

SPECIAL ANNOUNCEMENT

Business Interruption Claims & The COVID-19 Crisis

Many businesses around the world are experiencing revenue reductions and other financial implications associated with the coronavirus pandemic. If your business has business interruption insurance, you may be able to recover losses resulting from this public health crisis.

Business interruption policies are complex because they are designed to reimburse policy holders for something that never happened: an estimated profit that the business would have earned had its operations not been disrupted. Here are the answers to the key questions your business should be asking.

Does Your Company Have Business Interruption Coverage?

First of all, business owners should check to see if they have any business interruption coverage. Designed to protect a business against the loss of income related to disasters and other emergencies, business interruption coverage is usually included as part of a commercial property insurance policy.

Does My Business Interruption Insurance Cover This Pandemic?

Secondly, policy wording and specific circumstances will determine if, and to what extent, losses resulting from the coronavirus are covered under the insurance policy.

For example, business interruption coverage usually applies when direct physical loss of or damage to insured property occurs during natural disasters, such as hurricanes, floods or earthquakes. Similarly, contingent business interruption coverage may apply to losses associated with other events, such as disruptions to the business' customers or suppliers. In addition, a policy's civil authority coverage can be triggered when a government limits access to a specific geographic area which prevents access to the policyholder's premises.

When assessing claims related to the coronavirus, insurers may conclude that the health crisis does not meet the "direct physical loss" requirement contained within many standard policies. However, specialized insurance policies written for businesses in the hospitality, travel, or healthcare industries, may provide specific coverage relative to communicable diseases. Businesses should, therefore, seek advice to determine if their policy covers them for damages caused by the coronavirus.

How Will Recoverable Financial Loss Be Calculated?

If it has been determined that coverage does exist within the policy, businesses must next understand the methods used to calculate the recoverable financial loss. Most policies include standard terms which are common throughout the industry. Moreover, all business interruption policies stipulate the application of methodologies aimed at returning policyholders to the position they would have been in “but for” the triggering event.

What Is Net-Plus And What Does It Mean?

“Net-plus” is a commonly used term when calculating losses for business interruption claims. It refers to the net profit before income taxes that would have been earned in the absence of the triggering event, plus continuing normal operating expenses of the business which were incurred during the loss period.

The claimant would need to support “net-plus” calculations with evidence from historical operations, pre-event projections and forecasts, and other financial analyses. It should be noted that specific circumstances may complicate the “net-plus” calculations. For example, businesses may be faced with a reduction in business, versus a complete suspension. Or, perhaps the business will have a period of restoration while the company is recovering from the event but is not yet functioning at full capacity.

Next Steps

In summary, losses related to the coronavirus may be recoverable in some circumstances, but it is a complex process which requires planning and specialized expertise. With the full impact of the pandemic still unknown, businesses must keep the lines of communication open with brokers, legal counsel, and accountants, and plan ahead to ensure they are accumulating the information needed to submit a well-presented claim. For more information, contact us at (818)-854-6100.