OFFICE of the INSURANCE COMMISSIONER WASHINGTON STATE

Information on Business Interruption Insurance

What is business interruption insurance?

Business interruption insurance is not a standalone insurance policy. This type of coverage is offered within, or attached to (referred to as a "rider"), a property insurance policy. Therefore, in order to trigger the loss of income coverage, it requires the covered property to have incurred damage from a covered peril that necessitated the business to suspend operations. Therefore, it focuses on actual physical damage to the insurance property, often the place of business and/or its contents.

OIC survey

The Office of the Insurance Commissioner recently completed a special data call to our commercial lines, regarding business interruption insurance coverage. Each insurer was asked to submit notices to their own policyholders regarding how they view COVID-19 loss of income claims against that policyholder's own policy. Commercial policies can be customized much more than a typical homeowner's policy so each individual commercial policy must be read to understand the coverage each policy has.

Key information from OIC review

Only two companies have policies that cover COVID-19 claims. However, these two policies are NOT designed for small retail businesses; they are geared for large companies with supply chains operating in various locations.

All-risk and named peril policies

All of the remaining companies noted the property MUST be damaged by a covered peril to trigger business interruption coverage. On "all-risk" policies, there must be direct physical loss or damage to a covered property. This means that loss of income due to COVID-19 is not viewed as physically altering the property to consider it damaged. On "named peril" policies, viruses is not a named peril, like fire, explosion or lightning (which are typically listed).

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Specific exclusions

In addition, most companies also attach a specific exclusion to their policies that prohibits coverage due to virus. This specific policy exclusion has been used in the insurance industry since the mid-2000's, as a result of the 2003 SARS outbreak. This exclusion is very clearly written that there is no coverage due to loss in relation to a virus.

Civil authority clause

In the case of the government-forced closure of a business, there is a "civil authority" clause. However, that clause only provides coverage when the government authority prohibits access due to a "covered cause of loss." Examples where the clause would apply are government-directed closures due to flooding, wildfires or earthquakes. Since COVID-19 is NOT a covered cause of damage, there is no coverage if the civil authority shuts down a business due to the COVID-19 outbreak. The virus exclusion in the policy would also apply.

Policy endorsements

Some insurance companies offer endorsements that are added to a base insurance policy which offer limited business income coverage relating to communicable disease that would cover some types of COVID-19 claims. Such endorsements would be an additional cost above the base policy premium. For the companies that offer such endorsements, it is not clear if they were offered to any business or only to select types of businesses. It does appear we have a few of these types of endorsements in Washington.

OIC's authority

It is not within the insurance commissioner's regulatory authority, nor his emergency powers, to direct insurance plans to pay for claims that are specifically not covered within an insured's policy. The difficulty with directing insurance companies to pay for business interruption insurance on the basis of the COVID-19 outbreak and resulting government-directed closures, is that the vast majority of policies specifically exclude such coverage. Even more challenging is that private insurance, in general, is not designed to cover something like COVID-19 business closures that are happening on such a large scale, not just in Washington state, but throughout our entire country. The impact on insurance companies of having to pay so many claims could destabilize the entire business property insurance industry and could lead to insolvent companies unable to pay on claims.

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MENU

For Consumers

Coronavirus and businesses

Information for Washington state businesses about coronavirus and its impact on commercial insurance and business operations.

Ask us a question about coronavirus and business insurance (smartsheet.com)

What insurance do I need for my business to be covered for losses due to coronavirus?

To be covered against a business' loss of revenue due to a pandemic, such as coronavirus, you would need to have purchased an insurance policy, or an endorsement for your policy that covers such a loss before the outbreak started.

It's unlikely you'll be able to buy this coverage during the pandemic. After the pandemic is over and the market has stabilized, you can contact your insurance agent or company to see if they offer it.

If you need help understanding your policy, contact an insurance professional, like your insurance agent or your insurance company. If you do not have a copy of your policy, ask your agent or insurance company to send you the full policy, including all applicable endorsements and declarations.

NOTE: The Office of the Insurance Commissioner does not have the authority to mandate insurers sell or retroactively cover pandemic coverage or policy endorsements.

