CORONAVIRUS: THE INTERACTION BETWEEN A PANDEMIC AND INSURANCE COVERAGE

Each day brings further grim news of the spread of coronavirus in China and elsewhere; today mentions of the virus have moved well beyond being the subject of internet jokes about Mexican beer now that Chinese deaths alone from the virus are around 2,200. Arguments will doubtless rage for a long time on whether the Chinese were too slow initially in dealing with the problem, however, that doesn't help those suffering already from the effects, whether they are bereaved families or businesses suffering a loss of revenue and, as things stand today, the impact of the virus is spreading at a seemingly unstoppable rate. Last week the Mobile Congress World (MWC) in Barcelona was cancelled after several high-profile exhibitors pulled out – in the past the event has attracted up to 100,000 people and this cancellation will be a blow to many. However, it isn't just conferences that have been affected, more recently rumours and facts have emerged about significant impacts to markets and manufacturing supply chains, from products as diverse as cars, oil and mobile telephones.

The Role of Insurance

Other than the virus itself, a common thread through all these stories could be insurance. Indeed, many businesses that rely on global supply chains will be checking their insurance policies for cover that insures a loss of production arising from supply chain problems; meanwhile event organisers, tourists and business travellers will also be checking their polices for cover, if an event is compromised by the virus. Most large businesses with a global reach should have cover in place for supply chain difficulties, but for many smaller firms that haven't considered the need for such cover before, evidence of any cover may be buried in the policy smallprint that insurers are so famous for.

Some businesses may be lucky enough to have purchased specific cover to include losses caused by pandemics. For those that have not, the business interruption element of their property insurance policy is the first place to look to for supply chain coverage; this normally insures a business for revenue loss following physical damage to a firm's own assets, although some policies offer extensions to cover suppliers and customers (*i.e. events that affect a key supplier or customer – in this case a shutdown due to a health pandemic*). The limits (amounts of insurance available) will almost certainly be lower than the amount available for own-asset damage; this is to limit the insurers' exposure from many policies arising from the same event. Even normal business interruption insurance is often inadequate to cover major losses – perhaps at a key production facility; however, what many companies are facing from coronavirus is complete shutdown; just this week Jaguar Land Rover announced that it has two weeks supply of some components - it is not alone. Therefore, the supplier and customer extensions may not offer adequate financial cover.

Exclusion Clauses

Another section of a policy to check is the exclusions, both those that apply to the suppliers' extension specifically (if provided) and those which apply to the whole policy; be warned, some insurers already have exclusions for pandemic alongside the more usual exclusions such as war.

For impacts on key staff, business trips or other personnel issues, normal travel, personal accident, key man or life insurance policies may offer some cover – these should be checked, though again with caution as pandemics or other similar global events that could lead to runaway losses may be excluded.

Pandemic Policies

Some specific pandemic insurance policies are available. For example, in 2019 Marsh launched a product called PathogenRX, which provides global protection for US-based businesses affected by an infectious disease outbreak; the insurance is provided by Munich Re and uses a specific metric to trigger the cover. Also, most big events (such as the Tokyo Olympics in July 2020) will probably buy specific cancellation insurance, which again could offer compensation should an epidemic result in cancellation; however buying now could be expensive.

From the insurers' perspective, the lesson for many businesses of all sizes from such 'unknown unknown' events is that comprehensive business resilience too often is only retrospectively assessed and possible mitigating insurance cover is either unknown, ignored or investigated too late. Risk transfer solutions that could reduce the financial impact of coronavirus on business bottom lines are available; meanwhile ample good advice on business risk management can also be found on the internet, for example at the US Centers for Disease Control and Prevention.

About the Author

Mark Tetley has wide experience gained from senior positions across the London insurance market as both an underwriter and a broker , in a variety of sectors. He provides advice and assistance on a wide range of insurance and risk issues, including comprehensive nuclear liability and property insurance assistance, complex infrastructure project programme design and review, claims and policy reviews, assistance with project insurance design and implementation in developing countries, and many other aspects of risk mitigation.

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