

COVID-19 and Pandemic Business Interruption Coverage

SETTING THE STAGE

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General Timeline of Events - 2020

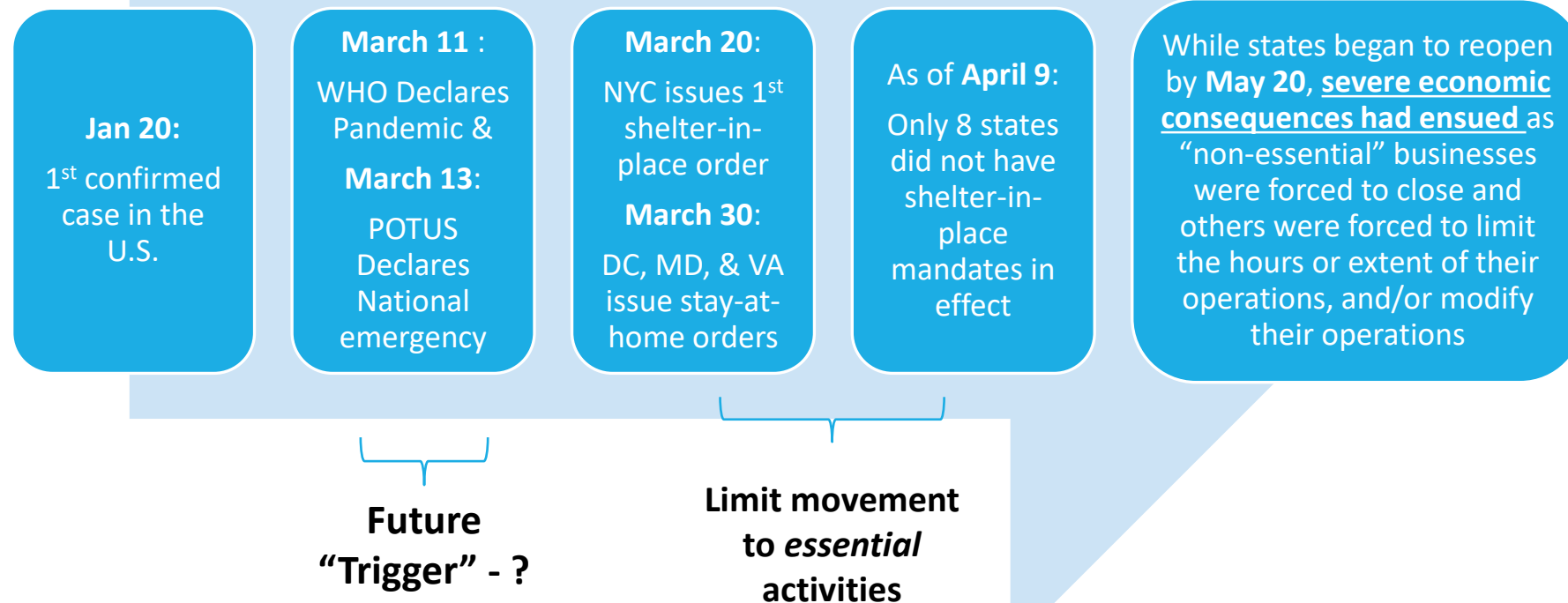


Figure 2. Potential Monthly Business Interruption Losses for Small and Small-to-Medium-Size Enterprises



