



Commercial Insurance and Business Interruption Coverage in COVID-19

Commercial Property Insurance - What is It?

Similar to how individual consumers purchase insurance coverage for their homes and personal vehicles, businesses can purchase commercial property insurance to protect against losses like fires and storms.

While there are significant benefits to businesses that purchase commercial insurance, many do not take advantage of it. There are more than 30 million small businesses in the United States, but only about 10.2 million commercial property policies¹ in effect.

Business Interruption Insurance and How it Works

Business interruption coverage is included in certain commercial property insurance policies. These policies often cover financial losses like lost profits, incidental expenses, and sometimes payroll due to actual physical damage to a commercial property. Standard business interruption covered losses may include things like loss due to natural weather occurrences, fires, and vandalism. As few as one-third of small businesses purchase business interruption insurance².

Business Interruption Insurance and COVID-19

Most commercial insurance policies, including those with business interruption coverage, specifically exclude coverage for communicable diseases or viruses such as COVID-19 and have never covered viral exposures.

Generally, business interruption losses must result from a risk (like a fire) that is covered in the purchased business insurance policy that causes actual damage to the building or its contents. This type of damage does not exist in the context of the COVID-19 pandemic. After the SARS outbreak in the early 2000s, it became clear that pandemics cannot be insured because they are uninsurable. The risks are too high to accurately price and the scale of potential losses are beyond what the insurance mechanism can cover.

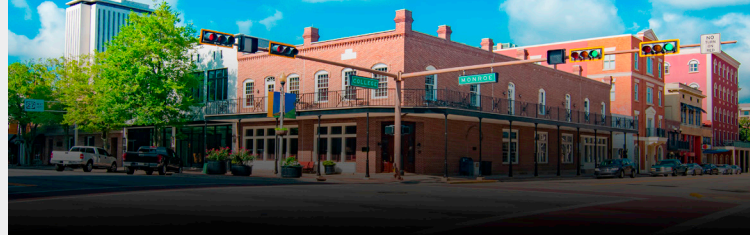
Insurers are reviewing every claim related to the COVID-19 pandemic as quickly as possible to pay for covered losses they promised to pay under existing policies.

The Solution

Mandating retroactive business interruption coverage is not the solution to helping small business recover. It would undermine the ability of insurers to meet promises and pay claims on all existing insurance policies, which could cause more harm to our economy and have dramatic repercussions for families, individuals, and businesses.

Only the federal government can help deliver solutions for the business community during a crisis of this magnitude. Insurers support the COVID-19 Business and Employee Recovery Fund, a new payment mechanism which would provide recovery grants, not loans, to stabilize the balance sheets of eligible businesses and not add additional debt obligations to businesses that are already struggling. The COVID-19 Business and Employee Recovery Fund would be an available resource in addition to earlier stimulus packages.

Key Questions



What are insurance companies doing for consumers?

- Insurers have provided more than \$10.5 billion³ in new discounts and refunds to policyholders; expanded flexible payment solutions for families, individuals, and businesses; suspended premium billing for small businesses; paused cancellations of coverage for motorists due to non-payment and policy expiration; and expanded coverage for personal vehicles used for delivery of food, medicine, or other essential services.

How much would it cost if retroactive business interruption coverages were imposed?

- APCIA estimates that closure losses for small businesses with fewer than 100 employees, across the U.S., are between \$52 billion and \$223 billion per month. U.S. home, auto, and business insurers have about \$800 billion surplus to pay all future losses.
- In Washington, DC closure losses just for small businesses with fewer than 100 employees could cost between \$180 million and \$775 million per month, far exceeding the annual premiums for all commercial property risks. For small businesses with fewer than 50 employees those numbers could range from \$90 million to \$447 million per month.

Why is the range of potential monthly claim costs so broad?

- APCIA's estimates are just that — estimates. This data is based on APCIA's analysis of COVID-19 business impact figures. **The range assumes that between 60 and 90 percent of businesses will be impacted by COVID-19.**

How much do insurers get paid for commercial property insurance coverage? Are insurers equipped to handle the volume of potential claims?

- In 2019, insurers collected \$16 million in monthly premium for policies purchased by Washington, DC businesses that include business interruption coverage.
- DC policy holders did not pay premiums to cover business interruption claims not covered in issued policies. Moreover, insurers never agreed to cover claims that were not covered in issued policies, and do not have the bandwidth to process the sheer volume and complexity of claims that would likely be filed if retroactive business interruption coverages were imposed.

How would the Council-proposed insurer fund be paid for?

- The proposed fund is inadequate as it could be built by an assessment on **all** insurance policies in the District, and even then, would fail to cover the magnitude of retroactive business interruption claims.
- This means that homeowners, renters, car owners, businesses that purchased workers compensation insurance to protect their employees, and businesses that purchased insurance to protect themselves from being sued could subsidize the mandated business interruption claims.

Is mandating retroactive business interruption coverage constitutional?

- No. Rewriting existing insurance contracts ignores the constitutional prohibition against the government impairing private contracts. Courts have historically held that such actions are unconstitutional.

Has the effort to mandate retroactive business interruption coverage been successful in other states?

- No. A handful of states have introduced similar legislation, and in every instance to date, those efforts have fallen flat because lawmakers understand the serious problems with such an idea.

1 2018 Year-End ISO data - Verisk/ISO collects and aggregates insurance industry data.

2 *ibid.*

3 Insurance Information Institute.

The American Property Casualty Insurance Association (APCIA) is the primary national trade association for home, auto, and business insurers. APCIA promotes and protects the viability of private competition for the benefit of consumers and insurers, with a legacy dating back 150 years. APCIA members represent all sizes, structures, and regions—protecting families, communities, and businesses in the U.S. and across the globe.