Insurance Buyers' News

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Impact of COVID-19 on Property and Liability Insurance

While estimates vary, the insurance industry is currently expected to pay as much as $110 billion in claims related to the pandemic in 2020, according to Lloyd's.

"The coronavirus outbreak has reduced risk in some areas while, at the same time, changing and heightening it in others," according to Chief Claims Officer Thomas Sepp of Allianz Global Corporate & Specialty (AGCS) in a company news release.

"We have seen claims in some lines of business, such as entertainment insurance, surge during Covid-19, while traditional property and liability claims have been subdued during lockdown periods," said AGCS Global Head of Claims Philipp Cremer. "There is still the potential for claims to oc-

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This Just In …

According to the *2020 Marsh Political Risk Map*, of the nine stressors affecting risk in the United States, only the risk of terrorism declined between January and July of this year:

- **Strikes, Riots & Civil Commotion: 4.4 › 5.1.**
- **Terrorism: 5.0 › 4.8.**
- **War & Civil War: 2.1 › 2.7.**
- **Country Economic Risk: 2.4 › 4.0.**
- **Currency Inconvertibility & Transfer Risk: 1.5 › 1.6.**
- **Sovereign Credit Risk: 1.0 › 1.1.**
- **Expropriation: 2.0 › 2.0 =.**
- **Contractual Agreement Repudiation: 4.3 › 4.4.**
- **Legal & Regulatory Risk: 2.4 › 2.5.**

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cur as factories and businesses restart after periods of hibernation." It will also take time for third-party liability claims to develop.

"The growing reliance on technology, shift to remote working, reduction in air travel, expansion of green energy and infrastructure and a rethinking of global supply chains will all shape future loss trends for companies and their insurers," said AGCS's Shepp.

AGCS has released a report identifying the impact of the pandemic on claims trends in different lines of insurance. The following are some highlights:

Property/Business Interruption

Property damage claims have not been significantly impacted by Covid-19. However, as production lines restart, there is greater risk of machinery breakdown and damage and even fire and explosion. Covid-19 has prompted many business interruption (BI) claims, which have become controversial and may or may not be covered. In addition, on one hand, factories in hibernation will not produce large BI claims. On the other hand, lockdowns can lead to longer and more costly disruptions as restrictions prevent effective loss mitigation.

Liability

There are have been few liability claims to date, in part because such claims tend to lag in when they are reported. However, according to Sepp, "A number of outbreaks of coronavirus have been linked to gyms, casinos, care homes, cruise ships or food/meat processing plants."

Directors & Officers

Insolvencies, as well as event-driven litigation, could be potential sources of D&O claims. To date, there has been only a small number of securities class action lawsuits related to Covid-19 in the U.S. The pandemic could trigger further litigation if it is perceived that boards failed to prepare adequately for a pandemic.

Cyber Risks

Cyber risk exposures have heightened, with reports of the number of ransomware and business email compromise attacks increasing. Work from home has exacerbated these developments.

Claims

According to AGCS, claims notifications from motor accidents, slips and falls or workplace injuries slowed as more people stayed at home, and with the temporary closure of many shops, airports and businesses during lockdowns across the world. AGCS said it noticed a positive impact on U.S. claims settlement from the suspension of courts and trials. Some claimants and plaintiffs have been more open to negotiating settlements out of court rather than opting to wait a long time until their case is scheduled. In general, claims activity is likely to pick up again following resumption of economic activity, the insurer predicts.

Covid-19 has also reinforced the need for digitalization of claims handling. Remote claims inspections and assessments for tornados, floods or major industry accidents are now possible through satellite, drone or image capture technology and tools such as MirrorMe.

"Just a few years ago, claims processes were mostly manual and paper-based and many people could not have imagined handling claims remotely," says Cremer.

This Just In

In addition to the U.S., the report analyzes political risk in 196 other countries.

The report attributes much of the world-wide increase in political risk to the effects of the COVID-19 pandemic. According to the report, the pandemic has introduced "new dynamics and accelerat[ed] existing geopolitical megatrends, such as trade protectionism and the transition to a multipolar world order."

With respect to the U.S., the report says, "The deepening Sino-American rivalry has accelerated since the onset of COVID-19. The politicization of trade and investment relationships has extended to public health, with leaders in both countries routinely blaming the other for the pandemic."

"Cooperation between China and the US on the pandemic has been weak, and tensions have risen over Hong Kong SAR, Taiwan, and the South China Sea. Our expectation that tech firms will be increasingly caught in the crossfire is playing out, while countries find themselves under geopolitical pressure to choose sides."

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Long-Term Trends

According to the report, Covid-19 is accelerating trends such as a growing reliance on technology and rising awareness of the vulnerabilities of complex global supply chains. Going forward, many businesses are expected to review and change their supply chains to build in more resilience. This could involve some reshoring of critical production areas because of disruption caused by the pandemic. Such a move would likely impact frequency of claims and the costs of any future business interruptions.