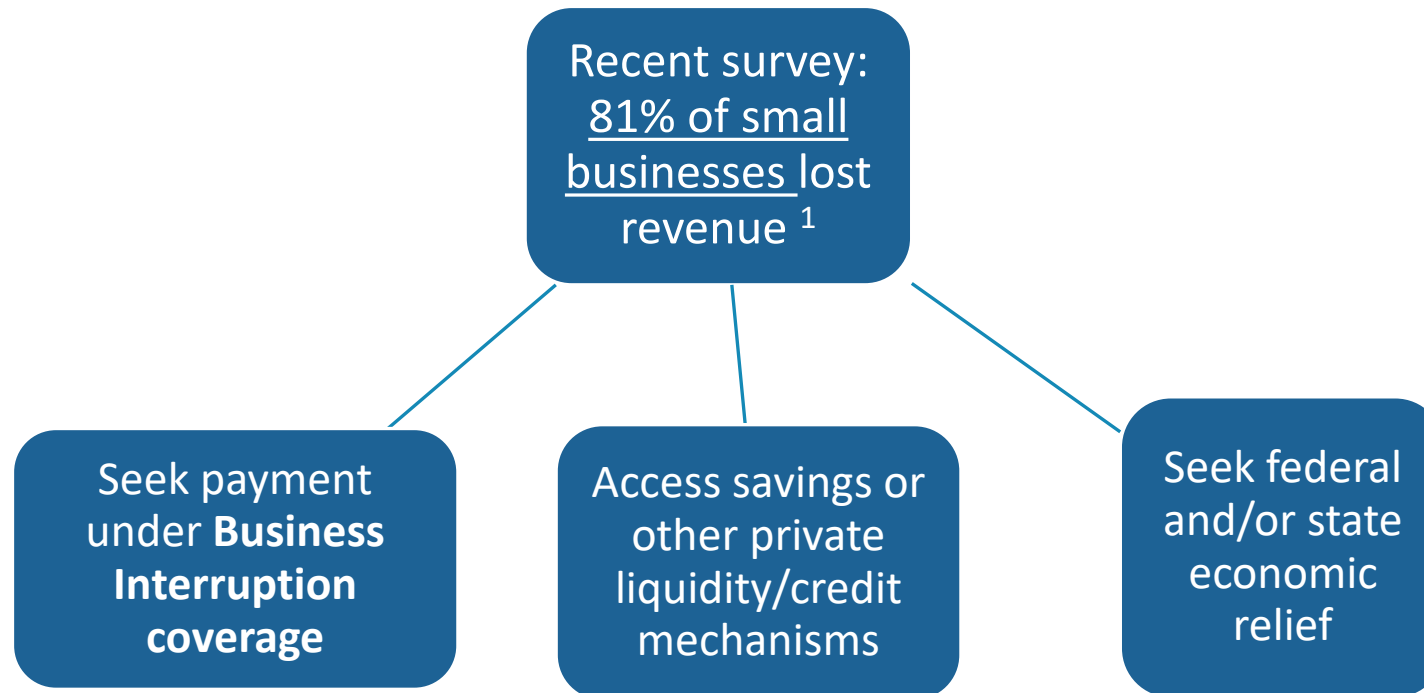
Estimated closure losses for small businesses with fewer than 100 employees: \$255 billion to \$431 billion per month.

Estimated closure losses for small-to-medium size businesses with fewer than 500 employees: \$393 billion to \$668 billion per month

The potential for such losses for **all** businesses of **all** sizes is currently estimated at **\$1 - \$1.1 trillion** per month.