What if I already had a business policy that included business interruption or business income coverage? Will it cover my losses?

Business interruption and business income coverage protects your business against losses you encounter when your business operations are suspended due to direct physical loss or damage. An example is if your covered property was damaged by a fire and your business must suspend operations until the covered property is repair or replaced. This type of policy reimburses the revenue you lost while your business was interrupted.

It's questionable whether your business interruption or business income policy specifically protects against coronavirus. It's important to read your policy for all exclusions, coverage limits, and deductibles.

Will my business policy cover my business' loss of revenue because of a government closure due to coronavirus?

There is a clause in most business policies called "Civil Authority," which addresses the situation when government prohibits access to your business. If your policy requires a "covered cause of loss" to be the reason why the civil authority restricted access to your business, your insurance company would need to determine if the coronavirus outbreak is a covered cause of loss. Some business policies do not have this requirement. Please read your policy carefully.

Your insurer's responsibility if you file a claim

If you file a claim with your insurance company, it must conduct a reasonable investigation. If it denies your claim, it must inform you of the specific language in the policy that denies coverage. If you need more information or have questions, contact your insurance agent or company.

If I have sick employees due to coronavirus and have to temporarily close my business, will my business policy cover me?

Business policies can vary depending on what's included in your coverage. We recommend you check with your insurance agent or company to see if your policy covers an employee availability due to epidemic or pandemic. Typically business policies cover business closures for events such as fire, a burst pipe, or a windstorm.

Small Business Administration and disaster assistance

The U.S. Small Business Administration (www.sba.gov) is offering low-interest federal disaster loans for working capital to small businesses suffering substantial economic injury due to coronavirus.

Small businesses that qualify are encouraged to apply online for a disaster loan (www.sba.gov). If you don't have a online access, call the Small Business Administration at 800-659-2955.

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The True Cost of Rewriting Business Income (Interruption) Policies

Business Insurance

April 28, 2020

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The True Cost of Rewriting Business Income (Interruption) Policies

COVID-19 has brought the U.S. economy to a standstill.

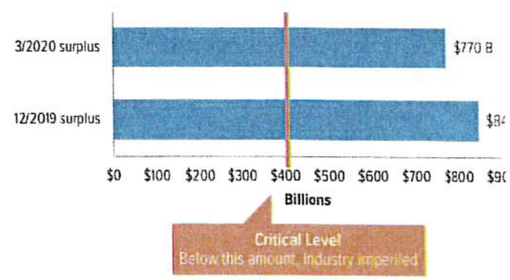
Are U.S. insurers so well-capitalized they can pay claims on insura policies for which they collected no premiums due to virus and bacteria exclusions?

The short answer is no.

Industry's 2020 Surplus

U.S. auto, home, and business insurers saw its policyholders' surplus—the cumulative value of their assets, minus its liabilities—drop to $770 billion from $847 billion in 2020's first quarter.

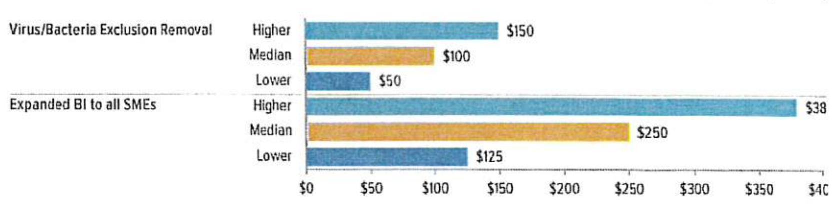
The surplus is set aside to pay claims resulting from covered events that cause direct physical damage to property, such as fires, tornadoes and hurricanes. When industry surplus drops below $400 billion, dozens, perhaps hundreds, of insurers will be imperiled.



Projected Surplus Depletion

Mandating business income payouts to businesses that incurred no direct physical property damage—or to businesses nationwide, no matter what insurance policies they have—would cost the insurance industr hundreds of billions of dollars a month.

Retroactive business income (BI) scenario for small- and medium-sized enterprises (SMEs)



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