Meanwhile, the growth of remote working means that companies may have lower property assets and fewer employees on site in the future, but there would be corresponding changes in workers` compensation and cyber risks.

Who Doesn't Need Professional Liability Insurance These Days?

Doctors, lawyers and accountants aren't the only people who need professional liability insurance.

All kinds of people need professional liability coverage, including financial analysts, corporate trainers, numerous types of consultants and law enforcement professionals. Even FBI agents.

According an article in Law Enforcement Today, "FBI agents tasked by fired former Director James Comey to take down Trump during and after the 2016 election were so concerned about their potentially illegal behavior that they purchased … liability insurance less than two weeks before Trump was inaugurated as president."

Forty percent of individuals and businesses believe they may have professional liability risks but have not purchased insurance for it, according to a recent survey of small business owners by The Hanover Insurance Company.

Over the past twenty years there have been many changes in the ways businesses interact with customers and they may be surprised to discover they now have a gap in their lability coverage. Many businesses don't realize that their general lability does not cover professional liability (PL) exposures.

In addition to lawyers, doctors and accountants, many businesses now need PL insurance. You don't have to consider yourself a "professional" to need coverage for negligent acts. If you give advice and recommendations, if you create programs or products for your customers or if you provide a service, you need liability protection.

And it's not just you who could be the cause of the

alleged negligent act. Your business can be sued for any alleged wrong or error committed by any employee representing your brand, including temporary staff and independent contractors.

For example, suppose a professional photographer hires a temporary assistant for a job. If the photographer's assistant is alleged to have been negligent or have committed an act of libel or slander against a client, professional liability insurance could protect the photographer's business from unexpected legal expenses.

There are risks involved in hiring temporary staff and independent contractors, but the operational and financial benefits often outweigh them.

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Defense Costs

One of the most important reasons to carry professional liability (also referred to often as errors and omissions) insurance coverage is for defense costs.

In the medical field, where you find the most extreme examples of costly lawsuits, 65 percent of claims are withdrawn before trial and 90 percent of claims that go to trial are denied, according to the Physicians Insurance Association of America. Nonetheless, it costs an average of $120,000 to defend frivolous cases.

Tailored Coverage

Whether you buy a PL or E&O policy, it usually will be tailored to the specific needs of your business classification. For instance, a policy for real estate brokers typically includes coverage for failure to advise clients on the existence of fungus, asbestos or bacteria. Policies for accountants might provide coverage for acting as a trustee or administrator of an estate. Some policies also cover inadvertent transmission of computer viruses and corruption of customers' data.

Examples of other professionals who need protection include:

- Architects and engineers
- Bookkeepers
- Certified financial analysts
- Dog groomers
- Home inspectors
- Landscape architects
- Optical and hearing aid professionals
- Printers
- Social workers
- Software companies
- Veterinarians

Many insurance companies offer group policies to members of trade associations. In other cases, insurance companies form buying pools that professionals can "join." Miscellaneous professional liability coverage is also available for a variety of businesses such as translators, meeting planners, publishers, and collection agencies. If you need coverage, we can advise you on the best approach.

Sole proprietors may choose to protect their personal assets by forming a limited liability company, but their corporate assets are still at risk unless they buy E&O coverage.

Claims-Made Policy

It is important to understand that most PL and E&O policies are written as "claims-made," which means the policy only covers claims filed during the policy period. A few companies offer occurrence-based policies, which cover any qualifying claim arising from an incident that occurred during the policy period — no matter when filed. If you switch from a claims-made to an occurrence policy, you must make sure you don't create a gap in coverage.

In specific situations, a claims-made policy may allow an extended period for reporting claims: when an insured dies, retires or becomes permanently disabled. This is an important feature because new claims can be filed years after the policy period. To qualify as a retiree, the insured usually has to be at least 55 years old, and he/she has had to maintain coverage with the same insurance company for several years — something to plan for if retirement is in your near future.

If you have any concerns about the liability coverages for your business, please give us a call.

Why Almost Every Business Needs Additional Insured Coverage

You have business liability insurance, but it may not provide coverage if you are considered "vicariously liable."

Do you work with outside contractors or partner with other businesses on ventures? What if they cause injury or property damage to others while doing work for you or representing your interests?

Additional insured coverage can protect your organization from liability due to contractors' and subcontractors' operations.

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Liability insurance covers you from losses due to claims that your company, its employees or products or services caused harm or wrong to a third party. Sometimes, however, your organization can be considered "vicariously liable" when another business, such as a subcontractor, causes harm when doing work on your behalf. In these cases, you would want the contractor or other business's policy to apply rather than yours. In these situations you want to get your organization covered as an "additional insured" under the policy of the other business.

