

Business interruption insurance falls short in a pandemic

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When Salvatore Ferro saw his Commack-based home remodeling business plummet by more than half due to the coronavirus pandemic, he contacted his insurance broker to find out how to make a claim on his business interruption insurance.

He was shocked to learn the policy – which is intended to compensate businesses for lost revenues and reimburse expenses under certain circumstances, such as when a store is damaged in a fire and must relocate – wouldn't pay for his losses.

"I'm buying insurance thinking that these types of things, if and when they happen, get covered, and now you're telling me I'm not covered," said Ferro, president and chief executive of Alure Home Improvements and a former president of the Long Island Builders Institute, a trade group.

Like many Long Island business owners, Ferro did not realize that such policies typically exclude losses due to viruses or bacteria. The exclusion was added after the 2003 Severe Acute Respiratory Syndrome, or SARS, outbreak.

The Long Island Builders Institute and a California-based group that advocates for consumers, United Policyholders, are among the groups urging insurance companies and lawmakers to come up with solutions that would allow businesses to collect on such policies despite the exclusion.

LIBI and the construction trade group Association for a Better Long Island have written to state legislators and Gov. Andrew M. Cuomo "asking them to look at this issue, to see whether or not it is appropriate for the state to step in and, in some fashion, find a remedy here," said Mitchell Pally, chief executive of the Long Island Builders Institute. He said legislation barring those exclusions was introduced before the current pandemic, but it has not passed the state Senate or Assembly. "We're hopeful that the issue will now get more prominence as we move forward."

Ferro said he is still hoping to find a way to get coverage for his losses. Without the interruption insurance he was counting on, Ferro said, he is struggling to pay his employees. Already, he said, his workforce has fallen from more than 90 to about 70, and he expects more layoffs to follow.

“As a big contractor, yes, I do take care of my people and do the best I can, but there’s only so long you can do it before you can’t handle it anymore,” he said. “And the economic question is, where will we be when this is done and over? Who’s going to be left standing and how many jobs will be lost, how many millions of jobs will be lost?”

Most small businesses do not carry coverage for business interruptions, even if they purchase insurance for liability, fire and other potential losses. A 2015 survey by the insurance company Nationwide found that 66% of businesses with 300 or fewer employees did not have business interruption insurance. In general, insurers either include the coverage as part of their standard business coverage, or they do not include it as a standard offering, and it is rare for companies to pay for stand-alone business interruption coverage, brokers said.

Pally estimated that only about one in four of the construction companies in his group carry such policies – generally the larger, better-financed ones. “The smaller companies tend not to have it because they don’t have the resources to pay the premiums necessary or they find they need their money for other purposes,” he said. For those who do, he said, many “are finding out that while they may have assumed it may be appropriate to file a claim ... the likelihood of getting paid is slim, depending on the policy.” Most insurance companies’ off-the-shelf business interruption policies exclude losses due to viruses and bacteria, said Loretta Worters, a spokeswoman for the Insurance Information Institute, a trade group. Insurers “realized the risk was just too great,” Worters said. “It would wipe out the insurance industry, we could never pay the claims for other areas, because if we did, we wouldn’t have the money. And if someone were trying to force the industry to pay these claims that have been excluded, you would be seeing a lot of insurance companies go out of business.”

Business interruption policies cover losses due to damage to physical property, and they pay out based on an average of several years’ revenues during the same period, typically after a deductible and a two- or three-day waiting period, Worters said.

Worters said the outbreak is a “scary situation” for small businesses, many of which “run on a shoestring. ... So that’s a real concern.”

Karen Marvin, owner of South Shore Paddleboards in the Village of Babylon, pays \$1,720 a year for business interruption insurance and made a claim two years ago, when her shop was damaged in a fire. Like Ferro, she was stunned to learn the policy would not cover the coronavirus pandemic.

“My rent is due next week,” she said. “Insurance isn’t helping me at all.”

Several customers, eager to take paddleboards out on the water to get some exercise and serenity, have purchased cold-water gear such as booties and special wet suits from her, and others have purchased gift cards to help her survive, she said. “I don’t even have words, I can’t even explain how generous it

was," she said.

But without more substantial assistance, many companies could collapse, throwing more employees out of work, business owners said.

"I know the tourist industry and the airlines are getting murdered," Ferro said. "But they've gotten bailouts [in the past], and they will. But who's going to bail out restaurants? Who's going to bail out the contractors? ... Who's going to bail out all these people that have, you know, 40, 60, 80 employees, 110 employees? Who's going to bail them out when they can't make these payrolls and we have millions upon millions of people unemployed?"