

## **Policy Exclusions Do Not Preclude Coverage for Damage to Pennsylvania Hotel Arising From a Ruptured Sprinkler System**

### ***Property Coverage Update***

April 2011

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### ***U.S. District Court for the Southern District of New York***

In *Five Star Hotels, LLC v. Insurance Co. of Greater New York*, No. 09-cv-08717 (S.D.N.Y. March 24, 2011), a federal court in New York, applying Pennsylvania law, issued an order finding coverage under a first-party property policy for water damage to a Pittsburgh hotel arising from a ruptured sprinkler system.

In the early morning hours of December 24, 2008, two standpipe couplings in the insured hotel's 10th- and 11th-floor sprinkler system froze and then ruptured, causing thousands of gallons of water to rush through each of the hotel's lower floors. The hotel submitted a claim to its property insurer seeking coverage for the property damage, as well as for the business interruption and the "extra expense" loss it incurred as a result of the incident.

The insurance company denied coverage based on two policy provisions. First, the insurer argued that the "Protective Safeguards Endorsement," which required the hotel to "maintain" its sprinkler system as a condition precedent to coverage, applied to bar coverage because the hotel failed to protect the sprinkler system from freezing. The hotel argued that the term "maintain" had multiple meanings and only obligated it to keep the sprinkler system in place and not dismantle it. The court agreed with the hotel, finding the term "maintain" was ambiguous and, as a result, construed the exclusion against the insurer in favor of the insured pursuant to Pennsylvania law.

Second, the insurer argued that the "Faulty Design or Faulty Maintenance" exclusion

applied to preclude coverage for the hotel's claim. The court rejected the insurer's argument. The court noted that, while this exclusion applied to preclude coverage for loss or damage caused by the faulty design or maintenance of the sprinkler system, the exclusion also included an "ensuing loss" exception that restored coverage where the damage was caused by a "covered cause of loss." Specifically, the court found that the intent of the exclusion was to preclude coverage to repair or replace the faulty or defective sprinkler system but not the "ensuing" damage or loss flowing therefrom. The court further noted that the damage to the hotel was a "covered cause of loss" because the policy specifically contemplated coverage for water damage caused by a "fire protection system." Thus, the court refused to apply the exclusion to preclude coverage for the hotel's claim.

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