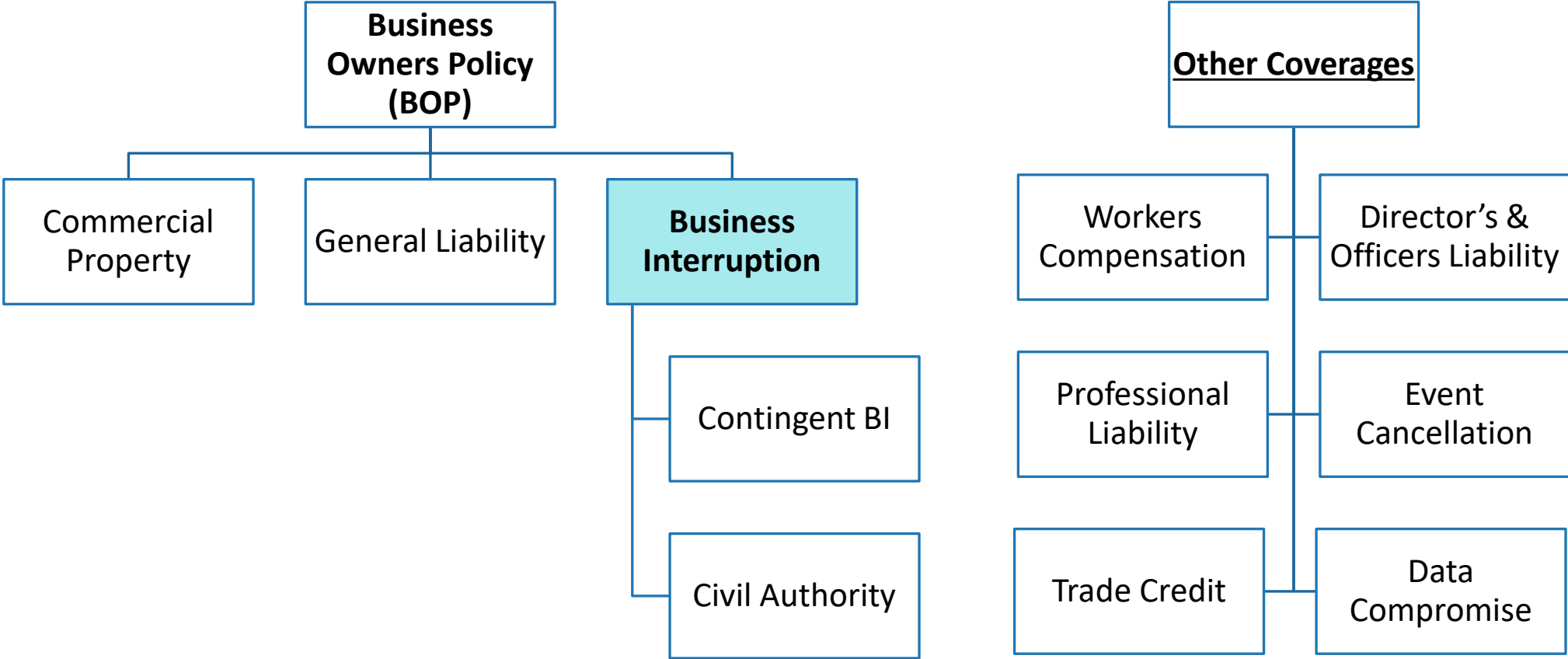
Sources: APCIA using publicly available data sources including Bureau of Labor Statistics, Insurance Services (Verisk Analytics, Inc.), Houston Chronicle, S&P Global Market Intelligence, and other published reports.

What recourse do businesses have?



1: <https://njbmagazine.com/njb-news-now/survey-81-of-us-small-businesses-lost-revenue-due-to-covid-19/>

Business Insurance Coverage



Business Interruption (BI) Insurance

- Protects against losses sustained due to periods of **suspended operations**. The suspension, however:
 - must be typically caused by a covered cause that results in direct physical loss or damage to the property
 - may have specific exclusions for viral infections such as COVID-19.
- It typically covers business losses directly or indirectly caused by a covered peril such as:
 - loss of revenue that would have been otherwise earned
 - fixed costs (operating expenses and other costs still being incurred)
 - cost of actions taken to mitigate the loss
 - reasonable expenses to allow the business to continue operating.
- It can be an add-on to a property insurance policy, or a stand-alone policy

Nearly 30 states have issued guidance, notices, and/or FAQs on this coverage -
[https://content.naic.org/naic coronavirus info.htm](https://content.naic.org/naic_coronavirus_info.htm)

Insurers started excluding viral and bacterial infections from their BI policies after the SARS (Severe Acute Respiratory Syndrome) outbreak in 2003 caused significant losses to insurers

In **2006** the **Insurance Services Office** (ISO) developed an exclusion for losses due to virus or bacteria.

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THIS ENDORSEMENT CHANGES THE POLICY. PLEASE READ IT CAREFULLY.

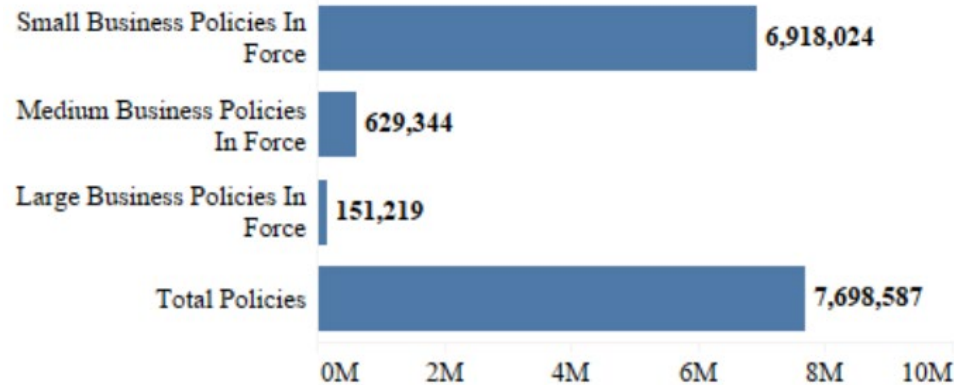
EXCLUSION OF LOSS DUE TO VIRUS OR BACTERIA

The exclusion ... applies to all coverage under all forms and endorsements that comprise this Coverage .. Including ... forms or endorsements that cover business income, extra expense or action of civil authority.

