

## CORONAVIRUS: THE INTERACTION BETWEEN A PANDEMIC AND INSURANCE COVERAGE, PART II

*"There's a lot of panic at that moment that's not warranted. Short-term economic activity will contract and it will have an impact on global GDP, but it's not like the world will end tomorrow."* These were the words of global insurer Allianz's CEO in late February; his words at the time contrast with the [decision](#) on 12th March by Allianz's wholly owned subsidiary LV= to stop selling travel insurance because of coronavirus. The Post Office, Insure and Go and others have also advised they will restrict cover for or exclude claims from coronavirus after the 11th March. It seems a measure of panic has set in amongst insurers after all.

Meanwhile there are reports that many policyholders are shocked to find that their general business insurance policies mostly [do not cover](#) any of the increasingly large financial impacts of this health emergency; as outlined in our [previous blog](#), most insurance policies will not respond unless a specific cover extension has been bought.

Given these and other recent headlines highlighting the insurance industry's apparent desire to dodge claims whenever possible, significant reputational damage to the sector is likely. Without wishing to endorse individual insurer tactics during these uncertain times, a defence and explanation of the general approach taken by the insurance sector during this pandemic (and other similar events) is appropriate; here are some points to consider:

- There's an old saying in insurance: *"You can't insure a burning house"*. Insurance exists to cover the future occurrence of selected fortuitous events; now that coronavirus is established it is a certainty that it is causing (and will continue to cause) significant financial loss. No insurer will offer new cover for the financial effects of the virus now; it would be mad to do so.
- Most insurance policies issued to businesses cover risks that cause physical damage and any resulting financial loss (business interruption – if purchased); the physical risks covered typically include fire, natural hazards, accidents, explosions and breakdowns. Adding subsequent financial loss comes at a cost, even for these simple physical damage risks. Our previous blog noted that some limited supplier and customer extensions to this cover may be available, but these are contract specific and any extensions of cover for (e.g.) pandemic will need to have been negotiated at the time of policy preparation or renewal; generally insurers are wary of offering financial loss cover without any initiating physical loss. Therefore, open ended financial loss insurance cover for coronavirus impact, absent of any physical loss, will be rare.
- A conscious decision by a business to buy these extensions to cover in advance is essential; the insurance market and wider financial services sector have rightly been held to account for mis-selling covers that are not required, desired or authorised, the most recent example being [PPI](#).
- Although many insurers are restricting or not offering future travel insurance cover during the coronavirus emergency, it should be remembered that they must honour any cover and claims up to the date of any change of approach. Thus, in the case of LV=, the Post Office or any other insurer, valid claims for coronavirus travel disruption made before 11th March should be covered.

- Insurance companies are private sector businesses; as such they are not bottomless pits of money and cannot just keep paying unlimited claims. They are capitalised in accordance with regulatory models and need to manage their funds carefully. Policies are underwritten based on realistic modelling of a wide range of scenarios; monitoring accumulation of multiple policies to specific events is of particular importance to prevent a run on funds. New events, such as coronavirus, challenge models and assumptions and it is natural for insurers to exercise caution and restrict cover when faced with such uncertainties. In addition, most insurers invest premiums in the financial markets; the recent rout of stock markets globally will have materially dented their reserves, so causing further concern.
- Notwithstanding any restrictions of cover or perceived failure to offer 'enough' insurance, the sector will pay out significant claims for this coronavirus pandemic. Travel and cancellation insurances will see significant claims as the impact spreads, as will specific pandemic covers purchased in advance as extensions to standard policies. Also, the credit insurance market, which provides cover for trading partner insolvencies, will see [significant losses](#) as a result of this virus outbreak.

It is easy to criticise the insurance sector when it does not perform as many would like it to and undoubtedly it has often presented itself badly; however, as with many other economic sectors, the impact of coronavirus on insurers will be both challenging and uncertain. It should be recognised that insurance cover is available for extreme events such as coronavirus for those businesses that are well prepared and that practice good risk management - a vital tool for identifying risks and potential gaps in financial cover. This work allows them to consider the best risk mitigation measures, including the advance purchase of appropriate insurance cover for many unknown events – such as pandemics.

### 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.*

*Prospect Law is a multi-disciplinary practice with specialist expertise in the energy, infrastructure and natural resources sectors with particular experience in the low carbon energy sector. The firm is made up of lawyers, engineers, surveyors and other technical experts.*

*This article remains the copyright property of Prospect Law Ltd and Prospect Advisory Ltd and neither the article nor any part of it may be published or copied without the prior written permission of the directors of Prospect Law and Prospect Advisory.*

*This article is not intended to constitute legal or other professional advice and it should not be relied on in any way.*

*For more information or assistance with a particular query, please in the first instance contact Adam Mikula on 020 7947 5354 or by email on [adm@prospectlaw.co.uk](mailto:adm@prospectlaw.co.uk).*