

THINKING AHEAD...

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COVID-19 BUSINESS INCOME/EXTRA EXPENSE INSURANCE IMPLICATIONS FOR OUR NPC CLIENTS

HERE IS WHAT YOU NEED TO KNOW

Many colleges and universities are considering or have made the decision to move to virtual platforms for classes, which will result in most students vacating chapter houses and returning to their homes as a result of COVID-19. These unexpected developments potentially impact revenue streams of house corporations who may be forced to refund rent paid by member-tenants for a period of time or are unable to collect future rent from member-tenants for a period of time. The Commercial Property coverage placed by our office includes Business Income/Extra Expense coverage which reimburses house corporations for loss of rents plus continuing expenses resulting from a covered cause of loss. This communication is intended to explain what triggers coverage under the Business Income/Extra Expense provisions of Commercial Property Policies.

Business Income/Extra Expense coverage is triggered in the following three scenarios:

1. If the insured premises (chapter house) sustains direct physical damage caused by a covered cause of loss which results in part or all of the building becoming uninhabitable, coverage under the Business Income/Extra Expense provision of the policy potentially comes into play. Therefore, should the insured incur a loss of Business Income (Loss of Rents) and other necessary Extra expenses, Business Income/Extra Expense coverage would apply from the date of loss through a reasonable period of restoration and continue to apply until which time the building is restored to its pre-loss condition and can once again be occupied.
2. When a covered cause of loss damages property other than the insured premises (chapter house), the insurance carrier is obligated to pay for the actual loss of Business Income (Loss of Rents) sustained by an insured as well as the necessary Extra Expenses caused by an action of civil authority which prohibits access to the insured premises. When this occurs, coverage for Business Income/Extra Expenses will begin 72 hours after the time of the first action of civil authority that prohibits access to the insured premises and will apply up to four (04) consecutive weeks from the date on which such coverage began. As an example, a tornado causes extensive damage to the area immediately adjacent to the chapter house. Civil authorities restrict access to the chapter house as a result of the damage that occurred in the nearby area. Coverage for loss of Business Income and necessary Expenses would apply.
3. Commercial Property Policies also include **Contingent Business Income** coverage. This policy provision provides coverage for the actual loss of Business Income (Loss of Rents) an insured sustains and the necessary Extra Expenses that result from the interruption of its business operations that is caused by direct physical damage or destruction of property by a covered cause of loss that results in the closure or



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suspension of operations of any collegiate institution for which the insured relies on from a revenue standpoint. As an example, a tornado causes damage to the campus of a collegiate institution. The damages result in the collegiate institution closing down operations for a period of time and students vacating the campus. Although the chapter house does not sustain any damage, coverage applies for the Loss of Business Income and necessary Extra Expenses a House Corporation incurs because it is forced to refund rent paid by member-tenants for a period of time or are unable to collect future rent from member-tenants for a period of time.

Commercial Property Policies will not afford coverage for Loss of Business Income/Extra Expenses incurred resulting from the potential contraction of the Coronavirus, the actual contraction of the Coronavirus or due to the fact that the collegiate institution closes down or alters its daily operations. In addition, Commercial Property Policies will not provide Contingent Business Income coverage resulting from the potential contraction of the Coronavirus, the actual contraction of the Coronavirus or due to the fact that the collegiate institution closes down or alters its daily operations as the campus did not sustain damage or destruction resulting from a covered cause of loss. Commercial Property Policies also include additional exclusionary language pertaining to communicable diseases, which we also believe will be invoked as well.

While we do not believe coverage will apply as described above, we recommend that clients notify us of any claim related situation as we believe it makes sense to report the claim so that the insurance carrier will have the opportunity to formally evaluate the situation and issue a formal coverage decision. The recommendation to report the claim may change as the initial claims are submitted and formally disclaimed as we expect will occur.

As the number of confirmed cases of Covid-19 increase around the country, so do the efforts to prevent the spread of this virus. Many collegiate institutions are taking proactive steps which are impacting fraternal operations at their host institutions. The financial impact on shutting down your chapter house can be significant. These actions have prompted many questions. Below is an FAQ to assist you with questions related to your Commercial Property Policy.

Q: If we have to suspend our student housing operations, does my policy provide coverage for Business Interruption?

A: Our review of the policy and experience with similar historical events is that there is likely no coverage under the policy.

All occurrences triggering coverage are dependent upon the presence of direct physical damage resulting from a covered cause of loss. A virus or other communicable diseases generally do not constitute damage. Unless the covered property is damaged, coverage will not be triggered under the policy.

Commercial Property Policies often carry exclusions related to pathogenic or poisonous biological or chemical materials. Whether or arguments supporting that a virus contamination constitutes damage, the exclusion in the policy will preclude coverage for business interruption.

Q: Doesn't my policy include coverage for governmental action restricting access to facility?

A: Yes; however, coverage for governmental action must be the result of a covered cause of loss. The pathogenic or poisonous biological or chemical materials exclusion will apply to any such event which will preclude coverage.

Updated information on coronavirus/COVID-19 can be found at:

www.coronavirus.gov

https://www.acha.org/ACHA/Resources/Topics/2019_Novel_Coronavirus_2019-nCoV.aspx

Information on campus closures can be found here:

https://docs.google.com/spreadsheets/d/19wJZekxpewDQmApULkvZRBpBwcnd5gZIZF2SEU2WQD8/htmlview?sl_e=true#gid=0

Please also review state/county/city websites for updates specific to your area.

QUESTIONS?

For information about your insurance coverage, please contact your Service Team representative at clientservicerequest@holmesmurphy.com.

Holmes Murphy offers this educational information to provoke thought and discussion and it should not be viewed as a mandate or requirement. We view part of our role as an insurance and risk management professional to anticipate your needs and educate you in an effort to complement the organization's loss prevention and control efforts, not replace the decision-making autonomy of our client organizations. We hope you find this educational piece to be of value and stand ready to discuss it further with you or any of your constituents.

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