We will not pay for loss or damage caused by or resulting from any virus, bacterium or other microorganism that induces or is capable of inducing physical distress, illness or disease.

NAIC Data Call

Number of Policies by Business Type National



Coverage Gap:

- It is estimated that only between **30-40% of small business owners** carry business interruption insurance.
- 83% with a virus exclusion
- 98% with a physical loss requirement

Percent of Policies with Exclusion by Business Size National

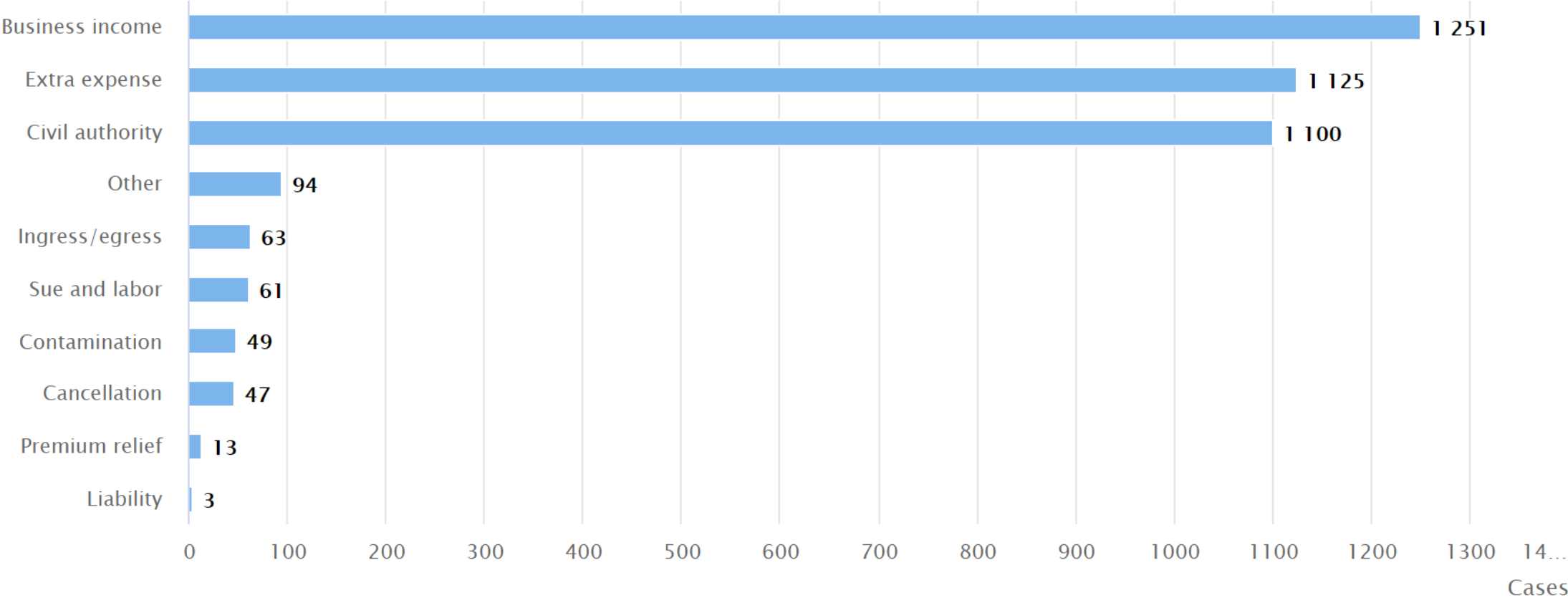


Percent of Policies with Physical Loss Requirement by Business Size National



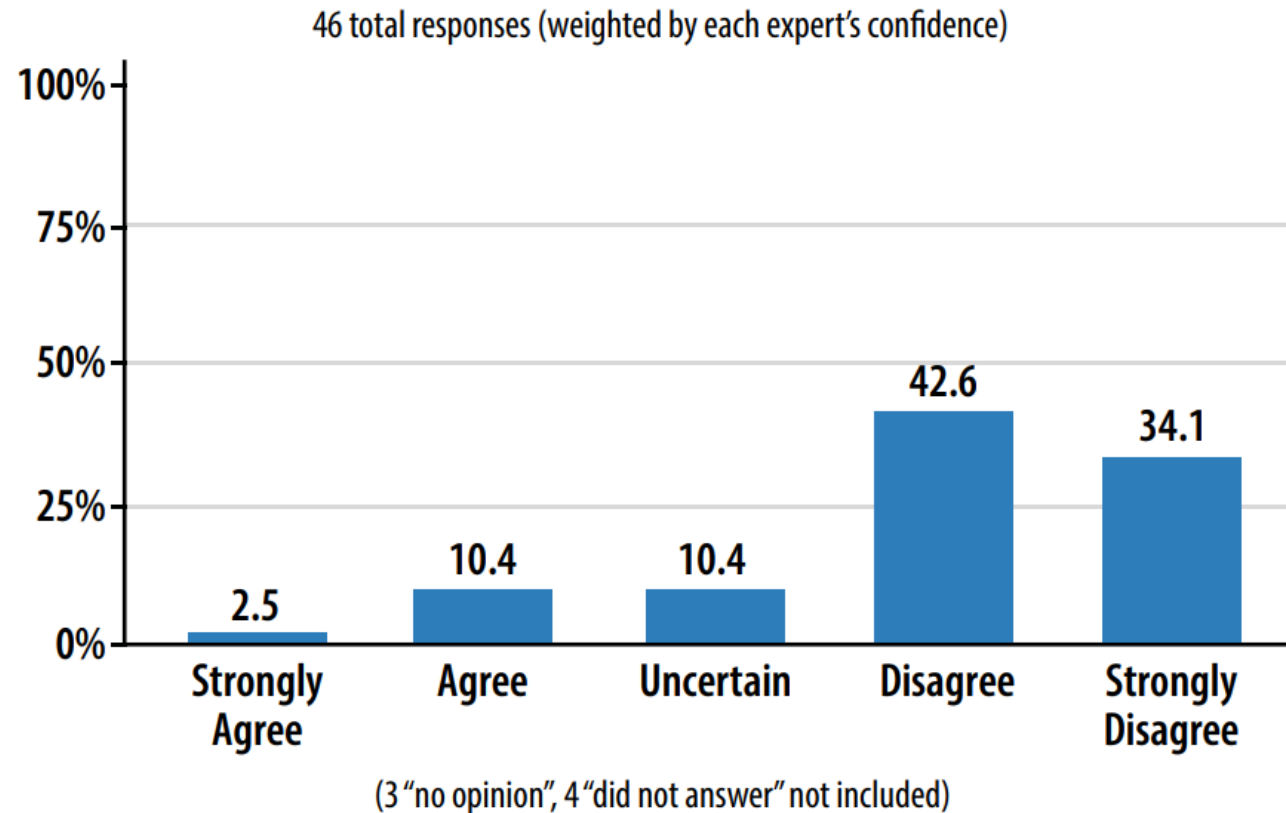
COVID Coverage Litigation Tracker - As of 12/7/2020

Coverage Sought



Is Pandemic BI Insurable by the private market?

SURVEY QUESTION #2: Business Interruption Insurance Covering Pandemic risks can be efficiently supplied by the private market?



COVID-19 loss reports and reserves reported by insurance or reinsurance companies

As of November 20th, 2020, the running total is: **US \$28.15 billion**

Company	COVID-19 loss & reserves estimate (\$m)	Last updated DD/MM/YYYY
Lloyd's	3,905	10/09/2020
Swiss Re	3,000	30/10/2020
Munich Re	2,704	05/11/2020
AXA	1,755	03/11/2020
Allianz	1,540	06/11/2020
Chubb	1,378	27/10/2020
Hannover Re	1,006	04/11/2020
AIG	915	05/11/2020
Berkshire Hathaway	860	06/11/2020
Zurich	750	12/11/2020

