

# COVID-19 | Impact on the Manufacturing Industry

## *What it Means for Your Business & Employees*

*Client Update | April 2020*



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EXECUTIVE SERIES | WHAT YOU NEED TO KNOW

# COVID-19 | Impact on the Manufacturing Industry

*Jeffrey Ludwig, MidWest Property & Casualty Leader*  
*Mary-Beth Hahn, Risk Management Practice Leader*

# COVID-19 | Impact on the Manufacturing Industry

## Today's Agenda

- Issues Created by COVID-19
- USI Solutions
- CARES Act and Impact on the Manufacturing Industry
- Market Update
- Renewal Strategy

*How will COVID-19 impact the manufacturing industry and how can you best mitigate this risk?*

# Manufacturing Industry Issues Related to COVID-19

## How USI Can Help You Navigate

1. Global supply chain disruptions
2. Potential Business Interruption Claim
3. Change in Operations and Employee Work Practices
4. Health, Wellness and Safety of Employees
5. Alignment of Risk Protection in new business environment (Specifically Professional Lines coverage)
6. Immediate relief from financial pressures and help with managing expenses

# Business Interruption / Supply Chain Disruption

## Employer Response and Action

- Evaluate the **impact of** direct physical loss (employee tests positive) and government mandates resulting in plant shutdown
- Evaluate indirect business disruption/interruption, reviewing supply chain and risk management plans for you and your key suppliers
  - Border closures, suspension of imports/exports; transit delays & shutdowns affecting you and your key suppliers
  - Key supplier disruptions/ closures that impact the ability to get parts, raw material necessary to manufacture your goods and fulfill contracts
  - Customer disruptions / closure that impact delivery of your product
- Review contractual obligations/requirements for all parties (your business, customers, loan/lease agreements, suppliers)
  - Force Majeure/Other considerations outside of control
  - Downstream contractual penalties due to business interruption
  - Material substitutions
  - Amended or future contracts (new language on indemnification)
  - Communicate early and often
- Refine or develop Business Continuity Plans (include infectious disease as a cause of discontinued operations)
- Start now to document the financial impact of changes to all aspects of your operations

# Business Interruption / Supply Chain Disruption

## How USI Can Help You Navigate

- Work with you to identify any potential insurance recovery for disruption (BI, Contingent BI, Civil Authority, Ingress and Egress, and Bacteria, Virus and Contagious disease)
- Documenting BI Claims can be complicated - work with your USI team to help guide you in both what and how-to properly document a BI claim
- Review contracts in concert with your attorney to determine ability of additional time and increased material costs due to disruption
- USI can assist in development of BCP / Emergency Response Plan
- Future Pandemic events can be addressed along with other potential events, i.e. natural catastrophe or terrorism
- Utilize USI resources/best practices
  - [USI COVID-19 Resource Center](#)
  - [Preparing and Documenting a Business Interruption Claim](#)
  - [Employee Work From Home Guide](#)



# Potential Business Interruption Claim

## Employer Response and Action

- Understand policy language and what triggers policy to respond
  - Business interruption
  - Contingent BI
  - Civil Authority language
  - Ingress/Egress language
- Start now to document the changes in operations and capture the data required to quantify the impact on:
  - Sales
  - Changes in operating expenses due to COVID-19
  - Additional expenses as a result of COVID-19
  - Penalties/additional expenses required to meet contractual obligations
  - Expenses related to one-time charges

## How USI can Help

- Work with USI Technical Resources and Claims Advocates to identify potential insurance recovery.
- Utilize USI resources/best practices
  - Preparing and Documenting a Business Interruption Claim

**Make no assumptions about insurance company response – there are too many uncertainties and the details of every situation will be unique.**

