

Property and Novel Coronavirus (COVID-19): Is My Business Covered?

The global pandemic, COVID-19, has resulted in widespread economic disruption in virtually every country around the world as governments declare states of emergency to try to slow the spread of the virus. As the World Health Organization and national health departments and governing authorities update guidelines for dealing with the virus, medical facilities and providers are being stretched beyond capacity to respond to a steadily worsening worldwide health crisis.

Meanwhile, global financial markets and commodities have been subject to extreme volatility as economists continually revise predictions of short- and long-term economic consequences, including the potential for a sustained global recession and the timetables for various recovery scenarios.

Temporary business closures and curtailments along with significant related lost sales and sharp revenue declines are raising questions as respects business interruption and even “physical damage” coverages under property policies. Examples of the impacts associated with COVID-19 include:

- Cost of sanitizing and testing insured property
- Costs of evacuation of an insured property
- Resulting loss of income, either from the closure of the premises during sanitization or the loss of customers due to identification of the virus at the insured premises
- Income loss and business interruption resulting from closure of a business or significant curtailment of business activity due to requirements from civil authorities contingent business interruption or extra expense due to the closure of a facility of a key customer or supplier
- Contingent business interruption loss as a result of government-imposed quarantines of individuals and communities deemed to have clusters of cases, as well as enforced closures or severe restrictions on hospitality operations (including restaurants, bars, casinos); commercial air, rail, cruise line, and bus travel; professional and industry meetings and conventions; concerts and theatrical performances; cinemas; sports and other spectator events; malls, shopping centers and retailers; elementary and secondary private and public education; colleges and universities; and public gatherings

Aon offers the following observations regarding these types of costs and income losses.

IMPORTANT: Any coverage analysis must be based upon the wording of an insured’s specific policy(ies) of insurance.

Physical Damage

The trigger for any property insurance policy and resulting time element coverage is physical damage to insured property by an insured peril. Insurers are likely to argue that the introduction of a virus does not constitute direct physical loss or damage to insured property nor is it a covered peril. While the introduction of COVID-19 to insured property may be considered a fortuitous (unforeseen) event (similar to other triggers that are typically covered under property policies), it is most likely not covered due to standard policy exclusions. Insurers may point to exclusions related to loss or damage arising from delay, loss or market, loss of use or indirect or remote loss or damage. Alternatively, a policy may contain a contamination exclusion which embeds virus, disease or illness causing agent in the definition of contaminant. Most property policies, including ISO, specific insurer forms and most manuscript policies, do not cover a loss resulting from a virus. That stated, the news media have reported of a policyholder that recently filed a suit in Louisiana contesting the application of the “physical loss” coverage trigger and policy exclusions.

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Contact your Aon account representative or consultant for support in developing your crisis response and in organizing, preparing and implementing your crisis communication plan. Aon crisis communication consultants are prepared to help you develop and implement your plan

Time Element

If the physical damage trigger is not met, the exclusion will also apply to most resulting time element losses. However, there are some select policies designed with specific industries in mind, such as hospitality or retail, that might address some losses caused solely by such a virus. This specific coverage can be referred to in clauses titled “Loss of Attraction,” “Communicable Diseases” or “Special Perils Business Interruption.” The coverage is almost always subject to a low sublimit – usually under \$5 million – and is often aggregated as well.

Such an extension may only apply to the extra expenses associated with evacuation, disinfection and testing after a building has been closed due to the introduction of a virus, and may not extend to any loss of income.

If these types of extensions are in place, they are subject to the policy indemnity periods and generally, the time period for recovery is the length of time that it takes to repair or replace the damaged property (in this case, to sanitize) and possibly any extended period of indemnity. Further, if coverage does apply, an issue may

exist as to the number of occurrences or events for which coverage is available. The facts of each claim will determine the answer to the question of number of occurrences. Aon raises this issue for consideration in light of the pattern of previous infectious disease outbreaks where there was significant time between waves of illness. Other questions may arise as respects the application of the “Civil or Military Authority” clause, which is another time element extension that is triggered only by physical damage and a directive by a governmental authority that affects access to an insured’s premises. Any discussion of whether or not this extension will apply has to be based upon the specific circumstances of a closure and the actual wording in any policy.

Global Programs

For clients with global property programs, attention must be paid to coverage provided

for local operations and how that coverage may respond to COVID-19. Situations may vary depending on the jurisdiction and circumstances

that exist for your operation and loss exposure. If supply chains are disrupted due to any closures or quarantines, the same physical damage and insured peril triggers will apply except perhaps where stand-alone supply chain or trade disruption policies may be in place.

Local, State and National Governmental Directives

We are monitoring developments, proposals and directives from various legislative bodies related to financial relief and insurance company responses. If there are any mandates that affect how insurers or governments will respond, we will provide updates via the Aon Coronavirus Disease COVID-19 Response Site at aon.com/coronavirus

Disclaimer: This report has been provided as an informational resource for Aon clients and business partners. It is intended to provide general guidance on potential exposures and is not intended to provide medical advice or address medical concerns or specific risk circumstances. Due to the dynamic nature of the coronavirus, and infectious disease in general, Aon cannot be held liable for the guidance provided. We strongly encourage visitors to seek additional safety, medical and epidemiologic information from credible sources such as the Centers for Disease Control and Prevention and World Health Organization. As regards insurance coverage questions, whether coverage applies or a policy will respond to any risk or circumstance is subject to the specific terms and conditions of the insurance policies and contracts at issue and underwriter determinations.

For More Information

It is critical to review each policy of insurance in its entirety to determine the extent, if any, of coverage available for the effects of the coronavirus. If you have specific coverage questions, please contact your Aon representative. In addition, please visit the Coronavirus Disease COVID-19 Response Site at aon.com/coronavirus, for updated information.

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