



Potential Insurance Implications from Coronavirus

Background: The U.S. Centers for Disease Control and Prevention (CDC) is closely monitoring the coronavirus (2019-nCoV), first detected in Wuhan City, Hubei Province, China. The death toll continues to **rise**:

Lines of insurance potentially impacted by the coronavirus:

Three major insurance areas are most likely to feel the full impact of the coronavirus: travel insurance, business insurance, and life insurance.

Supply chain disruptions, and employee absenteeism inside vendors, suppliers, and other partners in China, for example, could reduce productivity and efficiency for businesses headquartered elsewhere. Fears about the virus could also depress travel and tourism and adversely affect the global economy. [World Bank findings](#) suggest a pandemic of the same severity as the 1918 influenza pandemic could reduce global GDP by 5 percent. In a worst-case scenario, the worldwide spread of a serious infectious disease could result in annual economic losses of more than \$500 billion as well as pandemic-related deaths of 700,000, according to a study cited by the World Health Organization.

Commercial Lines

Whether a business has operations and employees in China or relies on Chinese companies as customers or in their supply chains, different types of businesses may incur additional costs or experience some business interruption or other loss as a result of the virus.

Business interruption (BI): Also known as Business Income Insurance, the policy covers a business owner for lost profits and continuing fixed expenses during the time a business must stay closed.

- BI policies may cover financial losses occurring after civil authorities limit access to an area, preventing customers and suppliers from reaching a business's premises. Depending upon its specific wording, a policy's "civil authority" coverage may or may not require that the access restriction result from "physical loss" by a covered cause of loss and, if so, often does not require that "physical loss" occur to the policyholder's own property. In the event that a federal, state, or local governmental authority limits access to or from areas where the virus has been identified, "civil authority" coverage may respond.

- BI can include communicable or infectious diseases, depending upon the policy
- Contamination is considered damage in the case of a pandemic; BI insurance would cover the costs of decontaminating and sanitizing a business's premises
- Specialized insurance policies and extensions of coverage added to standard property insurance policies—including those sold to policyholders in the hospitality and health care industries—may provide insurance coverage for losses caused by "communicable or infectious diseases" without requiring physical damage to insured property. Businesses especially concerned about the risk of disruptions by communicable or infectious disease outbreaks may have purchased "communicable or infectious diseases" coverage.
- Political risk insurance may provide coverage for business interruption losses suffered by a foreign business in China resulting from local government regulatory actions. Many political risk policies provide coverage for business interruption, even when there is no physical damage to the business, for actions taken by the host country's government.

Contingent Business Interruption and Supply chain Chinese manufacturers and related businesses have been hit by government-mandated factory shutdowns which are likely to impact supply chain operations and industrial production throughout China across industries such as automotive, pharmaceutical, medical, and high-tech manufacturing for optoelectronics and semi-conductors, which could impact U.S. businesses. Companies and factories in several major cities and provinces – including Beijing, Zhejiang, Jiangsu, Guangdong and Shanghai – have been ordered to temporarily halt their operations with the exception of medical equipment, pharmaceutical companies, supermarkets, utilities and logistics companies in a bid to quell the coronavirus outbreak.

As *The Washington Post* reports, "[t]he battle to contain the ... coronavirus threatens to cut off U.S. companies from parts and materials they need to produce iPhones, automobiles and appliances and drugs to treat medical conditions including Alzheimer's disease, high blood pressure and malaria."

- Lots of policies have had exclusions placed in them in the last 10 years due to insurers' experience with flu-type outbreaks. That's why [Parametric policies](#) are becoming an increasingly attractive solution for those looking to insure the risks to their business around pandemics. Parametric cover works by using a pre-determined parameter - i.e. a metric or an index – which could see the presence of a pathogen trigger the policy for those insuring pandemic risk.

