



**Business Interruption Insurance
COVID-19 and Coverage Questions
April 2020**

Q: What is business interruption insurance?

A: Business interruption insurance coverage is an endorsement to a business' commercial property and liability policy. Generally, a business interruption endorsement protects an insured business for losses of business income as a result of direct loss, damage, or destruction to insured property by a covered peril such as fire, windstorm, and hail. An example of business interruption insurance may be in the case of loss, involving property damage, due to a fire and the business is not operational.

Most of the standard commercial policies were not designed to provide coverage against communicable diseases, such as COVID-19, and many contain endorsements created in 2006 to exclude coverages for virus and bacteria. During the COVID-19 pandemic, there's been a great deal of misinformation and misunderstanding about business interruption coverage and how it interacts with business closures during a pandemic. It is critical that businesses, regulators, lawmakers, the media, and others, understand what is and is not covered.

Q: What's covered?

A: Business interruption insurance covers the actual loss sustained by the insured as a result of direct physical loss or damage to the insured's property by a peril not otherwise excluded from the policy. COVID-19 does not cause physical loss to property. If you believe your business has been exposed to COVID-19 or want to clean your facility, the CDC has issued [guidelines on cleaning and disinfecting your building or facility](#). For more information go to [CDC link](#).

Business owners are urged to review their policy forms and coverage with their agent and determine what coverage is best for their business.

Q: What losses are paid by the policy?

A: Business interruption insurance can compensate businesses for lost profits, rent and lease payments, mortgage payments, other loan payments and taxes. Usually, an insurer is liable for the reduction in net income that results from suspension of operations—whether wholly or partially—due to a physical loss at the insured's premises. Insurers are liable for the loss of business income only during the period of restoration.

The business income endorsement published by the Insurance Service Office (ISO)—as well as some insurer forms—includes a 30-day extended period of restoration beyond the standard period of restoration (the period from the time of loss until the time of repair or replacement).

Q: Are losses due to pandemics covered?

A: No, given the virus and bacteria exclusion present in most business interruption policies, pandemics are not covered. Business interruption coverage requires property damage resulting in income loss. This coverage is typically not available for pandemics and other similar large-scale risks such as war, pandemics and terrorists' acts. Concerns over large scale pandemics such as SARS and other viruses, risks which are too large to insure given the potential enormous costs, led to virus and bacterial exclusions in most policies.

Q: If losses due to pandemics are not covered, how does business interruption insurance protect business owners?

A: The coverage protects against those losses which result in property damages to their business and resulting loss of business income due to the interruption of their business. Property damage and losses are much more likely due to fire, tornado, hurricanes, and other events.

Alternatively, if a business does not have coverage for pandemics, small businesses may be able to apply for loans or grants through the Small Business Administration for economic losses. If a small business is covered for business interruption, the SBA may or may not grant loans until insurance proceeds have been exhausted. [Click here for the link to the SBA-COVID19 site.](#)

Q: Since the government has ordered businesses to shut down, are businesses covered by policies with "civil authority coverage"?

A: Any current references to civil authority coverage does not include a pandemic. Instead, this coverage is designed for an actual loss sustained by the insured during the length of time when access to the business is prohibited by order of civil authority as a direct result of damage to the covered property. Closure by civil authorities without a physical damage or loss to property is not covered.

Early on, as COVID-19 spread, ISO published optional endorsements for business interruption coverage if actions by civil authorities, to avoid infection or prevent the spread of a virus, causes the business interruption. These are new and may not yet be in use by insurers.

Once this endorsement language is approved for use, businesses can ask their agent about obtaining an endorsement to their commercial property policy to extend to civil authority coverage for pandemics. This coverage may provide business interruption coverage if the government orders businesses to shut down. However, this would be for new or renewal policies in the future and not applied retroactively.



Q: Are there any other coverages businesses should consider when buying business interruption coverage?

A: Business owners can consider purchasing contingent business interruption (CBI) coverage. This covers insureds' business income loss resulting from loss, damage, or destruction of property owned by others, including direct "suppliers" of goods or services to the insured and/or direct "receivers" of goods or services manufactured or provided by the insured. The property damage to these suppliers or receivers must be of a type that would be covered by the insured's policy had the damage happened to the insured's property.

There may be claims brought against businesses by individuals who contract COVID-19 and allege the business is responsible for enabling the spread of the virus. Generally, businesses are protected by a standard commercial general liability policy against losses if they are found liable for enabling the spread of a disease.

We encourage business owners to talk with their agent about coverage needs.

For additional information and latest on COVID-19 insurance related issues, ICT has a website with Resources, Top News Stories, and Legislative and Regulatory information on the pandemic. Visit [ICTCOVID19.ORG](https://www.ictcovid19.org)