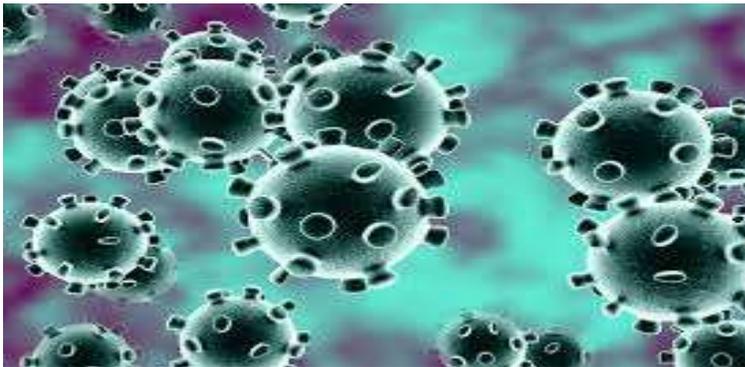


COVID 19: Can Firms claim under their Business Interruption Policy?

Cash flow is the lifeblood of every business enterprise. Without a stable flow of cash inwards from goods sold or services rendered, there will be inadequate funds to meet the continuing cost of maintaining the business and having to pay wages / salaries of employees even when their services cannot be used. This is a clear case of what the Covid 19 has brought to businesses. Schools, and other institutions, enterprises and activities have been closed down.

These enterprises, especially private schools directors, would still have to meet other expenses like paying of wages / salaries, rent and other administrative cost. There are travel bans in most countries and this means airlines - businesses are going to lose huge income or profit. The horrible impact of the covid 19 on other nations especially China means this would affect a lot of business trades and would bring supply chain disruptions.

The loss of income or profit emanating from closure of enterprises, supply chain disruptions, slowness in importation and exportation and general trading would have been mitigated if enterprises had business interruption insurance or loss of profit insurance. The danger is we do not know when this is going to end and the impact, whether some business would survive after everything goes to sleep.



What does a Business Interruption Policy Seek to do?

- The Business Interruption policy meets the shortfall in cash needed, but which has not been earned to pay the bills to maintain the business (rent, rates, interest payable, insurance, etc.);
- To meet the cost of notice and redundancy payments for employees who have to be dismissed or laid off;

- To meet the cost of employees who remain, but who are not fully productive;
- To fund the increase in the cost of maintaining the production after the fire or the extra cost of continuing production elsewhere (subject to an economic limit);
- To restore the net profit.

The Business Interruption cover lost income often resulting from the following;

- Damage to the policyholder's own property
- Damage to the property of a customer or supplier's supplier
- Government action such as evacuation orders
- Damage to properties that attract customers to the policyholders' s business

The fundamental questions with respect to property insurance coverage for every coronavirus – related loss are whether the mere presence of the virus can cause or constitute property damage and whether such damage played a role in the loss of income.

Covid 19

Coronavirus has not resulted in any physical damage of business property. The virus is transmitted either through the air or touching infected surfaces. This means, the virus can be present in the buildings, airplanes, trains, vehicles and on surfaces of outdoors. Courts have found that, the presence of harmful substances at or on a property can constitute 'property damage' that triggers first party property damage coverage.

In Gregory Packing, Inc. vs. Travelers Property Cas. Co. of America, a federal court in New Jersey found in 2014 that covered property damage had occurred when ammonia was accidentally released into a facility rendering the building unsafe until it could be aired out and cleaned. The court stated that "property can sustain physical damage without experiencing structural alteration." A strong argument can be made from this case law that property damage has occurred in places where the virus is present.

Business Enterprises need to establish damage to their properties, damage at their supplier's premises or damage at their customer's premises because of Covid 19 but not actually establishing structural damage in these places.

Most Ghanaian businesses would suffer loss because of damage at their supplier's end since most businesses deal in importation. Other businesses that deal in exportation would also suffer because their customers would not be ready to receive their goods. There are local businesses like private schools that are already feeling the heat of their students staying in the house and they having to meet their administrative expenses. Closures of public gathering places and all nonessential business activities in Ghana may trigger coverage for "order of civil or military authority" that is loss due to the prohibition of access to a business's premises if caused by property damage within a specified distance of the insured property.

Ordered closures could also trigger cover of lost earnings resulting from the closure of a property that attracts customers to the policyholder's business. For examples, hotels near stadiums while sports activities are on hold.

How a Business Interruption Policy Operates

Insurers exam the accounts of the policyholder for the year before a business suffered a property damage loss. In Business Interruption Insurance, the cash received from the sale of goods or from services rendered in the course of the business at the premises is termed "Turnover".

Losses not covered under the BI policy

It would be necessary at this juncture to point out some of the losses consequent upon fire damage which are not covered by a Business Interruption policy.

- Deterioration of undamaged stock after damage has occurred.
- Failure to recover debts of pre-fire damage trading owing to destruction of records.
- Fires, damages and/or penalties under contracts arising from breach of contract in consequence of the damage. Cover is available either by a special policy or as additional items in respect of above.
- Third party claims other than fines etc.(there are exceptions)
- Loss of goodwill. Provided a suitable indemnity is chosen, there should be no loss of goodwill, since the indemnity period under the policy is to place the Insured, so

far as possible, in the same financial position as he would have been in had the fire not occurred.

But in all these above, if the policy clearly exclude the damage as a result of disease, then the insurance company would have the grounds to repudiate and reject all liabilities as a result of coronavirus.

Matt Connell, Director of Policy and Engagement for the Chartered Insurance Institute of United Kingdom (CII), has stressed that it is unsustainable to expect insurance and reinsurance companies to be the “mechanism for a Covid-19 bail out.” However, he added that the overall economic impact of the coronavirus (COVID-19) outbreak will be huge, and can only be mitigated by government intervention. For perspective, he noted that the London Market paid out £19.7 billion in claims in 2018, whereas the UK financial package for COVID-19 currently stands at £300 billion.

“It is not in anyone’s interests to try to reinterpret insurance contracts in the light of recent events in order to make insurers the mechanism for a Covid-19 bail out,” Connell argued. “It would simply place responsibility on insurers that no private sector organisation could sustain.” As a result, the CII believes insurers should be allowed to set the levels of risk and cover that are consistent with their risk appetite.

The Institute’s research also shows that the insurance sector does generally meet customers’ expectations on claims, suggesting that COVID-19 claims must be handled sensitively to maintain this reputation.

“The issues for insurers that we are seeing from Covid 19 highlight the importance of professional advice for consumers,” Connell continued. “Although insurance has increasingly been thought of as a commoditised product, there is still a strong need for professionals who are able to talk to individuals and businesses about their circumstances and needs, and help them to plan a holistic approach to managing their risks, that includes insurance as a component of this wider solution.” He added: “This is the only way of

encouraging an understanding of what insurance can and can't do, in a way that benefits consumers and helps them plan for the future.”

Coronavirus is an eye opener to emerging risks that can disrupt the operations of businesses and business enterprises should now understand the need for Risk Experts or professionals in their businesses to help them identify, evaluate and manage risks that could affect the survival of their businesses.

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