

Business Interruption Insurance Covid-19 Bulletin 2

17th April 2020

We are facing one of the most challenging periods in history, with businesses forced to close and customers and employees ordered to stay at home.

There is much discussion regarding business interruption insurance and why in most cases, it does not extend to cover financial losses suffered as a result of forced business closure. Its imperative businesses receive additional financial support from the Government as a consequence of having purchased Business Interruption insurance, as explained further in this article.

Standard business insurance policies (the type the vast majority of businesses purchase) provides cover or the option of cover against a wide range of day to day risks including Business Interruption, resulting from damage to premises caused by fire, flood, theft etc. but it is not designed, nor is the insurance industry capitalised, to cover major systemic risks such as global pandemics, war or nuclear risks.

All insurance policy wordings are different; however, the common theme is they were not designed nor intended to provide cover for costs resulting from an interruption or loss of income following widespread, forced business closure.

In general terms insurance exists to cover losses from an unlikely or fortuitous risk. Insurance companies assess risks based upon their estimated maximum exposure and they are able to price these risks accordingly. Insurers couldn't possibly include global pandemic cover in all their commercial insurance policies as by the very nature of the global exposure,

they would be unable to survive if they were called upon to pay claims for every business they insure.

This is not because the insurance industry is deliberately avoiding the issue. It is because the circumstances of a relatively unknown virus spreading so unexpectedly and rapidly across the world has never before been a foreseeable risk with such wide-reaching economic consequences that would create a demand for insurance protection of the ordinary business.

In different circumstances, Business Interruption insurance would not just address the payment of salaries and wages. Although perceived to be a 'lifeline', the Government's Job Retention Scheme alone will not save a business in crisis. It is essential to address all the overheads and associated increased costs of working.

Without revenue to service debts and overheads, many dealers risk collapse. Furthermore, the banks have created barriers and time delays, preventing 'survival' loans from being agreed and distributed in time to plug the cash flow gap.

The Government has introduced several financial support packages but it is clear they do not go far enough – the Government must step up to keep businesses afloat and people employed

No one predicted we would all be faced with mass, compulsory closures, leaving businesses without policy coverage but that doesn't mean a financial resolution cannot be achieved.

What is the answer?

This is an unprecedented situation and we assure you Hamilton Leigh will apply every conceivable effort to support our clients in submitting Business Interruption claims.



As highlighted above, it's likely insurers will repudiate most claims, which is why we have engaged with specialist firms to support us in challenging insurers on our clients' behalf. Should you wish to make a claim, please contact your Hamilton Leigh Client Service Executive, who will discuss your policy coverage with you and guide you through the process,

Hamilton Leigh (Commercial Insurance Brokers), together with Flaxmans, (recognised No.1 insurance claim mediation and dispute resolution advocates in the UK) have collaborated to create a joint initiative to lobby Government to secure bespoke financial support for businesses that purchased Business Interruption insurance and suffering as a consequence of forced closure.

On 17th March 2020, the Chancellor, Rishi Sunak said "Let me confirm that, for those businesses which do have a policy that covers pandemics, the government's action is sufficient and will allow businesses to make an insurance claim against their policy".

The problem is less than 5% of businesses in the UK purchase pandemic cover (and barring very few exceptions, they are generally the large, multi-national conglomerates), so what about the majority of businesses? Well, the Chancellor then went on to say "but many of those businesses don't have insurance – so we will go further."

There has been no further reference to this statement but representatives from Hamilton Leigh and Flaxmans, in conjunction with recognised trade bodies, are lobbying Government to secure financial support for businesses that purchased Business Interruption insurance and are suffering as a consequence of their businesses being forced to shut down.

There's a long way to go but initial responses from Government is encouraging. We are confident that with the right lobbying support, we will secure a commercial and pragmatic business interruption recovery solution to support businesses in the UK.

For many businesses their future depends on the overall period of lockdown. Many perfectly good businesses may not be able to hang on to benefit from the government's support packages. Those that will survive will be severely damaged financially. According to The Sunday Times (12th April 2020), only 4,200 businesses have secured the government's emergency bail-out loans out of 300,000 applications. Many may run out of cash before their application is even considered. Around £800 million has been handed out; a figure which pales in comparison with the £146 billion provided to 725,000 businesses in the US. As Lord Mervyn King said "something has gone wrong. The economy will only recover if we can keep businesses running and able to pick up the reins when the crisis is over".

There is a cost to the Government for doing something but the cost of not doing anything is much higher!

Hamilton Leigh has engaged with a varying range of our clients to identify exactly where the current Government financial support packages fall short. Our brief is to carry out a feasibility study using the data received from participating these businesses and deliver a paper to Government, clearly quantifying the financial shortfall for businesses, should a Business Interruption insurance support package not be made available.

Our study will also highlight the costs to Government (social and financial) to demonstrate the huge cost should it not keep to the Chancellor's promise and "go further".

We already have commitments from several businesses but to achieve maximum traction we need critical mass. Should you wish to take part in this study or require further information, please contact our Managing Director, Lee Cohen – Hamilton Leigh Ltd

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