

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

“I said whatever it takes –and I meant it”. These memorable words from our Chancellor, Rishi Sunak, were made earlier this week as he unveiled his ‘unprecedented’ financial rescue package for the economy in response to the rapidly evolving coronavirus situation.

Further on in the same speech, he also said: *“let me confirm that, for those businesses which do have a policy that covers pandemics, the government’s action is sufficient and will allow businesses to make an insurance claim against their policy”.* In our previous blogs on this topic, the position of most insurance policies on business interruption has been explained, as there have been (and remain) misconceptions about the availability of cover; here, at last, is the government’s recognition that insurance policies for coronavirus are not universal. In response to the Chancellor’s speech, the Association of British Insurers (ABI - the UK insurance trade body) said *“the Chancellor’s statement today is consistent with our statement this morning where we said in the event businesses have the right cover, this type of notification could help make a claim. But, as the Chancellor acknowledged, the vast majority won’t have purchased extended cover and this remains unchanged.”*

Prior to the Chancellor’s speech the ABI had already clarified that standard business interruption cover does not include forced closure by authorities; it also stressed that irrespective of whether or not the government orders closure of a business, the majority of businesses won’t have bought cover that will allow them to be compensated for their operations being halted by the coronavirus. As we’ve already described in previous blogs, business interruption cover generally needs to be triggered by insured physical damage.

Thus, to cover the financial effects of a pandemic, specific insurance needs to be purchased. So, who has purchased such insurance? Seemingly almost no-one; in a report this week, insurance broker Marsh reported no takers for its pandemic product launched in 2018. However, now the situation is obviously different with demand soaring.

Insurance is a risk mitigation tool, to be used to protect businesses and people from financial losses caused by extreme events; such protection can often be the difference between a business surviving or not. Yet our understanding of extreme events is framed by our experience of them. Therefore very rare events for most of us (such as pandemics, terrorist attacks or nuclear accidents) are often either not insured or under insured, because the perception is that ‘it won’t happen to me’, whereas events that we see and experience more regularly are fully insured (such as fires and car accidents). Typically, after a rare event demand for insurance products offering protection spike; for example insurance for terrorism increases dramatically after a high profile event but tails off as the memory of the event recedes and complacency sets in again. The sudden and almost universal recognition of the severe impact of coronavirus is what is driving new demand for Marsh’s pandemic product today.

One lesson from this coronavirus outbreak should be that, as part of their risk management process, businesses need to improve modelling for the ‘unknown unknowns’ and take a proactive rather than reactive approach to insurance purchases. It is certain now that the financial intervention demanded of the government during this crisis is going to be way beyond the means of the UK insurance market; nevertheless, there will be a few businesses that will claim for pandemic loss having bought the right product at the right time. The insurance may not respond for the full financial cost of the loss, but any claim payment could be a valuable financial contribution towards the survival of the business, so rewarding prudent risk management practice undertaken calmly and thoroughly before the event occurs.

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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