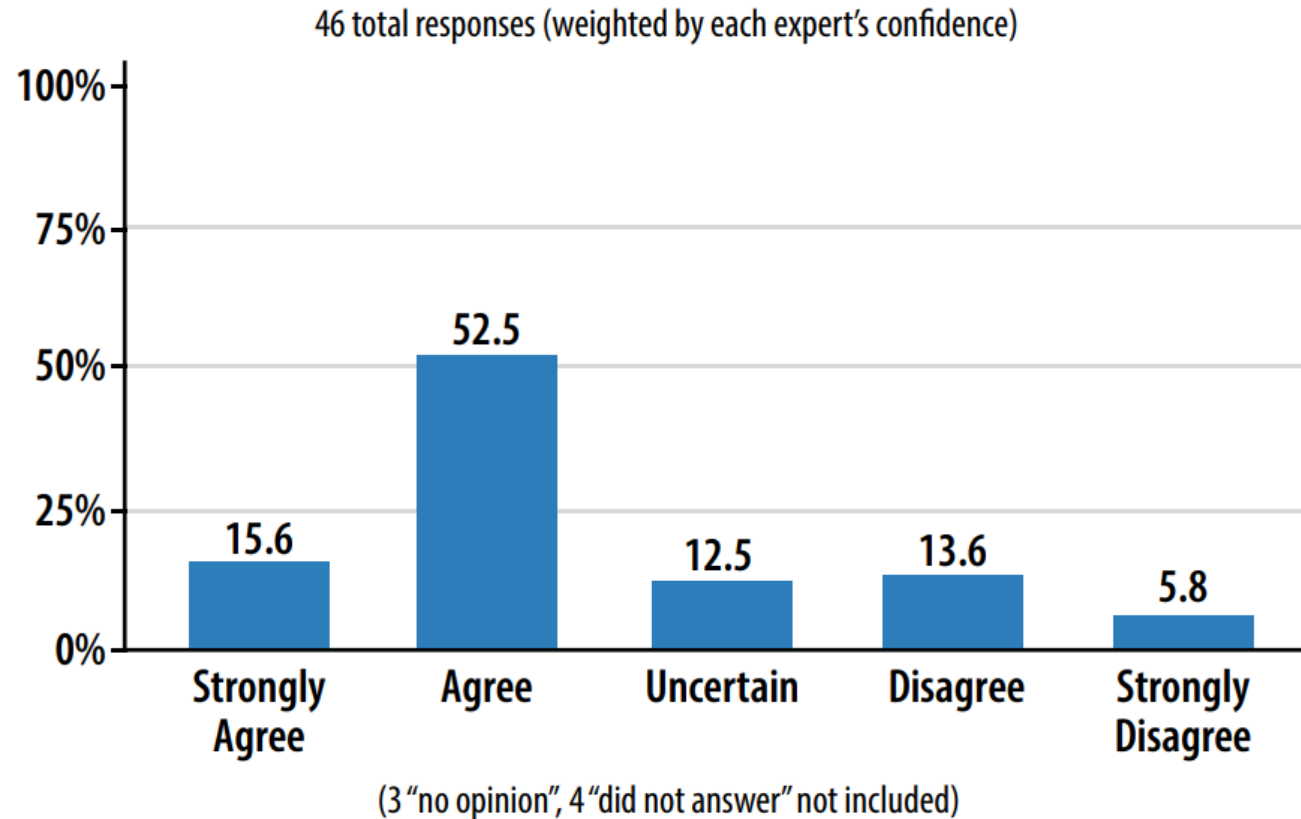
Estimated Losses:

NAIC data collected
as of 11/30/2020

> 200,000 claims
and approximately
\$420 million in
paid losses

Source: <https://www.reinsurancene.ws/covid-19-insurer-reinsurer-loss-reports/>

SURVEY QUESTION #4: Private-market business interruption insurance could cover pandemic risks if there were an effective federal partnership? (For example, under the Terrorism Risk Insurance Program the private market is the primary insurer but the federal government provides reinsurance protection.)



What does a Federal Mechanism For Pandemic BI look like?

- Four approaches to government involvement (Hartwig, Niehaus, Qiu, 2020)¹ - provide:
 - 1) Post-event aid
 - 2) Reinsurance
 - 3) Insurance
 - 4) Social Insurance
- How will businesses respond?
- What about other non-BI coverages with pandemic risk exposure?
- What can we learn from other existing Federal mechanisms?**

¹: <https://link.springer.com/article/10.1057/s10713-020-00055-y>