Liability Insurance: CGL, D&O, E&O, and Workers' Compensation Coverage

Businesses—particularly those in the hospitality industry—could also face claims by infected guests who they allegedly failed to exercise reasonable care in guarding against, or warning of, the risk of exposure to coronavirus. Intended to protect businesses against third-party claims for bodily injury resulting from exposure to harmful conditions, commercial general liability ("CGL") insurance policies should respond with coverage for these claims.

- In addition to CGL insurance, many health care providers also purchase errors and omissions ("E&O") insurance, commonly referred to as hospital professional liability coverage which likely will respond with insurance for coronavirus-related bodily injury claims of non-employees.
- A company's directors and officers may be subjected to shareholder lawsuits alleging that their unreasonable actions (or inaction) in response to coronavirus caused the company economic loss. For example, a company's shareholders may maintain that management allegedly failed to develop adequate contingency plans or failed to observe procedures recommended or required by governmental authorities, or allegedly failed to properly disclose the risks of coronavirus posed to the company's business and financial performance. Directors and officers ("D&O") insurance policies may provide coverage for the costs and liabilities arising from these shareholder lawsuits, depending on the policy language.

Workers' Compensation: Insurance that pays for the medical care and physical rehabilitation of an injured worker and helps to replace lost wages while the worker is unable to work; these policies are generally purchased by employers for their employees

- Health care workers who contracted the coronavirus while on the job would likely be eligible for workers' compensation benefits

Disability: Insurance policy which covers the insured person in the event they are unable to work due to an injury or sickness; it is generally purchased by employers for their employees

- A person who became ill because of the coronavirus and was unable to work could file a disability claim. Each policy has a definition of disability; it must be satisfied for the insured person to receive the policy's benefits

Event Cancellation: Insurance policy which protects against the financial losses an event organizer incurs when their event is either canceled or postponed. For example, event cancellation insurance for the 2014 and 2018 soccer World Cups covered potential losses of \$1.25-1.5 billion.

The 2020 [World Athletics Indoor Championships](#), which were to have been held on March 13-15, 2020, in Nanjing, China, for example, [has already been postponed.](#) \

- Easily spread diseases like coronavirus are often excluded from standard event cancellation insurance, however, the majority of large event policyholders often purchase communicable disease coverage.

Personal Lines

Life Insurance: Insurance policy which covers the life of the policyholder and provides a payment to their beneficiary upon the policyholder's death

- A policyholder who dies of a coronavirus-related illness and has life insurance, will have the policy's proceeds paid to their beneficiary
- U.S. life insurers are very well-capitalized and manage pandemic risk—the potential for a large-scale loss of life within a short timeframe—through periodic stress testing
- U.S. life insurers are also large purchasers of reinsurance—insurance for insurers—against “extreme mortality” events such as pandemic. As a result, they have access to capital beyond what is already on their books

Travel Insurance: Insurance policy which covers the policyholder's potential problems associated with traveling, including trip cancellation due to illness, lost luggage, and other incidents, such as emergency medical care if the policyholder gets sick while on the trip.

The CDC recommended U.S. [travelers avoid all non-essential trips to China.](#)

- Airlines will generally reimburse passengers for flights the airline cancels. Airlines, Delta, and United subsequently said they would [suspend all flights](#) to and from China until the spring.
- Travel insurance policyholders who purchased [Cancel for Any Reason \(CFAR\) coverage](#) as part of their policy should file a claim with their insurer if their trip does not take place. Depending how the policy is written, however, there could be an exclusion for coverage.
- CFAR coverage is optional and increases the policy's cost about 10%, while generally paying out less than the trip's total cost if the policyholder cancels the trip

Triple-I Resources & Recommended Websites

- Triple-I White Paper: [Pandemic: Can the Life Insurance Industry Survive the Avian Flu?](#)
- Triple-I Blog: [Commercial Insurance: Diseases and Epidemics](#)
- Triple-I Blog: [All About Pandemic Catastrophe Bonds](#)
- U.S. [Centers for Disease Control and Prevention](#) (CDC)
- [World Health Organization](#) (WHO)