# Change in Manufacturing Operations and Employee Work Practices

## Employer Response and Action

- Review any re-tooling and re-purposing of production lines
- Document product changes / specifications including any increases or decreases in exposures. This may have an impact to coverage under your WC, GL/PL and E&O.
- Engage Risk Control support to evaluate new / changed workplace safety exposures
- Define and implement updated safety and risk mitigation procedures to correspond to changes in work processes.
- Implement and document employee training for new or changed jobs
- Quantify and document changes in WC and GL job classifications and changes in payroll and / or sales
- Review contract provisions related to new suppliers and customers and revisions to existing suppliers and customer relationships
- If new product/productions related to Defense Production Act (DPA) – evaluate contract and coverage implications

## How USI can Help

- Engage Vertical specific Risk Control Claims advocacy and claim prep assistance
- Work with you to communicate material change in operations/risk to underwriters to avoid potential future issues with claims.
- Forecast the financial impact of expected losses in new environment (impact on product liability, E-Mod, deductibles, retained losses, and collateral)
- Perform analytics / modeling to align risk financing program structure with your new risk profile
- Utilize USI resources/best practices
  - [COVID-19 Preparedness and Risk Mitigation Resource Guide](#)
  - [Employee Work From Home Guide](#)



# Health, Wellness and Safety of Employees | Workers' Compensation

## Employer Response and Action

- Establish updated policies & training to avoid/limit exposures related to employees who are assigned a new position/line, furloughed, working remote
- Review reclassification of employees and monitor changes in payroll due to changes in production & staff
- Some companies considered “essential” face new manufacturing challenges that will change how and when employees work.
- Strengthen your discipline on policies and procedures for sick employees and the protection of the employees before, during and after work shifts
- Communicate clearly and timely with impacted parties regarding furloughs or re-purposing of workers at the manufacturing site and verify changes in WC exposures with your insurance company.
- Monitor the potential for increase in potentially fraudulent WC claims (remote employees, layoffs)
- Evaluate EPL program and coverage provisions if layoffs or furloughs considered

## How USI can Help

- Coverage under WC is triggered when an injury or illness *arises out of and in the course of employment*. USI Claims Advocates can guide and support you when an injured worker makes a claim due to COVID-19.
- Not all claims will be related to COVID-19. Work to have carrier respond and get injured worker back to work as **quickly (and as safely)** as possible: both claims related to COVID-19 and existing claims prolonged due to COVID-19
- Utilize USI resources/best practices
  - [COVID-19 Preparedness and Risk Mitigation Resource Guide](#)
  - [Employee Work From Home Guide](#)
  - [Pandemic Claim Reporting Guidelines](#)
  - [Coronavirus Workers Comp and OSHA Advisory](#)

# COVID-19 Alignment of Risk Protection In New Business Environment

## Executive and Professional Risk

- Changes in cyber exposures due to the highly automated and technology driven processes within the manufacturing industry
- Given automation and reliance on technology, distractions related to Covid-19, as well as production slowdowns and re-tooling of operations may expose Manufacturers to greater Cyber risk, including:
  - Cyber criminals gaining access to manufacturers systems and interrupting, degrading operations, or resulting in system failure
  - Interruption/disruption of ICS/SCADA controls and IIoT systems related to cyber extortion/ransomware
- Increased Phishing/social engineering and breach exposures related to employees working remotely or reassigned within organization

## How USI can Help

- Ensure Cyber protocol and coverage address technology needs for remote work and any changes in automation for manufactured products
- Work with your carrier to ensure ongoing employee training for remote workforce is in place
- Evaluate coverage for downstream contractual penalties related to business interruption

# COVID-19 Executive and Professional Risk | Directors & Officers Liability (D&O), Employment Practices Liability (EPL), Environmental Liability

## 1 D&O

- High scrutiny around the engagement of leaders in handling the impact to business
- Consult with counsel when considering the potential legal ramifications of action or inaction
- Consider all key stakeholders – investors, employees, partners

## 2 EPL

- Transparent communication of revised work policies, employee privacy, and employee health and safety
- Full understanding of furlough and reduction in force laws
- Provide standards and expectations for Work From Home employees

## 3 Environmental

- Check for Virus Coverage or for specific exclusion.
- Check for disinfection costs and Emergency Response Coverage – may need to ask for approval from the carrier to use a particular vendor
- When reporting – demonstrate that there is a COVID-19 event at the insured property
- Prompt reporting – often 3-7 days is often a policy requirement. Failure to report in a timely manner may result in a denial of coverage.

