

In The News

Coronavirus-Rattled Insurance Industry Faces Onslaught Of Riot Damage Claims

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Bisnow

Still reeling from a barrage of business interruption insurance claims tied to the coronavirus pandemic, the U.S. insurance industry is gearing up for a second wave of property claims as protests in some parts of the nation wreak havoc on retail outlets, restaurants and office buildings.

Businesses are already trying to get what may add up to trillions of dollars worth of claims paid out from months of business interruption from the pandemic.

Losses from the pandemic-related closure of just U.S. businesses with fewer than 500 employees are estimated to be in the range of \$393B to \$668B per month, the American Property Casualty Insurance Association reported in late April. That would be 85 to 150 times the monthly commercial property insurance premiums collected by insurers.

Insurance experts see the damage from the civil unrest also leading to a series of coverage claims that will require extensive payouts from the insurance industry.

HUB International Chief Sales Officer and Executive Vice President James Stuart remembers the Rodney King riots in Los Angeles in 1992 and said large volumes of claims hit the insurance industry all at once after rioters swept through LA starting fires, looting and damaging storefronts over six days of violent protests.

About \$775M in damages were estimated to be caused by those riots, according to the Insurance Information Institute. The damages now could be exponentially larger as those incidents were concentrated in Southern California, and the latest round of protests have hit numerous U.S. cities.

Combined, the pandemic and the protests are looming large over the insurance industry and business and property owners alike.

“Undoubtedly, it places a squeeze financially,” Munsch Hardt attorney Michael Huddleston said.

Insurance premiums may go up, said Alan Lyons, chair of Herrick Feinstein LLP’s Insurance and Reinsurance Group.

“It may well be that insurers may consider the risk of damage caused by rioting and civil commotion ... may be a more common event going forward,” he said. “They may increase the premium on renewal policies on all policies because of the perceived increased risk of this type of event happening in the future.”

Insurance costs for businesses were already increasing before the coronavirus and protests started putting an unexpected burden on insurers.

“Before the riots and COVID-19, we were already seeing rates rising from 10% to 15%,” Stuart said. “Real estate habitation properties were double that. I don’t see too many claims being paid for COVID-19 that will affect premiums, we’ll have to see what happens with riot claims.”

Huddleston and Stuart agreed the insurance industry will likely get some reprieve with many pandemic-related business interruption claims being denied since interruption from viruses is generally specifically excluded in standard business interruption insurance contracts. Thousands of lawsuits are expected to be filed in an attempt to force insurers to pay out for the pandemic, but thus far the burden on the system has been low.

There is another factor at play: Prior to the coronavirus outbreak, data from Verisk ISO MarketStance projected U.S. commercial insurance line premiums would grow to beyond \$310B. However, the company adjusted its forecast, projecting a 6% drop in commercial coverage due to exposures from the coronavirus wiping out some businesses altogether.

Verisk estimates 4.1% of businesses buying insurance, or 1.1 million commercial line accounts, will simply go out of business, eliminating the need for coverage.

While bleak in many respects, this leaves more room and financial coverage for property damages stemming from the riots.

"Given that little or nothing is being paid for pandemic business interruption claims, the pressure of the new claims is workable, though widespread," Huddleston said. "There will be a strain on availability of adjusters and the speed of the claims process."

Insurance companies will look at each individual client separately and determine their rate changes based on their location as well as their claim history, Lyons said. The local nature of the claims will require the insurance industry to put boots on the ground right after the threat of local violence wanes.

"Generally, the insurance companies will put together task forces and move people into areas or states that have been affected," Stuart said. "There are going to be a lot of claims, and a lot of investigations and on-site visits by the insurance community."

While business interruption insurance for many tenants and landlords may not have applied during the coronavirus shutdown, experts said physical property damage tied to riot-related activity is much more likely to obtain coverage under standard insurance policies.

"As with the pandemic, it will depend on the policy, but the coverage is likely to be there," Huddleston said.

"I would say the standard policies ... intended to cover riots unless it was specifically excluded," said Stuart, who underscored that every insurance company has its own language and each policy has to be understood individually. "But in most of the policies, riots and the fires following [them], the damage to your building will be covered."

Huddleston said in a riot situation, business income loss and business interruption coverage come into play, along with civil authority clauses, which kick in as cities force businesses to close and lose traffic at curfew.

Businesses typically have insurance for direct damage from incidents like fire and theft, and typically also have business insurance required as part of their mortgage or their lease agreement, Lyons said. This kind of policy insures any damage to merchandise as well as the property.

"Civil authority will allow businesses subject to closure orders or curfews to claim business income loss," Huddleston said. "Typically, this would involve businesses not actually damaged themselves, but which were within a mile of damaged property. The coverage is for anywhere from 30-60 days."

Businesses impacted by rioters also have a clearer path to business interruption coverage in this type of situation.

“Most policies will provide coverage for riot, civil commotion and/or vandalism, sometimes through specified causes of loss,” Huddleston said.

But there are important exceptions and a few traps commercial landlords and property owners could still fall into, according to Huddleston. Certain carriers incorporate civil commotion and riot exclusions with some directed at looting activities specifically.

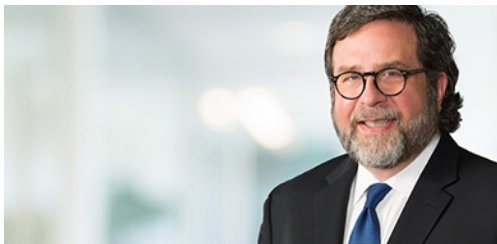
“The insurance industry, as with the pandemic, is already putting its marketing and disinformation machinery together, again including agents, to dissuade insureds from making claims,” Huddleston said.

Another area of potential risk is how the industry classifies the involvement of rumored riot groups like Antifa.

“Given the discussion in the press about Antifa and white supremacists, some carriers will no doubt try to reserve or urge terrorism, as to which many insureds have opted out of terrorism coverage,” Huddleston said. “This will be a very hard argument to prove. Naming Antifa a terrorist organization will be a concern, but proving their presence here and actual involvement will be almost impossible.”

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