



The Insurance Impacts of 2019 Novel Coronavirus



Introduction

The outbreak of 2019 Novel Coronavirus (2019-nCoV), in Wuhan City, Hubei Province of China, has prompted questions of how insurance policies might respond to claims stemming from business losses attributed to this infection prompting this White Paper. The primary virus infection, which can result in pneumonia and even death, originated from a Wuhan city seafood market. Subsequently, person-to-person transmission has occurred, primarily to health workers who had contact with those initially infected. The concern is that this may lead to widespread infections, worldwide.

At the time of drafting this White Paper (28 January 2020), travel from Wuhan and the surrounding provinces has been banned, as Chinese authorities seek to limit spread of the infection. Prior to this lockdown by Wuhan officials, which began on 23 January 2020, people affected by the virus have travelled worldwide with the possibility of further infections arising from person-to-person contact in the places they visited. Some (but not all) sources suggest that the symptoms of the virus may take about fourteen days to manifest, but the carrier may unwittingly infect others during this non-symptomatic period. The implications for those who travel, especially overseas, are significant. This is compounded by the time of occurrence, bridging the Lunar New Year, when travellers from around the world are enjoying family celebrations in China. Incidents of 2019-nCoV have now been found globally and the risk of a large-scale outbreak is plausible.

Coronaviruses are a family of RNA viruses including the common cold, SARS and MERS, according to the World Health Organisation (WHO). Whilst causing seasonal influenza-like symptoms, they differ. This has implications for hosts, transmissibility, susceptibility, antiviral

therapy, immunity, vaccines, etc. Multiple strains of the 2019-nCoV have been identified, but the impacts on humans, even within a specific strain, are inconsistent. The described symptoms of 2019-nCoV vary between a mild upper respiratory infection and severe pneumonia, leading to death. The websites of the relevant Government Health Authority in each country/state and the WHO offer useful guidance on dealing with the virus. Regularly updated guidance from the WHO can be found here:

<https://www.who.int/emergencies/diseases/novel-coronavirus-2019>

Some idea of the expected impact of this event can be drawn from the Chinese government's budget of US\$12bn to deal with the event. The knock-on effects for government and business around the world will be substantial and long-lasting.

The consequences for insurance arise primarily under business insurance policies providing coverage for infections at, or in close proximity to, the premises. Businesses likely to have coverage include:

- Health Care Facilities
- Aged Care Homes
- Hotels, Tourist Resorts and related businesses
- Child Care and related facilities

The availability of such covers differs between jurisdictions and the policy terms are highly variable. The actions of public authorities, both within China and other jurisdictions, will significantly affect the coverage available under many policies. In many jurisdictions, public authorities (aware of the potential liabilities falling upon them in

¹ Severe Acute Respiratory Syndrome first reported in Asia in February 2003.

² Middle East Respiratory Syndrome first reported in Saudi Arabia in 2012.

³ See <https://www.abc.net.au/news/2020-01-27/china-coronavirus-billions-to-be-spent-containing-outbreak/11904270>

exercising such power) hesitate to use their powers, preferring to persuade rather than direct the actions of businesses. Under most policies, in the absence of such concrete actions and directives, the policies are unlikely to respond. As of 28 January 2020, the WHO has not declared a Public Health Emergency.

Businesses that are affected by the 2019-nCoV are facing potentially significant costs and financial losses. In Crawford Forensic Accounting Services' experience, successful claims under business interruption coverage for infection are not common. This White Paper explores whether such financial losses may be recoverable from insurance policies and practical steps to help the claims process.

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Can property all risk policies respond to the 2019-nCoV event?

Historically, property all risk policies would not have provided coverage. Property insurance typically need a trigger of physical loss or damage caused by an insured peril. Diseases and viruses are not an insured peril. Contingent extensions such as denial of access or loss of attraction under such policies still need an insured peril as a prerequisite for coverage.

However, some specific endorsements have become available and are being adopted with greater frequency.

