



COVID-19 Team Update

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COVID-19 Raises Questions for Business Interruption Coverage

By [Robert J. Bates, Jr.](#) and [Nicholas R. Novak](#)

While the full implications of coronavirus on business and the markets have yet to be realized, many are already rightly concerned about its implications for the insurance industry.

One source of risk transfer that policyholders will no doubt turn to will be business interruption coverage, a first-party insurance product that covers loss of income when a policyholder suffers a covered cause of loss. As the coronavirus continues to spread and impact business operations, insurers should consider these four broad areas of business interruption insurance and how they may be impacted.

Commercial Property Policies

Commercial property policies generally cover physical loss or damage to an insured property resulting from a covered risk, such as a hurricane, earthquake, or other event that causes physical damage to the property.

Without physical damage from a covered risk, business income loss associated with the spread of an infectious disease – such as people choosing not to travel or patronize a business – generally does not trigger business interruption coverage or is excluded by a communicable disease exclusion. However, there are endorsements that are available that cover income loss associated with disease (though often subject to a sublimit and sometimes limited to hospitality industries). Similarly, policies may include a coverage trigger for when a government identifies a disease as having a potentially significant impact on businesses.

This type of coverage is often referred to as “notifiable disease coverage.” The UK has announced plans to register the coronavirus as a notifiable disease to help businesses make insurance claims.

Contingent Business Interruption

Contingent Business Interruption insurance provides insurance for losses resulting from disruption to a business’s customers or suppliers, although this coverage typically requires that the customer or supplier experience what would be a covered loss under the insured’s policy.

Given the key manufacturing areas, like northern Italy and central China, affected by the coronavirus, these types of supply chain interruption insurance claims may result from the pandemic.



Civil Authority Coverage

Civil Authority Coverage or Non-Damage Denial of Access may be implicated when a governmental authority shuts down or limits access to the insured's business. This type of coverage may not require physical loss to the insured's property and, potentially, could respond to income losses when an infectious disease has been identified where the insured property is located.

Extra Expense Coverage

Extra Expense Coverage may also be available for those losses (other than business income) that an insured would not have otherwise incurred if there had been no covered loss.

Conclusion

Whether claims are covered will always depend, of course, on the terms and conditions of the insurance policy and the circumstances of the loss. And the market is continuing to evolve to meet this emerging risk. In February 2020, ISO developed two new endorsement forms – "Business Interruption: Limited Coverage for Certain Civil Authority Orders Relating to Coronavirus" and "Business Interruption: Limited Coverage for Certain Civil Authority Orders Relating to Coronavirus (Including Orders Restricting Some Modes of Public Transportation)."

The effect of these and other measures are yet to be understood. It will be important for insurers to stay ahead of these trends to ensure risks are mitigated.

For questions or more information regarding this article, please contact [Robert J. Bates, Jr.](#), [Nicholas R. Novak](#) or email BatesCarey's COVID-19 Team at COVID19@BatesCarey.com.