There are two ways to obtain coverage under another entity's policy. In the first, "contractual indemnity," your contract with the other party requires it to "indemnify," or cover you for any liability costs resulting from your joint operations. Alternatively, you can also require the other party to name your firm as an additional insured under its insurance policy.

Obtaining additional insured status often provides greater protection than contractual indemnity. Some states and courts look unfavorably on contractual indemnity, because subcontractors who want business sometimes have little bargaining power. Additional insured coverage, on the other hand, causes no such problems.

For your contractor to provide you with "additional insured" coverage, it must obtain an additional insured endorsement, which modifies its general liability policy. Unlike the policy owner (or "named insured"), the additional insured has no responsibility for keeping any records needed for determining premiums, paying premiums or reporting claims.

When you require additional insured coverage under another organization's policy, you'll probably ask for a certificate of insurance to provide proof of coverage. Be aware that the certificate provides proof that the coverage existed on the date the certificate was issued. The named insured can cancel coverage without providing notice to you. You can request the insurer to provide you thirty days' notice of cancellation or nonrenewal of the endorsement. However, the certificate is not part of the policy and not binding on the insurer. In the case of large or high-risk projects, you can request the contractor to modify its policy with an endorsement that obliges the insurer to provide this notice.

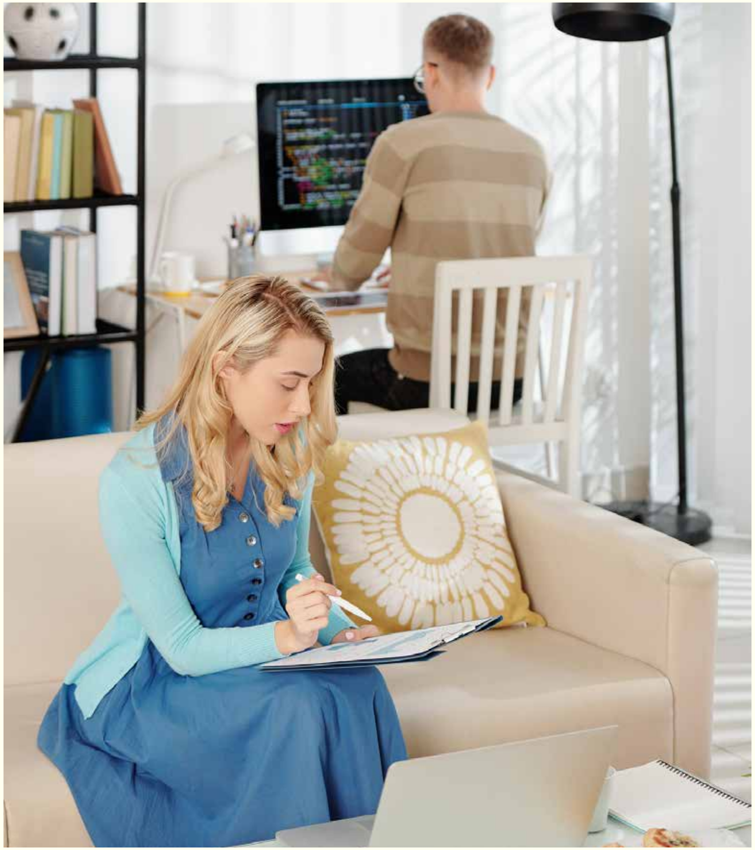
Considerations for Subcontractors

If the shoe is on the other foot and you are a subcontractor, obtaining additional insured endorsements for contractors and providing the required certificates can be an administrative hassle. To solve this problem, you can buy a blanket additional insured endorsement. This provides additional insured coverage to any party with which you enter a contractual agreement (typically a construction contract or equipment rental contract).

Blanket additional insured endorsements are not as desirable for the additional insured. Blanket endorsements do not name specific additional insureds, so the insurer cannot provide notice of cancellation or nonrenewal. They usually provide narrower coverage as well — for example, many of these endorsements state that coverage ends when operations are completed. This could be construed to eliminate coverage for claims that occur during operations but aren't filed until later.

For more information on covering additional insureds, please contact us.

How the Pandemic Could Change the Future of Work



Mobile apps will be more common. The pandemic has forced many companies to focus more on remote operations, making the use of mobile apps more important. Mobile apps can be used to help employees make timely reports of on the-job injuries and facilitate communications with management and medical providers.

There will be fewer meetings. Isolation has forced us to rely on more expedient communication methods like email and IM.

There will be less business travel. Zoom and other video conferencing technologies have replaced the need for travel to a large extent, appealing to a desire for safety and reducing corporate travel budgets.

Many office buildings will become conference centers. With everyone working from home, the only reason to go to work any more would be to actually meet with people in person.

More employees will be equipped with wearable technology. Wearables such as heart-rate monitors, step-tracking devices and other receptors will have a major impact on monitoring employee health and analyzing productivity.

Working 9-5 hours will be less common. As employers allow work from home, they are also recognizing that employees have other responsibilities that require flexibility.

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