In the hotel, restaurants, pubs, school and hospital sectors, extensions exist for notifiable diseases. Policies usually define very narrowly what constitutes a notifiable disease and until a disease is classified as such, the policy is unlikely to respond. Further, most insurers now list the specific diseases for which coverage is provided. 2019-nCoV is a new disease, and therefore, is unlikely to be listed.

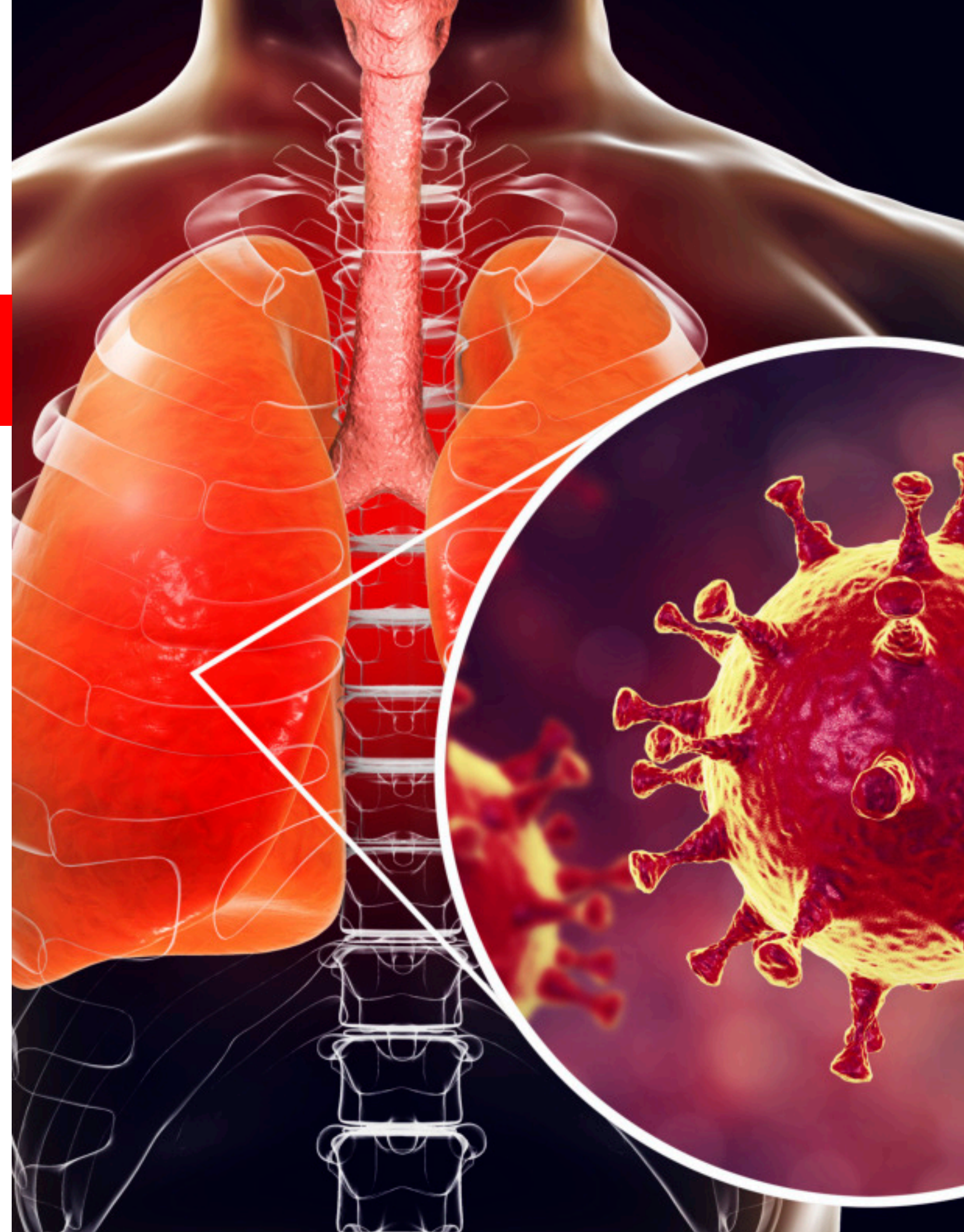
Companies previously affected by SARS, Avian or Bird Flu or Ebola, may have specific extensions

such as interruption by communicable/infectious/contagious diseases, interruption by mandatory closure for pandemic diseases or contingent business interruption extra expense resulting from an affected customer or supplier. Losses covered may include:

- Loss of income
- Extra expenses
- Crisis response
- Cost of decontamination
- Sanitising

Such extensions are usually subject to separate limits and deductibles.

