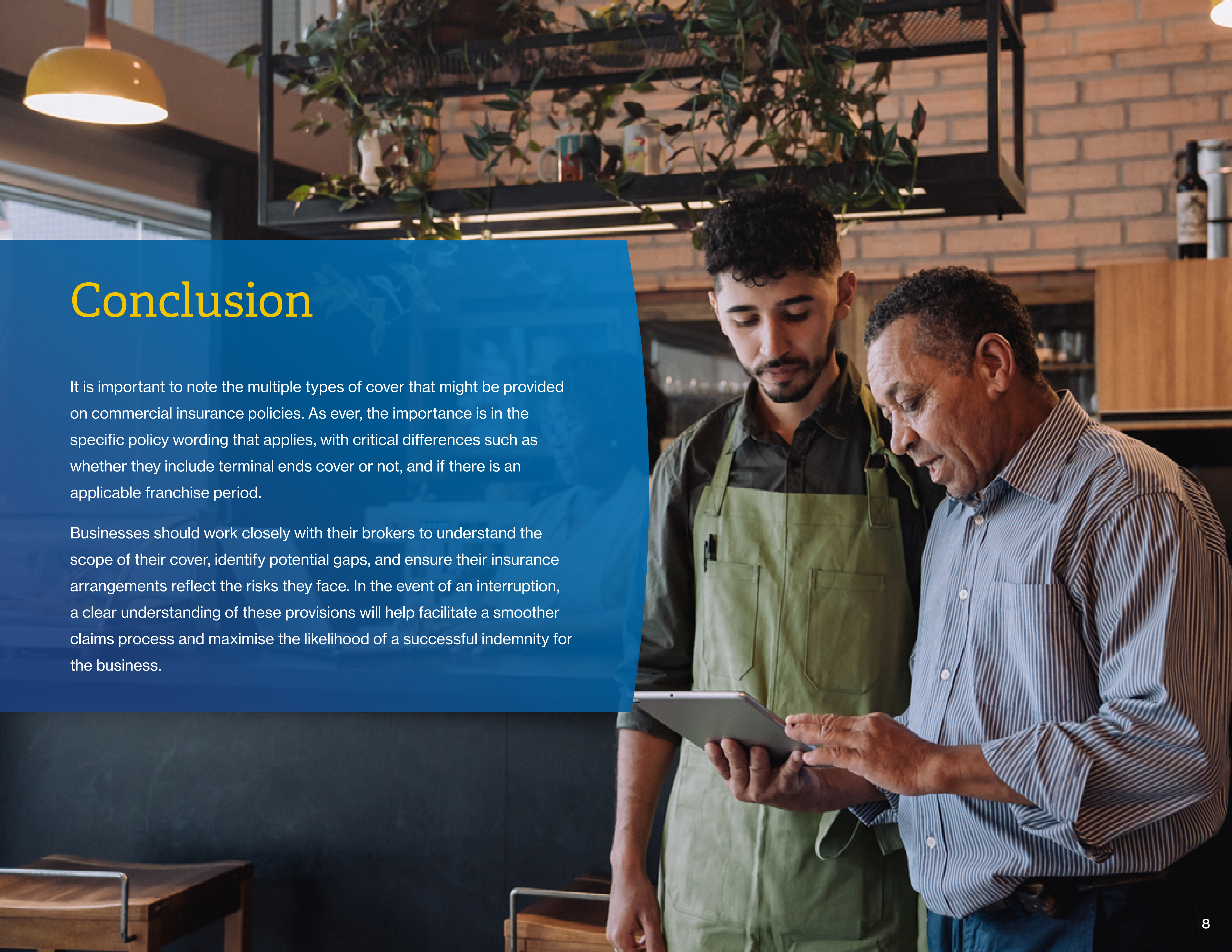
Notification Requirements

Most policies require prompt notification of an interruption, with late notification potentially jeopardising a claim, as it may be difficult for adjusters to obtain information concerning the events that led to the claim.

Mitigation

The insured is generally expected to take reasonable steps to minimise losses, such as sourcing alternative water supplies where possible.





Conclusion

It is important to note the multiple types of cover that might be provided on commercial insurance policies. As ever, the importance is in the specific policy wording that applies, with critical differences such as whether they include terminal ends cover or not, and if there is an applicable franchise period.

Businesses should work closely with their brokers to understand the scope of their cover, identify potential gaps, and ensure their insurance arrangements reflect the risks they face. In the event of an interruption, a clear understanding of these provisions will help facilitate a smoother claims process and maximise the likelihood of a successful indemnity for the business.

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Providing national coverage, our experience in this field extends to work for both utility suppliers in calculation of losses for customers, as well as Insurers for whom policyholders have purchased specific, relevant coverage.

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