

One of the chief reasons the threat of avian pandemic flu is so serious is that the virus is almost entirely new to humans. Should the virus mutate into something that can be readily transmitted from human to human – which some call a certainty and others a possibility – we would almost certainly have no natural immunity to it. The situation as respects insurance coverage for losses that could be caused by a pandemic flu outbreak is analogous. There is little protection, and the applicability of the protection that is available is limited by a variety of factors.

In this *Alert* we address several key insurance coverage issues surrounding this peril.

- Workers' Compensation
- Business Interruption
- General Liability
- Supply chain issues and Trade Disruption insurance

While we know of no pandemic flu insurance products that specifically address avian flu, the marketplace is reacting to the threat. A Canadian insurer may soon begin offering a product focusing on pandemic flu risks faced by Canadian companies. There are indications that major carriers may be gearing up to offer some kinds of coverage on a broader scale. Perhaps a more likely reaction from markets, however, will echo the response to the Severe Acute Respiratory Syndrome (SARS) epidemic of 2003: exclusions added to new and renewing policies.

The difficulty in finding a risk transfer solution to this dramatic and very real threat underscores the critical importance of other risk management tools, namely risk control by way of business continuity planning.

Global Threat, Global Consequences

A pandemic fits the risk management profile of a high-severity/low-frequency event, i.e., a natural disaster such as the Gulf Coast

hurricanes of 2005, the Indian Ocean tsunami of 2004 and the terrorist attacks of 9/11. Businesses dependent upon an intricate network of global outsourcing and complex supply chains, as well as those with a significant international customer base, may be the most vulnerable to loss.



However, pandemic flu outbreaks are expected to be global, and the threats potentially faced by every organization include:

1. Employee absenteeism, or in extreme cases, permanent loss of staff
2. Additional costs of redistributing the workforce – emergency evacuations, quarantine expenses, relocation of facilities
3. Curtailment of international travel and loss of revenue from tourism
4. Supply chain disruption – lack of supply of product or components due to decreased workforce or quarantined ports

The SARS experience again provides a useful precedent. Not until that epidemic did the loss of the workforce arise as a prime concern in the face of a disastrous event. This exposure may be the most crucial factor in considering the insurance implications of a potential flu pandemic.



Workers' Compensation

Traditionally, to be covered under Workers' Compensation, it must be determined that the loss to the employee arose out of the course of employment. For companies in the poultry handling business, the determination is fairly straightforward. For others, this may be difficult to determine in the event of a flu outbreak. Employees traveling on business into infected areas or those stationed permanently or semi-permanently in high-risk areas would be the most likely to make a convincing case. Less certain is what would happen if local urban centers or business districts become affected. Companies may find themselves in a situation where some employees can work from home, but others are needed in the office. If quarantining becomes commonplace, do employees still commuting to work fall into the category of workers traveling into infected areas? Medical and lost-time claims arising out of employees going to work in such conditions may more likely be compensable under a Workers' Compensation program.

US employers should consult their state Workers' Compensation laws. While Avian flu is not addressed *per se* by these laws, they often do address the question of benefits afforded to employees infected or injured while overseas. In the event of an outbreak within the US, it would be important to document immediately with the carrier any potential exposure/infection of an employee. Employers may also wish to consider an individual Voluntary Workers' Compensation policy specifically addressing such events as a flu outbreak.

In terms of the financial impact of a pandemic, companies should also consider that their share of the expense for medical coverage for employees will rise with the need for medical treatment.

Property/Business Interruption

If 25 percent of the world's workforce is struck down by a pandemic, by illness or death, business will certainly be interrupted on many levels. Will Property or Business Interruption (BI) coverage apply? Almost certainly not. In standard Property programs, coverage for loss resulting solely from contamination and the resultant fear of the public to enter contaminated premises does not constitute a direct physical loss. Contamination is in fact a standard exclusion, and viruses may well be specifically named as an excluded contaminant. It may be possible for organizations to negotiate special BI cover, though capacity would likely be limited. Carriers would have to offer it on a net-line basis because, given the absence of physical damage, the exposure is not generally covered by Property reinsurance treaties.