**Remember: Consult with your USI EPS and Environmental professionals regarding the impact to these lines of business**

# COVID-19 | Immediate Relief from Financial Pressures & Expense Management

- Adjust exposures down (payroll and sales) to reflect new operations for potential mid-term audit/return premium
- Reduce limits where appropriate (BI, inventory, WIP)
- Temporarily remove Physical Damage and Liability coverage on secured equipment or parked vehicles
- Consider premium finance options with more flexible payment options
- Work with USI and carrier to defer premium payments
- Work with USI and carrier to extend current policies to lock in current rates
- Work with USI and carrier to delay investments in outstanding risk mitigation commitments
- Work with USI to model new collateral requirements and potentially return collateral on new program structure

# COVID-19 USI Solutions | Addressing Claims

These are unprecedented times and most insurance coverages are untested for pandemic.

- Many coverage provisions and interpretations will be addressed collectively as an industry, with policyholders treated in a consistent manner.
- We are working with carriers at the highest levels to identify unique coverage positions specific to each carrier and comparing these positions to general industry responses.
- Coverage opinions and positions will apply differently depending on the type of coverage, policy provisions and facts surrounding the claim.
- USI will advocate on your behalf, with the goal of determining the most favorable response available under the applicable policies/coverage.
- If you seek advice and counsel from a coverage attorney, we offer side-by-side assistance with your lawyer to advocate and assist in finding coverage.
- **Specifically for BI Claim when tracking a claim** – Dates leading up to and following the loss / Track the impact / Set up and internal code / Status of open Manufacturing orders / Historical sales data / Retain all production schedules / Evaluate the potential for production make-up/ Track impact on variable and fixed cost.
- **Specifically for a WC Claim** – Immediate First Report of injury form sent to the claim administrator (Carrier or TPA) / OSHA requirement – log COVID-19 incidents as recorded illnesses / Investigate the incident to determine compensability / USI to assist with reviewing legislative changes that may impact compensability / If the claim is compensable USI will assist with examining benefits allowed and claim resolution.
- **Specifically for a GL Claim** – Implement an Infection Control Policy / Once aware of an incident, isolate the area and / or close access to that part of the facility / Document the presence of the virus / Take adequate measures to prevent the spread of the virus by using a certified cleaning crew / Train employees on how to avoid spread of the virus.

# COVID-19 USI Solutions | Proper Claim Handling

Insurance coverage and claims considerations resulting from the COVID-19 pandemic will require a close examination of all insurance policies in place.

This practice for claims reporting is to be done after consulting with your USI claims team.

## Claim Reporting Guidance

Insurer Direct	USI Team or Claims Consultant
General Liability	D&O
Property/Business Interruption	Fiduciary
Workers' Compensation	Crime
	Employment Practices Liability
	Errors & Omissions
	Cyber

## USI.com Resources for Property & Casualty

USI has prepared the following material, discussing how business insurance coverage may be affected, the insurance industry's response to the situation, and steps you can take to prepare for the business impact of the virus:

- [Pandemic Claim Reporting Guidelines](#)
- [Preparing and Documenting a Business Interruption Claim](#)
- [USI's Coronavirus FAQ](#)
- [Coronavirus Workers Comp and OSHA Advisory](#)
- [D&O FAQ Addendum](#)
- [OSHA Coronavirus Compliance Bulletin](#)
- [Cyber Update – Cyber Exposures & the COVID-19 Quarantine](#)



