

Business Insurance

The spread of Coronavirus is unprecedented in modern times and we understand this is an incredibly difficult time for families and businesses. No insurance market provides widespread insurance coverage for pandemics and the UK is no exception. For such cover to be available at affordable prices for businesses would require a very significant subsidy from the government, given the scale of business disruption we have seen with the COVID-19 pandemic.

Instead, standard commercial insurance policies – the type the vast majority of businesses purchase – provide cover against a wide range of day to day risks including damage caused by fire, flood, theft and accidents involving employees. Insurers action claims of £22m each day to firms through these policies, supporting millions of businesses across the UK each year.

Only a very small number of businesses choose to buy any form of cover that includes business interruption due to a notifiable or infectious disease. Usually these extensions list very specific diseases that are covered, not any notifiable disease that may emerge such as COVID-19. An even smaller number will have cover where the notifiable or infectious disease is unspecified enabling them to potentially claim for the impact of the Coronavirus pandemic. However, such policies often respond only when the disease is present at the premises as they cover the interruption to trade caused where business premises have been infected by an illness such as Legionnaires' disease or norovirus and where the building needs to be closed and cleaned to deal with the specific incident.

How does business insurance work?

- Commercial insurance is generally an advised sale where businesses make informed choices about the type of cover they need. An adviser or broker will work with the business and advise on the appropriate insurance to suit their needs. A very small number of businesses may have cover in place that specifically provides cover for contingency business interruption arising from notifiable diseases, such as Coronavirus, where their premises have been contaminated, but this is unusual and is not what these policies are typically designed to cover.
- Insurance policies are tailored to the needs of the individual business. It is not a one size fits all approach, as the insurance needs of no two businesses are the same.
- Standard commercial insurance policies provide cover against a wide range of risks, including damage caused by fire, flood, losses by theft, accidents involving employees and the need for temporary trading premises in certain circumstances (following damage that makes it impossible to continue trading at the existing premises e.g. due to a severe flood or fire).

Business Interruption

What is business interruption insurance?

- Business interruption insurance covers a business for loss of income during periods when they cannot carry out business as usual due to damage caused by a specific set of perils that will be specified in the policy. It aims to replace certain losses sustained by the business during the period of the disruption. These perils are typically damage to the premises caused by incidents such as a fire, flooding or other physical damage.
- The insurance may compensate the business for any increased running costs and/or shortfall in profits as the result of the event, up to a certain limit that is set out in the policy.

How do businesses purchase business interruption cover?

- Business interruption insurance is usually offered as an optional extra to business insurance packages, which combine a number of different policies under one premium. It can also be offered as an optional extra to buildings and contents insurance policies in some cases. Most businesses purchase a package of insurance from a broker who will work with them to ensure that they have the appropriate cover for their needs.

What do business interruption policies generally cover?

- Most policies will provide cover if the premises or equipment are damaged by a named peril, such as a fire, flood or storm, and also often for the breakdown of essential equipment.
- Some policies may also cover business interruption as a result of people not being able to access the business due to a specific circumstances (such as the police cordoning off an area due to an event such as terrorism, a fire, or the risk of a collapsing building etc). In many cases this is known as 'restricted access' cover or 'non-damage business interruption' cover and is usually an add on to a standard policy that can cost more.

Does standard business interruption insurance provide cover for businesses who are not able to operate due to the effects of Covid-19?

- Standard business insurance policies are designed and priced to cover standard risks and are therefore very unlikely to provide cover for the effects of global pandemics like Covid-19. This includes forced closure by the authorities. Businesses may have chosen to purchase cover that will specifically provide for business interruption arising from notifiable or infectious diseases. For certain notifiable disease extensions, cover may apply if other policy conditions are met. However, this type of extension is not commonly included as standard. Furthermore, the likely costs to businesses of cover that would include more unusual risks – such as those posed by new diseases – would be prohibitive.

Does a 'notifiable disease' extension to business interruption cover my business for Covid-19?

- Most notifiable disease extensions cover specific diseases that will be named in the cover. These are diseases that are well known and understood. If the policy does not allow for all human infectious diseases, then cover is unlikely to apply.
- Some notifiable disease extensions are more general and do not specify certain diseases. In these cases, business interruption cover for Covid-19 may apply if Covid-19 is present at the premises and all policy conditions are met.
- If you are unsure about what your policy covers your business for, check with the broker you purchased the policy from or your insurer if you purchased it directly.

Are there any other extensions to business interruption that may provide cover?

- Some coverage may exist if the business has purchased a 'non-damage, denial of access' extension to a business interruption policy. Again, purchase of these extensions tends to be rare and this is not generally covered under standard business interruption policies.
- Generally, 'denial of access' cover applies to cordoned off areas and loss of trade resulting from a denial of access to the premises (e.g. as a result of a police cordon). If a business is forced to close or is told to close by an appropriate authority or is cordoned off, this could trigger a claim under a 'non-damage, denial of access' business interruption extension if the infectious disease cover is unspecified or if it includes Covid-19.

Other Business Issues:

How are insurers supporting unoccupied premises where businesses are temporarily closed?

- If a business has to temporarily close because of Covid-19, where customers are taking the appropriate steps to mitigate the risk of damage to the property whilst unoccupied, insurers will be flexible around the period of un-occupancy specified on the policy document.
- Policies will often include conditions that are intended to ensure good practice in protecting buildings of damage caused by the risk of fire, theft and escape of water, which are often increased when a building is empty. It is important that business owners continue to follow risk management advice and ensure they understand what steps they need to take.
- Some insurers have also waived requirements for their business customers to immediately notify them of their unoccupied status, (depending on the individual business circumstances). This should help those customers concentrate on managing their businesses and allow insurers' call centres to focus on managing the significant number of insurance claims being processed.
- If there are any specific requirements as part of your insurance contract that you are unable or unlikely to be able to comply with, such as on-site security, speak to your insurer or insurance advisor/broker.

If my business isn't able to operate because of COVID-19, should I just cancel my insurance policy?

- Business insurance helps to protect business owners and independent professionals against everyday risks, such as accidents in the workplace and associated public liability, stock or premises damage, legal costs and cyber-attacks. There are also some types of insurance that a business is legally obliged to have, such as employer's liability and commercial motor insurance.
- Even in a time when a business is unable to operate as usual due to the impacts of COVID-19, it's important that businesses remain covered for standard risks, many of which may be more likely when the property is unoccupied, such as vandalism of the property, theft of stock or equipment, or even loss of information or damage to IT systems and networks.
- Every day insurers pay out £22 million to help firms cope with these unwelcome events. It would be a terrible outcome for a business without adequate insurance cover to experience significant damage whilst temporarily closed, which would delay their ability to get back up and running once permitted to do so.