Additionally, coverage may be negotiable for losses due to business interruption which occurs as a result of an act of civil authority. Generally, coverage would only be triggered if there are losses caused by a specific order issued by local authorities to evacuate insured facilities.

General Liability

The extensive media attention avian flu continues to receive may play a part in raising the bar in terms of employers' obligations to protect employees. There are several steps companies can take to mitigate the impact of a pandemic. These include: educating employees, offering or encouraging immunizations, reducing travel, keeping employees at home, limiting face-to-face meetings, improving hygiene in areas where transmission is most likely, etc. Failure to take these steps could generate potential claims of liability in the aftermath of an outbreak, especially in an environment where awareness of the potential risks and possible remedies is high. Given the suggestions that a mutated form of the avian flu virus could be quite deadly, this may represent an organization's greatest risk.

Product liability is an additional and serious concern for those in the poultry industry. This potentially applies to any organization in the long poultry supply chain. This risk exists now. The H5N1 virus which causes avian flu does not need to mutate before it affects poultry – it is infecting flocks today, and causing some poultry producers to destroy birds preventatively when infections are detected. Perhaps coincidentally, less destructive strains of avian flu have been reported by the media in the US. Health experts assert that the virus is not spread when poultry is cooked and eaten, but food servers may nevertheless have to cope with customers' fears and apprehensions.



Supply Chain Issues and Trade Disruption Insurance

Supply chain management is essentially about dependency – and with dependency comes vulnerability. A global disruption such as a flu pandemic would likely affect the entire web of supply interdependencies: suppliers, their suppliers, and their suppliers in turn. Companies that limit supply chain exposure by broadening their range of suppliers will not be immune from the affects of a large scale disruption. Companies that have taken an opposite strategy and cut down the number of suppliers, even to a point of single source, are especially vulnerable.

The potential for uninsured consequential loss of revenues caused by delays in the trade flow disrupted by a pandemic is enormous. Loss or extra expense could be caused by several unusual events:

1. Emergency partial or total closure of any port due to order of a local or federal government
2. Quarantine
3. Confiscation or seizure of a product in transit
4. Embargo of potential contaminated product
5. Alternate sourcing of product

For the most part, these exposures go well beyond any coverage normally purchased or available, but they can potentially be addressed to a limited degree through Trade Disruption Insurance (TDI). TDI is offered, again on a limited basis, through Lloyd's underwriters. It traditionally focuses on the consequential loss potential as a result of loss of earnings, extra expenses and contractual penalties incurred as a result of delays or disruptions in trade flows growing out of the events listed above.

TDI differs from the standard BI coverage afforded by Marine Cargo or Property forms by not requiring that there be a direct physical loss to goods or their conveyances. Such policies could provide some level of protection to companies with complex global supply chain interdependencies.

The Insurance Cycle and the Pandemic Cycle

An official from the World Health Organization recently said that rapid containment measures could delay or even stop a pandemic. Most, however, agree that a pandemic would spread quickly through the global village, that travel restrictions and quarantine may slow its spread, but will not stop it from spanning the planet. Previous flu epidemics – some before the age of commercial air travel – saw just that kind of prevalence. As for the length of time a pandemic will last, we have encountered a variety of predictions, ranging from many weeks to 18 months. The longer the period, the more likely that the pandemic will be active during an insurance buyer's renewal time, and the more likely that pandemic exclusions will appear during the process.

In Summary

Experts agree that the arrival of a pandemic is inevitable. Whether it will come soon, whether it will involve avian flu, whether it will be catastrophic is unknown. The potential, however, is clear – the consequences of a pandemic, in human and financial terms, could easily dwarf those of any other natural disaster. This fact, and the limitations of risk transfer through insurance, point to the crucial importance of risk mitigation. For every risk manager, awareness of the global situation, monitoring of health advisories from world health organizations, and most importantly, maintaining a dynamic business continuity model that addresses the concerns and well-being of its employees as well its physical and financial assets – these are the best weapons against potentially catastrophic consequences.