# Phase 3 CARES Act | Impact on Manufacturing Industry

## Important Manufacturing Takeaways

- The goal of the CARES Act is to assist in keeping American workers paid and employed
  - There are loan programs available that will help manufacturing businesses pay employees while continuing operations where possible
  - Provision in the act for assistance to American workers and businesses, such as a provision to delay employer payroll tax through January 1, 2021, which assists in the cash flow of your business
  - Tax credit is given for those business instituting new federal paid leave mandates on an advanced refundable credit
  - Businesses can obtain a suspension of the limitation on interest expense deductions in order to avoid being penalized for borrowing during these changing times
- Impact on the Insurance Industry:
    - Government Impact
      - Unable to financially survive if forced to pay “uncovered” claims
      - Will not be available to protect asset (i.e. plant) going forward
    - Government backed program
      - Currently only proposed for go-forward
      - Needed now
      - Insurance carriers pay – backed by government

# COVID-19 Updated Carrier Initiatives

## Carrier Partner Considerations

### Program Management to Obtain Premium or Risk Financing Relief

- Working to automatically extend the process/timing for difficult renewals
- Require carriers to extend payment terms for at least 60 days on new and renewal policies
- Waivers of late fees
- Revisit minimum premiums on Casualty programs
- Request mid-term audits to adjust premium to reflect reduced exposures
- More flexible premium audit and renewal processes to help ease the burden
- Additional time to address outstanding loss control recommendations and related matters pertaining to physical site surveys
- Relaxation or removal of policy exclusions

### Considerations for Manufacturing Renewals

- Details about facility changes in production / Any changes in BCP (business continuity plans) as a result of change in production
- Outline for any repurposing of employees
- Advise on new product details
- Evaluate program structures including higher retentions, review sub limits, update collateral analysis, analyze changes in exposure and the impact on programs and challenge carrier calculations

# USI Recommended Renewal Strategies & Market Update

- The market continues to be in a state of transition and the areas to be aware for manufacturing are:
  - Property, Umbrella and Automobile Liability
  - Rate increase have been on the low end of 20% and upwards towards 100% in some instances depending upon the risk and loss history
- Communicate with carriers early and often regarding operations and financial health, even if your program renewed recently
- Across all lines, document changes to exposures because of cessation, indefinite suspension or termination of work
  - Tactics include aggressively pursuing the most advantageous outcome as to premium relief/waiver of final audits/removal of minimums
    - Review/Reduce auto count if work has stopped/Provide Auto Liability (No Physical Damage Coverage) while cars are idle
- Document unusual or one-time additional costs to maintain worksites and push for premium accommodations
- Develop/Review/Enhance business continuity and supply chain plans to demonstrate proactive management of operations through a future pandemic
- Review current structure of insurance program to determine most efficient use of company's financial resources
  - Potential review of installments, deductibles or forms of self-insurance to allow for greatest flexibility
- Review policies to determine need to enhance or procure additional coverage
- Review minimum premiums and audit provisions on renewal
- Revisit minimum premiums on Casualty programs / trigger mid-term audits

# USI Client Resources | We are Here to Help You

For access to the latest resources and guidance from USI, please visit our [COVID-19 Preparedness and Response](http://www.usi.com/public-health-emergencies) web resource page. <http://www.usi.com/public-health-emergencies>

## PROPERTY & CASUALTY

- [FAQ on Coverages](#)
- [COVID 19 Preparedness and Risk Mitigation Guide](#)
- [Pandemic Claim Reporting Guide](#)
- [Coronavirus Workers Comp and OSHA Advisory](#)
- [BI Claim Preparation/Documentation Guide](#)
- [D&O FAQ Addendum](#)

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Helping Clients Prepare & Respond to Public Health Emergencies

**Coronavirus Disease (COVID-19)**  
The costs associated with the outbreak of COVID-19 are mounting. Throughout the world, governments, businesses and individuals are taking action against the threat, and reality, of a pandemic event. The virus has already affected many organizations, causing business disruptions and supply chain issues. Still, despite warnings from the World Health Organization and other agencies, more companies need to take the necessary steps to prepare their employees and business continuity plans in advance.