Prevention or hindrance of access by a public authority may trigger business interruptions irrespective of physical damage. Although 2019-nCoV may not be an insured peril of itself, the subsequent lockdown and extension of the Lunar New Year holiday period imposed by the Chinese government may give rise to claims.



Typical extensions and exclusions

Whilst policy wordings vary dramatically, the following offer some insight into the issues Crawford Forensic Accounting Services typically address.

A typical business package offers limited coverage, such as the following:

“Access prevention: Your premises being rendered inaccessible to the public due to an order made during the period of insurance by a government authority or **official** acting with legislative authority (‘access prevention order’) following: health, safety or **infectious disease** concerns (but not arising as a result of any highly pathogenic avian influenza in humans or diseases declared to be quarantinable diseases under the Quarantine Act (1908) and any subsequent amendments); **infectious disease** means an outbreak of a human communicable disease at the **premises.**”

In many jurisdictions, it is extraordinarily unusual for an “Access Prevention Order” to be issued, resulting in this cover rarely being triggered. A broader coverage may be available under a commercial all risks policy, such as below:

“Murder, suicide and infectious disease. We will pay for *loss of income* that results from an

interruption of your business that is caused by: (a) any legal authority closing or evacuating all or part of the **premises** as a result of: (i) the outbreak of an infectious or contagious human disease occurring within a 20-kilometre radius of your premises; however, there is no coverage for highly pathogenic Avian Influenza or any disease declared to be a quarantinable disease under the Quarantine Act 1908 (as amended) irrespective of whether discovered at the location of your premises, or outbreaking elsewhere;...”

Under this wording, infectious disease is not closely defined. Notably, the policy says:

“The definition of ‘insured damage’ does not apply to this extension of cover”

However, note the restricted geographic limit of 20km from the insured premises. This would not extend to more remote locations, such as distant airports or foreign sources of tourists.

The variation in policy wordings, extensions and exclusions makes it critical for a careful review of each potential claim. Crawford Forensic Accounting Services has seen some unexpected outcomes.

A practical example of Infectious Disease Impact

A nursing home suffered a highly contagious Norovirus (“gastro type”) infection, resulting in the deaths of several residents, staff illnesses and considerable increased costs for staffing, cleaning and personal care products. Advice was taken from the public health and local authorities on actions to be implemented. No enforcement action was taken. The authorities expressed satisfaction at the insured’s proactive management of the outbreak. The affected wings were isolated, but the infection had already spread through the whole facility. It went into lock down for several weeks and did not accept new residents.

The policy requirement for action of public authority was ambiguously worded and construed to the benefit of the insured. Heads of claim included:

- Loss of income from those residents that died
- Loss of income from those new residents prevented from entering the facility during lockdown
- Increased staffing costs to deal with the increased resident needs during severe illness
- Increased staffing costs to replace staff taken ill by the Norovirus
- Increased cleaning costs including two major cleans and the disinfection of the premises
- Additional costs of personal care products including adult nappies
- Increased laundry costs

What other policies may respond?

Large corporates may have adapted and specialised extensions in their global programs.

Free-standing contingent business interruption (CBI) may cover a broad range of non-damage risks, including infectious diseases, denial of access, loss of attraction as well as customer and supplier extensions.

Environmental policies may include viruses or bacteria as pollutants for specific industries such

as healthcare. Coverage may include clean-up costs, and as an optional extension, business interruptions arising from a clean-up event.

Infectious diseases appear in some niche products under the “emerging risk” labels.

However, these policies typically have high deductibles.

3. Clarifying cause and effect

As financial losses accrue over time, the quality of the documentation trail available to prove the direct causal link between the insured peril and financial losses becomes critical.

