



# Property Insurance during the COVID-19 Outbreak



Property 101 for COVID-19 Outbreak

# Coronavirus pandemic

## *How does it affect your property insurance?*

Following the pandemic outbreak of COVID-19 worldwide and the Movement Control Order (MCO) in Malaysia, restrictions on gatherings of people, sanctions on overseas travel, restrictions on foreign visitors and closure of schools and businesses have all, suddenly, become part of our reality.

As a result, many businesses, small or large are suffering prolonged financial loss and other consequences of business interruption.

In this guide, we explain how your existing insurance coverage may be triggered under these unusual circumstances by exploring various scenarios.

## **Will my business interruption policy insure loss of revenue or even fixed costs following the MCO?**

Generally, business interruption cover is triggered when there is a disruption to operations following insured physical loss or damage. There are also extensions of cover available, such as: prevention of access, public utilities disruption and infectious or contagious disease endorsement.

The infectious or contagious disease endorsement under traditional policies (including the regulated fire consequential loss insurance and industrial all risks insurance by PIAM) would only respond if such disease occurs within your business premises and results in closure by authorities. A general lockdown of premises by authorities, as per the current MCO practice, would not be covered.

Policyholders therefore need to look at the scope of their infectious or contagious disease cover in their policy wording as there is no standard approach.





**Scenario:** *There is an adjacent factory where employees are found to have contracted COVID-19 and the whole area is shut down by the health authority. Your business is indirectly affected due to prevention of access to your premises.*

### **Can I claim under my Fire Consequential Loss Insurance or Section 2 - Business Interruption of my Industrial All Risk Insurance?**

Again, prevention of access is an extension to the Business Interruption policy. Based on traditional coverage, or PIAM standard wording, the cover is defined as follows:

*A consequential loss policy may be extended to provide cover for **loss resulting from damage elsewhere that at the Insured's premises** which shall prevent or hinder the use of, or access to, the Insured's premises notwithstanding that the Insured's premises or property therein be not damaged.*

The wording requires 'damage' at adjacent/surrounding areas that hinder the access to the Insured's premises. The terminology 'damage' in insurance context denotes that the particular interest insured must sustain evident physical damage (e.g. collapse) caused by the perils that are insured.

Therefore, this extension requires the perils insured under the property damage to be triggered too.

## **The immediate shutdown due to the MCO could cause damage to my machinery (e.g. due to solidification).**

There is no standard version of a machinery breakdown policy in the market. There is, however, a specific civil authorities extension which includes loss or damage to shutdown or closure of premise imposed by the authorities due to pandemic outbreak or other specified reasons.

## **My properties are directly or indirectly contaminated by virtue of close proximity to other contaminated premises.**

Traditional policies, including fire insurance by PIAM, will only be triggered if the loss or damage is caused by the specified insured perils. Mere contamination (or even pollution) is not in the available coverage. For most other policies, you may find specific exclusions to loss or damage caused by pollution or contamination (unless caused by specified insured perils).

## **There is a cold storage extension under the fire policy by PIAM. Will it cover loss or damage caused by change of temperature resulting from the total or partial destruction, or disablement of my refrigeration plant, as a result of the MCO directive?**

This extension is applicable only in respect of change of temperature resulting from the total or partial destruction or disablement of the refrigeration plant by fire or any insured peril.

## **What can I do to prevent non-fulfilment to my contract/orders since my premise is not able to operate due to the MCO?**

Depending on the supply contract between your company and your customer, you may consider to plead frustration of contract under the force majeure provision since the non-performance of the contract was due to an incident that is beyond the control of the contracting parties.

With regards to your fixed-cost expenditure, consideration may be drawn to force majeure insurance (also widely known as trade disruption insurance) which is a bespoke cover that allows specified perils to be insured subject to underwriters' appetite.





**The COVID-19 outbreak has caused a disruption to my supply chain (from my supplier to my transporters) and is affecting my production.**

Similar to the above, trade disruption insurance may cater for risk exposure in respect of disruption to your supply chain. This policy is quite common in the West and has recently gain traction in Asia following the Tianjin port explosion.

The policy is not confined to disruption caused by disease outbreak or pandemic. It may include natural disaster (e.g. tsunami, hurricane, earthquake) or other exposures such as pollution, riot, strike or country risk to cover financial losses arising from disruption to your supply chain.

*Most businesses have been caught unprepared by the MCO and businesses will suffer more in the event of it being extended.*

**What can we do to prevent such grievous financial losses in future disaster/outbreak like this?**

We have **dedicated consultants in Howden & Malene Insurance Brokers that focus on Business Continuity Management.**

We specialise in reviewing & developing BCM Programmes, including a formal Pandemic Plan.

For any further enquiries in relation to Property insurance due to COVID-19, contact your account handler or email [info@my.howdengroup.com](mailto:info@my.howdengroup.com) with the subject: "COVID-19 Outbreak & Business Continuity"