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See how USI is making a difference for our clients and our communities.  
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**Response and Risk Mitigation**  
In the event of pandemic influenza, businesses will play a key role in protecting employees' health and limiting the spread and negative impact to the economy. USI has prepared the following documents to assist our clients with business continuity, employee safety and communications:

- COVID-19 Preparedness and Risk Mitigation Resource Guide
- Pandemic Checklist
- Telecommuting Policy and Procedure COVID-19
- Employee Work From Home Guide

**Property & Casualty and Personal Risk**  
Insurance coverage and claims considerations resulting from an influenza epidemic or influenza pandemic situation will require a close examination of all insurance policies in place. USI has prepared the following material, discussing how business insurance coverage may be affected, the insurance industry's response to the situation, and steps you can take to prepare for the business impact of the virus:

- Pandemic Claim Reporting Guidelines
- Preparing and documenting a Business Interruption claim
- USI's Coronavirus FAQ
- Coronavirus Workers Comp and OSHA Advisory
- D&O FAQ Addendum
- OSHA Coronavirus Compliance Bulletin

**Coronavirus (COVID-19) Preparedness and Risk Mitigation**  
A Resource Guide for Managers and Employees  
MARCH 2020

**USI**

**Coronavirus Disease (COVID-19)**  
Frequently Asked Questions (FAQ)  
March 5, 2020

Coronavirus Disease (COVID-19) continues to develop rapidly across the globe and has already affected many organizations in the U.S. and abroad with business disruptions and supply chain issues. Governments, business and individuals are currently taking action against the threat of a pandemic event. This FAQ has been created to help business and organizations prepare for the Coronavirus and respond to the potential for a widespread public health emergency.

**Q: How are Coverage Areas Affected?**  
**A: Property, Business Interruption (BI), Police Expense**  
The Coronavirus will likely impact businesses in both a direct and indirect basis. Whether impacted directly or as a result of supply chain disruptions throughout the world, businesses will likely look to a variety of first-party coverage for relief. Specifically, property coverage, BI coverage, and police expense coverage. The fact that the Coronavirus is a widespread event of the fact will be needed to evaluate coverage. It is critical to understand specific loss drivers and to be able to document and support the causal relationship between these triggers and resultant losses.

**Property Losses**  
We anticipate that most property policies will not respond to this event in an unintended way. However, we expect coverage to be tested given the emerging nature of the risk, such as:  
• Whether the presence of a human or human contact exposure does "rise" to the threshold of "direct physical damage" of the type covered against "or simply" property damage?  
• Given previous cases, whether the presence of the virus (and subsequent to clean it) on the surface of equipment, walls, in HVAC units, etc., constitutes "property damage".  
For these policies that do not have specific exclusionary language, whether the ability to occupy or utilize an insured building, due to the virus, constitutes property damage.  
• How policies with specific "infectious disease" exclusions, variations, providing limited or targeted coverage, will respond.  
With any claim, policy wording and specific triggers along these lines will determine the applicability of coverage. We will advocate on behalf of our clients, for the most favorable response possible under the applicable policies. That said, this is a unique situation and there are no precedents that future litigation will clarify. Any event to ultimately prove or disprove will require the documentation of all data, facts and losses. Tracking and recording this information while losses are being sustained can be critical, as gathering that necessary information at a later time can be better for most difficult.

**Business Interruption**  
When evaluating BI coverage, the first question is whether business income losses are covered by the existence of the virus at an insured location or due to indirect exposures where we would look to traditional coverage extensions (i.e., Civil Authority, Terrors, Terrors, Supply Chain or other Contingent Time Element type coverages).

**Pandemic Claim Reporting Guidelines: Coronavirus (COVID-19)**  
Updated March 23, 2020  
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*Thank You*