For more information, contact:

Dan Confalone
National Director
Claims & Risk Control, North America
New York, NY
212 380 5369
dan.confalone@willis.com

Kevin Snowdon
Executive Director
Engineering and Risk Management
Singapore
65 64220526
snowdonk@willis.com

David Ney
Senior Consultant
Willis Limited
London, UK
44 (0) 1473 229012
neydp@willis.com

H5N1 (Avian Flu Virus) Data Tracker

Below we offer recent data on the impact and spread of avian flu. For up-to-the-minute statistics and further information, visit the following web sites:

- World Health Organization: http://www.who.int/csr/disease/avian_influenza/en/index.html
- The United Nations' Food and Agricultural Organization:
http://www.fao.org/ag/againfo/subjects/en/health/diseases-cards/special_avian.html
- The US Centers for Disease Control: <http://www.cdc.gov/flu/avian/>

Cumulative Number of Confirmed Human Cases of Avian Influenza A/(H5N1) Reported to WHO 4 May 2006

Country	2003		2004		2005		2006		Total	
	Cases	Deaths	Cases	Deaths	Cases	Deaths	Cases	Deaths	Cases	Deaths
Azerbaijan	0	0	0	0	0	0	8	5	8	5
Cambodia	0	0	0	0	4	4	2	2	6	6
China	0	0	0	0	8	5	10	7	18	12
Egypt	0	0	0	0	0	0	13	4	13	4
Indonesia	0	0	0	0	17	11	15	13	32	24
Iraq	0	0	0	0	0	0	2	2	2	2
Thailand	0	0	17	12	5	2	0	0	22	14
Turkey	0	0	0	0	0	0	12	4	12	4
Viet Nam	3	3	29	20	61	19	0	0	93	42
Total	3	3	46	32	95	41	62	37	206	113

Source: World Health Organization

Recent Avian Flu Activity – From March 2006 through 6 April

Date	Bird Infection	Human Infection
1 March 06	Switzerland confirms H5N1 in a wild bird (duck)	
2 March 06	Serbia-Montenegro reports H5 in a wild bird (swan)	
5 March 06	Poland confirms H5N1 in wild birds (swans)	
7 March 06	Albania confirms H5N1 in poultry (chickens) Austria reports H5N1 in 3 healthy cats	
8 March 06	Germany confirms fatal H5N1 infection in a further 2 cats	
9 March 06	Germany confirms H5N1 infection in a stone marten, marking the first documented infection of this species with an avian influenza virus.	
12 March 06	Cameroon confirms H5N1 in a domestic duck Myanmar confirms H5N1 in poultry	
14 March 06		Azerbaijan confirms its first human cases
15 March 06	Denmark confirms H5N1 in a wild bird Sweden confirms H5N1 in wild birds (ducks)	
16 March 06	Afghanistan confirms H5N1 in poultry	
17 March 06	Israel confirms H5N1 in poultry	
20 March 06		Egypt confirms its first human case
21 March 06	Pakistan confirms H5N1 in poultry	
23 March 06	<i>Research</i> – Two research groups publish findings that may help explain why the H5N1 virus does not easily infect humans or – like normal seasonal influenza – spread readily by coughing or sneezing. Whereas human influenza viruses attach themselves to molecules in cells lining the nose and throat, avian viruses prefer to bind to molecules located deep in the lungs. Such findings are consistent with the clinical picture of H5N1 infection, in which most patients present with symptoms of infection in the lower respiratory tract, with rapid progression to pneumonia.	

Recent Avian Flu Activity (cont.)

Date	Bird Infection	Human Infection
24 March 06	Jordan confirms H5N1 in poultry	Cambodia confirms its first human case since April 2005
27 March 06	Sweden detects H5N1 in poultry	
28 March 06	Czech Republic confirms H5N1 in a wild bird (swan)	
4 April 06	Burkina Faso confirms H5N1 in poultry	
5 April 06	Germany reports H5N1 in poultry	
6 April 06	UK confirms H5 in a wild bird (swan).	

Source: World Organisation for Animal Health