COVERAGE INSIGHTS

How Coronavirus Could Impact Your Business's Insurance

The new coronavirus (COVID-19) outbreak continues to be a top-of-mind concern for organizations and individuals across the globe. As COVID-19 becomes increasingly widespread, it's not only raising fears about the well-being of the general public, but it's also disrupting business operations and creating insurance exposures.

In fact, COVID-19 has already led to business interruptions, supply chain issues and significant liability concerns—all of which can open policyholders up to claims. As such, it's important for companies to understand how COVID-19 can impact their insurance policies, review their existing coverage and determine what precautions they need to take in order to control their losses.

This Coverage Insights examines potential insurance exposures associated with COVID-19 and how different forms of coverage could respond.

Business Interruptions

As many operations close due to COVID-19 fears, there's a growing question of whether or not business interruption insurance can help policyholders make up for lost revenue.

In the event of a loss, business interruption insurance provides coverage for income a business would have earned had it been operating normally. It can also help pay for expenses like employee wages, taxes, rent, loan payments and relocation expenses.

Typically, business interruption insurance is triggered by a direct physical loss or damage. Under this interpretation, contagious diseases like COVID-19 would not count as a covered loss.

However, some argue that COVID-19 can contaminate physical objects like HVAC systems or assembly lines, which in turn would force businesses to cease operations. In these scenarios, business interruption insurance could provide some protection. Still, insurers may push back, making coverage unavailable.

As with any loss, policy wording is critically important and could make all the difference when it comes to responding to claims. Policyholders should review exclusions and endorsements alongside a qualified insurance broker to ensure they have the coverage they need.

Supply Chain Issues

Business interruption insurance is a crucial component of risk management programs, but it does not extend to disruptions to a third party. That's where contingent business interruption insurance (CBI) comes in.

Unlike traditional business interruption insurance that compensates the policyholder for a loss resulting from damage to its own property, CBI lets businesses transfer the risk of certain losses to the property of a third party. CBI is an optional extension of business interruption insurance that reimburses lost profits and extra expenses resulting from an interruption of business at the premises of a customer or supplier.

This type of coverage is increasingly important as COVID-19 continues to affect the global economy. Even if a business is not located in an area where COVID-19 has

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been detected, aspects of their supply chain might be, leading to potential disruptions. In fact, in China—where COVID-19 originated—many workers have been ordered to stay home, forcing some manufacturers to halt operations. Without access to the products or components they need, businesses that partner with these manufactures too have to stop distribution.

While CBI could provide coverage in this scenario, there are caveats. With CBI, the covered third-party property may be specifically named, or the coverage may simply blanket all customers and suppliers. Insureds will have to review policy language to ensure their suppliers are included in the policy.

Additionally, similar to traditional business interruption policies, some form of property damage will need to occur before coverage is triggered. Again, contamination may constitute as property damage depending on the policy language and insurer.

Liability Concerns

COVID-19 raises a number of liability concerns, particularly if guests, customers or employees allege they became sick due to a business's negligence. When it comes to these concerns, it's important to take the following insurance considerations into account:

- **General liability insurance**—General liability insurance, sometimes referred to as commercial liability insurance, protects your business from financial loss should you be liable for property damage or personal and advertising injury caused by your services, business operations or employees. It can protect you from costs associated with bodily injuries, damage to third-party property, personal injuries, medical expenses, litigation and more. When it comes to COVID-19, general liability policies should provide coverage and allow you to defend claims. It should be noted that, in order for a claim to be valid, the claimant would have to allege the virus was contracted due to the insured's negligence and detail how, when and where they got sick—all of which could be difficult to pin down.
- **Directors and officers (D&O) insurance**—Shareholders and other stakeholders could sue a business should they fail to respond appropriately to COVID-19 concerns. Specifically, stakeholders may contend that management failed to develop adequate contingency plans or detail how COVID-19 could impact the company's financial performance. It should be noted that most D&O policies exclude coverage for bodily injuries, but may offer some protection depending on the specific allegations. As such, it's important for businesses to review the scope of their D&O policies to confirm they are covered in the event of an incident.

Workers' Compensation Insurance

In instances where an employee believes they contracted COVID-19 at work, a number of workers' compensation considerations come into play. Notably, when it comes to workplace illnesses, most state statues only pay out benefits if the disease in question is occupational in nature. That is to say that communicable and contagious diseases are generally excluded from workers' compensation policies.

However, coverage may be triggered if the illness arose due to or in the course of the worker's employment. In general, these scenarios are examined on a case-by-case basis, but could include instances when:

- A health care worker contracts COVID-19 at the hospital at which they work.

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- An airline employee contracts COVID-19 from a passenger.
- A hospitality worker contracts COVID-19, which is later linked to a large event at which they worked.

Preparing for a Claim

While COVID-19 introduces a level of uncertainty when it comes to available insurance protection, there are a number of precautions organizations can take to prepare for a claim. To control potential losses, policyholders should:

- Audit existing insurance policies and their provisions to identify potential gaps in coverage.
- Review and modify existing contingency plans, estimating the potential impact of a long-term closure.
- Identify equipment, services, and third parties critical for continued operation.
- Have a process in place for responding to a loss, which could include:
    - Detailing how the loss occurred and the impact the loss had on your operations
    - Tracking all losses and expenses associated with the claim
    - Highlighting how the claim could impact third parties, like suppliers and consumers

For additional protection, it's important for businesses to seek the help of a qualified insurance professional. These professionals can help you review your insurance programs and recommend potential solutions to address your exposures. For more information, contact UIS Insurance & Investments today.