Unlike physical damage, financial losses evolve over time, and the complexity of the 2019-nCoV situation can create a nexus of potential trigger points for a financial loss. The City of Wuhan was gradually put into lockdown over a period of days. Restrictions are currently being extended to other cities.

At which point(s) does the Insured become affected?

There is not necessarily a single proximate cause of a loss. If two causes operate at the same time and one is expressly excluded from the policy, the policy does not respond. However, if one is insured

and other causes are not expressly excluded, then the policy will respond.

Some industries may suffer an immediate impact – restaurants and cinemas may shut down and tourism could decrease. Other industries may experience a delayed impact. Typically, it takes forty days by sea to supply a European-based firm from China. European manufacturers and retailers take this into account in their supply chain and may be able to absorb the impact of the Chinese shut down for a few weeks. However, delayed shipments may result in stock shortages and lost sales. In cases of delayed financial impact, it may be complex to relate fluctuations in performance back to events in China.

Early clarification and documentation of facts helps the later measurement of financial losses.

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Practical steps for managing and quantifying loss

If a claim is presented, it will be complex in terms of loss measurement. Crawford Forensic Accounting Services offers some useful pointers, based on their experience of prior losses:

1. Act promptly

Early engagement with the insured to understand the potential impacts is key to managing the loss. Frequently, loss mitigation opportunities are missed because of failure to actively manage the loss from first awareness. Remember that on day one, no business interruption loss has manifested.

2. Understand business drivers specific to the Insured's business model

The Insured does not need to be in the city of Wuhan, or even in China, to suffer a potential business interruption loss.

Contingent business interruption losses tend to arise from a weakness in the supply chain such as a sole source supply for a time critical component. Business interruption losses arising from a small but critical supplier can lead to large losses. The city of Wuhan hosts many automotive manufacturers and suppliers, whose customers may be vulnerable to just-in-time supply and single sourcing.

Many of the emerging claims stem from travellers who have passed from the primary infection centre (i.e. Wuhan City), potentially dispersing the infection to remote locations. This is a particular issue for educational centres (universities, schools etc.) returning from January holiday periods.



4. Consider world-wide activities and all business segments

The immediate impact of the 2019-nCoV is felt locally within Wuhan City, with many businesses closing and pictures of Wuhan, widely reported by the media, displaying a ghost town. However, with each passing day, the business impacts widen and increase the risk of triggering policies at a global program level.

One of the key unknowns is the potential spread of the virus. In identifying potential areas of business interruption and financial loss, it may be prudent to consider the financial impact of a widened spread – to other areas of China, Asia and the rest of the world.

It may also be prudent to consider the effect on internet sales and eCommerce platforms – although these may remain stable and not initially affected by 2019-nCoV, they may be hindered by shortages in supply and/or restrictions in delivery services.

5. Document the cost/benefit of mitigation measures at time of decision

In the face of uncertainty, it is also extremely difficult for companies to devise effective mitigation strategies. The success of a given strategy may only become clear with the benefit of hindsight.

In the face of uncertainty, it becomes critical for insured to document their thought processes and cost/benefit analysis at the time of decision-making as this may later evidence predicted benefits at a given point in time.

6. Call on the early advice of insurance professionals

The outbreak of 2019-nCoV is new, evolving from one day to the next, and is shrouded in uncertainty. Although insurance professionals may not have experience of this outbreak, they have extensive experience of earlier outbreaks (SARS, Bird Flu), catastrophic events and natural disasters with a worldwide impact (for example, the 2004 Thailand tsunami).

Crawford Forensic Accounting Services has extensive experience in dealing with crisis situations, including infectious diseases. Our team of qualified forensic accountants / loss adjusters, based in key centres around the world, are available to aid and advise their Crawford colleagues, insurer clients, brokers and insured parties in dealing with the impacts of 2019 Novel Coronavirus.

For more information

For additional help, please call your local Crawford office or our regional Crawford Forensic Accounting Services experts. For more information about Crawford Forensic Accounting Services, please visit www.cfas.global.

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