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HEARD ON THE STREET

Why Most Shutdown Insurance Claims Are Likely to Fail

Covid-19 crisis could cost the insurance industry $107 billion, but shuttered small businesses aren't the ones in line for payouts

By Rochelle Toplensky
June 9, 2020 4:51 am ET

Can small businesses count on insurance checks to replenish their coffers after Covid lockdowns? In most cases, probably not.

Business-interruption insurance is typically part of a property policy and requires premises to sustain physical damage before a claim can be made. Since shutdowns have rarely damaged stores or factories, it has proven hard to make insurers pay up. A range of efforts are under way to force their hand, but they all face significant challenges.

Some companies have filed cases against the denial of claims, but that is an expensive undertaking. It is unlikely to appeal to most small businesses facing uncertain demand after weeks of closure.

A number of class-action lawsuits have been launched that could help share the financial burden. The problem here is that companies vary greatly in their exposure to the shutdowns, making it difficult to certify the group as a class for legal purposes. Similar efforts to certify a class for hurricane victims failed because the property insured and the damage suffered were too different.

Then there is the political route: Lobbying has been fierce on both sides. Some state legislators have created new rules to force insurers to pay out against their business-interruption policies even if Covid didn't cause any physical damage. But insurers will challenge those in court, and lawyers think it is likely they will win on constitutional grounds.

Lloyd's of London—a 330-year-old marketplace that acts as a kind of insurer for insurers—nonetheless estimates that the pandemic will cost the industry $107 billion in claims globally, excluding life insurance. That is more than it paid for the 2017 hurricane season, but less than the $116 billion bill for hurricanes Katrina, Rita and Wilma in 2005.

A store on Portobello Market in London during the U.K.'s shutdown.
PHOTO: TOLGA AKMEN/AGENCE FRANCE-PRESSE/GETTY IMAGES

Lloyd's expects almost one-third of the total to be paid out for canceled events such as conferences and concerts, and 11% to cover credit losses. Property claims will make up 29% of the payouts, though much of that is expected to be paid to a few big companies with bespoke policies that specifically included pandemic cover.

Pandemic insurance existed before 2020, but the policies were expensive and few clients bought in. That is lucky for the insurance industry, which would probably struggle financially if it were obliged to meet the vast cost of Covid shutdowns more broadly.

Politicians in a number of countries are considering government-backed programs to cover pandemics, similar to those in place for terrorism or floods. These may be helpful in a potential second or third wave, but for now most businesses can expect nothing from their insurers except tighter policy wording and higher premiums when they come to renew.

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