



COVID-19: Property Policies and Business Interruption Considerations

With travel restriction, business closings, and interrupted production, the 2019 Novel Coronavirus (COVID-19) breakout already has reaching effects. As of February 2020, there are confirmed cases and deaths in many international locations, including the United States. The overall financial losses and costs will continue to evolve as businesses are interrupted by supply chain lapses, stock shortages and lost sales.

BUSINESS INTERRUPTION: FIRST-PARTY LOCATION

As a result of the outbreak, you may experience business interruption at your first-party location or through your supply chain.

Authorities may close sites owned or operated by your company in areas affected by the virus. Some locations may incur expenses to clean up, decontaminate and sanitize, due to the presence of the virus within the building. With reports of business closures lasting weeks or months, production will likely be impacted, which may result in an income loss. Some organizations may have the internal flexibility to offset production losses by ramping up operations at other locations around the globe. However, this can result in additional incremental costs, which may include an increase in labor and material costs, overtime labor and freight. Alternate sites may be less efficient at producing goods based on their configuration, impacting the profitability of products.

Some businesses may look to temporarily rent third-party sites or source goods from competitors to fulfill customer orders. Even once normal operations resume, additional expenses may be incurred to catch up on lost production – frequently including additional temporary or overtime labor.

BUSINESS INTERRUPTION: SUPPLY CHAIN

Even if you do not have any locations directly affected by closures, you may have customers or suppliers impacted. Supply chain interruptions can result in raw material shortages and decreases in production. Some companies may be able to identify alternative component suppliers, but frequently there is an incremental cost increase. Customers based in areas affected by the virus may be unable to accept their product, resulting in a reduction or cancellation of orders.





INSURANCE COVERAGES – PROPERTY POLICIES:

Most traditional property policies exclude loss or damage resulting from a virus, disease, pathogen, contamination, etc. Policies will generally include a definition of what is to be contemplated within the scope of the exclusion.

While it is far from the standard in the property insurance marketplace, following similar virus outbreaks from the recent past (SARS, MERS, Ebola, etc.), a few carriers have introduced an additional coverage for communicable disease. To the extent that this coverage is afforded, it may be subject to a separate deductible, a maximum number of days, annual aggregate sublimit, coverage qualifying period or waiting period.

Frequently, coverage is triggered by a shutdown of a facility due to the actual presence of a communicable disease (as defined in the policy) at one of your locations. From a property damage perspective, coverage may include clean up, sanitation and disposal of the disease from the insured property. Business interruption generally commences at the time an order is given to close a location by a qualified agency and ends when the order is lifted, when cleanup activities are complete, or once a maximum number of days, as stipulated in the policy, is reached.

While the policy may include an additional coverage for communicable disease, losses resulting from an extended shutdown may not be recoverable in the absence of communicable disease affirmatively identified within the location. Even if your policy includes coverage for “communicable disease”, it may not extend to business interruption losses which result from customers/suppliers impaired by the virus. Often there is a general policy exclusion which applies, unless “communicable disease” is extended to supply chain or contingent time element coverages.

Policy provisions addressing orders of civil authority typically require property damage of the type insured within a specified distance. Carriers may take the position that, if their policy includes a communicable

disease exclusion, it applies to orders of civil authority. A close review of coverages addressing orders of civil authority is recommended.

RECOMMENDATIONS

If the COVID-19 outbreak has impacted your business, we recommend proactively engaging with your broker and insurance carrier to discuss anticipated loss exposures and potentially relevant coverages. In the event there is a potential recoverable claim, it is important to maintain detailed records and invoices of clean up and response expenditures. Companies should also closely monitor business interruption impacts and extra expenses that may be incurred. The reasons behind closures (government order, company order, presence of virus, etc.), at owned locations or locations of customers or suppliers, should be documented.

If there are specific questions about travel or other issues related to the virus, find more information at www.cdc.gov/coronavirus/2019-nCoV/summary.html or call the CDC info line at 1-800-232-4636. More information will be provided by the [World Health Organization \(WHO\)](http://www.who.int) and the [CDC](http://www.cdc.gov) as it becomes available.

Please be advised that any and all information, comments, analysis, and/or recommendations set forth above relative to the possible impact of COVID-19 on potential insurance coverage or other policy implications are intended solely for informational purposes and should not be relied upon as legal advice. As an insurance broker, we have no authority to make coverage decisions as that ability rests solely with the issuing carrier. Therefore, all claims should be submitted to the carrier for evaluation. The positions expressed herein are opinions only and are not to be construed as any form of guarantee or warranty. Finally, given the extremely dynamic and rapidly evolving COVID-19 situation, comments above do not take into account any applicable pending or future legislation introduced with the intent to override, alter or amend current policy language.