

Insurance and COVID-19 - tips offered by Insurance Bureau of Canada

Commercial insurance is complex and specialized, which makes it important that you speak to your insurance representative if you have any questions or need clarification about your coverage.

Will my standard business or business interruption policy cover me for interruptions due to COVID-19?

- Generally, commercial insurance policies and traditional business interruption policies do not offer coverage for business interruption or supply chain disruption due to a pandemic such as COVID-19.
- Some organizations may have purchased specialized contingent business interruption coverage, stand-alone business interruption coverage and supply chain disruption coverage which may be triggered as a result of the World Health Organization's declaration of a pandemic.
- Commercial insurance is complex, and specific to your business which makes it important that you speak to your insurance representative if you have any questions or need clarification about your coverage.

How does business insurance work?

Property insurance for businesses is designed to protect the physical assets of a business against loss and/or damage from a broad range of causes. There are two basic policy types:

1. Named perils – covers only loss and/or damage caused by perils specifically listed in the policy, subject to exclusions. Loss and/or damage caused by any other peril is not covered.
2. Comprehensive – covers loss and/or damage caused by any peril, unless specifically excluded.

What is business interruption (BI) coverage?

BI coverage is an add-on to an existing business insurance policy. In the event of a business temporarily needing to shut down, BI covers continuing expenses or replaces lost profits. There are three types of BI policies:

1. Gross earnings policy, which pays only until property or damage is replaced or repaired, or stock is replaced
2. Profits form policy, which continues to pay until a business resumes its normal, pre-interruption level (subject to policy limits)
3. Extra expense policy, which is designed for businesses that can remain operational during periods affected by loss and/or damage.

How does BI insurance work?

BI policies are not standardized and include many variants, but most contain language indicating that the insurer will pay for the actual loss of "business income" due to the "necessary suspension" of operations during "the period of restoration." A number of concepts and nuances come into play, including:

- Physical damage requirement: Most policies require proof the insured premises sustained physical damage (i.e. fire, heat, flooding or firefighting efforts) that was covered under their property policy, which caused an interruption that resulted in a loss of business income. A business that's interrupted owing to loss of data or loss of utilities may not have sustained a physical loss. (There is separate utility loss coverage.)
- Period of restoration: If BI coverage is triggered, a significant issue is defining the period of indemnity or, as some policies refer to it, the period of restoration. Most policies will pay business income loss through to the point that the business is restored or when the coverage expires (usually 12 months from the beginning of the interruption).