

FACT SHEET: COVID-19 & BUSINESS INTERRUPTION

APRIL 8, 2020

Overview

This is a challenging and uncertain time in the U.S. and across the globe. Property casualty insurers are here to work with those adversely affected by the pandemic, while continuing to make good on the promises made in existing insurance policies. We're all in uncharted territory right now with COVID-19, but we are all in it together.

Pandemic outbreaks are uninsured because they are uninsurable.

- APCIA now estimates that closure losses just for the small businesses with 100 or fewer employees—regardless of any business interruption coverage—have increased to \$255 billion to \$431 billion per month.
- These numbers dwarf the annual premiums for all commercial property risks in the key insurance lines of \$71 billion per year, or about \$6 billion a month.
- Continuity losses for small businesses are approximately 43 to 72 times the monthly commercial property insurance premiums, which includes coverage for losses as a result of such perils as fire, wind, hail, and water leaks.
- The total surplus for all of the U.S. home, auto, and business insurers combined to pay all future losses is roughly only \$800 billion, with the combined capital of the top business insurance underwriters representing only a fraction of that amount. Surplus represents dollars held by companies, required by law, to pay future losses for existing contracts.

**Sources used: APCIA using publicly available data sources including Bureau of Labor Statistics (employment, wages), Insurance Services Office (Verisk Analytics, Inc.), Houston Chronicle (average revenue and profit), and other published reports.*

Business Interruption Insurance

- Standard commercial property policies (including business interruption) typically provide coverage for physical damage to the insured property caused by covered perils such as fire, snow, windstorm, or a ruptured natural gas line.
- Business interruption insurance is usually an optional coverage voluntarily purchased by businesses, both small and large. Today, only about 30% of small businesses purchase business interruption insurance, according to ISO.
- Business interruption insurance covers financial losses (e.g., lost income, operating expenses) when a business cannot function because of physical damage to a commercial property (e.g., a fire in a restaurant kitchen).
- The vast majority of business interruption coverage excludes damage incurred as a result of viruses and bacteria or other such diseases, like COVID-19. Additional coverage for pandemic losses is sold in the marketplace, but is very rarely purchased.

- There is no physical damage predicate in the context of the COVID-19 pandemic.
- Commercial and business interruption policies are not underwritten to include the risk of viruses, reinsurance is not purchased to cover viruses, and premiums are not calculated or collected to include viruses.
- In addition, Standard Business Owners Policies, or “BOPs” – as well as commercial auto and commercial umbrella policies – specifically exclude losses caused by communicable disease, including viruses and bacterial infections.

Ramifications of Retroactively Rewriting Contracts

- We strongly oppose any proposals that retroactively rewrite insurance contracts and threaten the stability of the sector, to the detriment of all policyholders.
- Retroactively rewriting contracts for products that were never sold could have dramatic repercussions for all families, individuals, motorists, and businesses.
- Industry stability is especially important in a time of increased natural catastrophes. Spring flooding season is underway and hurricane season is around the corner. The people who rely on insurers to keep their everyday promises made in existing insurance policies should not be put at risk.
- Changing property insurance perils retroactively is unprecedented and did not happen after any of the most recent catastrophic events such as: Hurricane Andrew; 9/11; Hurricane Katrina; Deepwater Horizon; H1N1; the Boston Marathon attack; California Wildfires; or Superstorm Sandy.
- And consider, with the exception of the H1N1 virus, those disasters – costly and devastating as they were – were regionally localized. The present COVID-19 crisis is not local. It is not national. It is global. The cost impact of retroactively changing insurance policies cannot be overstated. It is not even possible to estimate it as the crisis continues to unfold.
- Legislatively rewriting existing insurance contracts by nullifying the virus and communicable disease exclusions or the physical damage requirement ignores the constitutional prohibition against the government impairing private contracts, undermining the certainty of future contracts, and harming the consumers who rely on them. Courts—both federal and state—would undoubtedly find such action unconstitutional.
- Only the federal government can be the bridge for a crisis of this proportion.

Solutions for COVID impacted businesses and workers

- Insurers understand the urgency of helping businesses and individuals recover from this unprecedented crisis and mitigate a larger shut down of the economy.

- Insurers are voluntarily implementing new discounts and refunds for policyholders; expanding flexible payment solutions for families, individuals, and businesses; suspending premium billing for small businesses such as restaurants and bars; and pausing cancellation of coverage for motorists due to non-payment and policy expiration.
- APCIA supported the recently enacted federal assistance programs that will deliver aid directly to vulnerable business communities, particularly affected small businesses. APCIA also joined a broad coalition of our customers to advance the COVID-19 Business and Employee Continuity and Recovery Fund as an additional tool to keep businesses solvent and employees working. We will be advocating alongside them for inclusion of the fund in the next phase of economic stimulus to speed payments to businesses in need.

State regulation of insurance

- Property casualty insurance is stringently regulated at the state level for solvency, price adequacy, and consumer protection.
- The National Association of Insurance Commissioners (NAIC) affirmed in a statement on March 25, 2020 that, “While the U.S. insurance sector remains strong, if insurance companies are required to cover such claims, such an action would create substantial solvency risks for the sector, significantly undermine the ability of insurers to pay other types of claims, and potentially exacerbate the negative financial and economic impacts the country is currently experiencing.”
- Furthermore, the NAIC stated that, “...swift action by Congress to directly address the needs of citizens and our economy is the most effective and expedient means to addressing the devastating impact of COVID-19.”

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