

Predict. Prepare. Protect.

Coronavirus: a strong reminder of the need for contingency planning

By Jennifer Clough and Robert Tull

For the past two months, the coronavirus COVID-19 has been front page news across the world, as the situation escalates with new cases and an increased number of fatalities. While the long-term economic impact on American companies remains uncertain, there are important lessons to learn on how to manage future pandemic risks.

Industries at Risk

To temper the apprehension, governments have taken actions to thwart the spread of COVID-19 and its ramifications to the general population. Businesses are also at risk due to the global crisis—both from an employee and financial standpoint. Many companies are reexamining the efficacy of disaster response and recovery plans and reevaluating the safety of their employee global travel assignments.

Some obvious industry sectors are vulnerable to a significant financial impact, such as cruise line operators, airlines, hotels, casinos and other organizations whose business depends on global tourism. The volume of Chinese tourists in the U.S. has dropped precipitously, and American travel to China has plummeted.

However, there are many less obvious industries across the global supply chain, including retail, automotive, technology, pharmaceutical development and other manufacturing sectors, that are at risk for potentially severe production slowdowns, given the high volume of parts and components sourced from China. As a result, manufacturers may see lapses in supply chain, stock shortages and lost sales.

Best Practices Today and Tomorrow

For corporate risk managers, COVID-19 presents a stark reminder of the need to proactively prepare for threats, emphasizing the vital role of risk mitigation tactics and business interruption insurance coverage limiting adverse revenue and earnings impacts.

Steps to Take Now

- Limit travel to China, Italy and Iran and other high-risk areas.
- Exercise “increased caution” related to employee travel to China and other infected areas, following [guidance](#) from The U.S. Centers for Disease Control and Prevention (CDC). This can include the use of personal protective equipment, substituting teleconferences for face-to-face interactions, eliminating social conventions like handshaking, and maintaining spatial separation with others.
- Prepare for the possibility of increased absenteeism at the workplace and put forth plans to continue essential business functions if you do have employees in China or who frequently travel to an affected area.
- Create procedures for employee illness. Employees in the U.S. who appear to have acute respiratory illness suggesting a possible COVID-19 infection should notify their superiors of their condition and seek advice from a medical professional. If determined to have the illness, they should be sent home to recuperate. Work colleagues in recent contact with the infected employee should be tested for evidence of the illness.
- Reach out to Tier One and Tier Two suppliers in China and other countries to gauge the anticipated impact of the coronavirus on production capacity and reduce supply chain disruption.
- Evaluate whether or not to source parts and components from alternate supply sources. In making such decisions, evaluate each country’s landed costs—the total price of the product based on tariffs, duties, value-added taxes, customers, currency conversion, and other expenses.
- Review the organization’s contingent business interruption coverages.



Contingency Planning Checklist to Reduce the Impact of Future Outbreaks

- Talk to your insurance carrier's loss control function about building solid contingency plans or reviewing those already in place.
- Monitor public health updates from governments on a daily basis to get ahead of what could be an emerging health disaster.
- Routinely clean all frequently touched surfaces in the workplace to limit the spread of viruses, bacteria and other diseases.
- Ensure continuous supplies at the worksite of personal protective equipment for job tasks.
- Reassess the company's travel policies to make sure all employees are fully apprised of whom to contact for emergency medical care and assistance.
- Collaborate with HR leaders to categorize essential functions and roles that must be performed during a health disaster like a coronavirus. It is recommended that orders of succession for such roles be three-deep.
- Create backup plans to address rank-and-file absenteeism, considering ways in which non-infected personnel can fill in for infected employees and how authority will be delegated. Put forth retainer agreements with external contract workers and/or freelance "gig" employees to be ready to fill in for absent employees on a part-time basis. Proactively plan for the possibility that a sizable percentage of the workforce may need to perform tasks from a virtual environment at home or another remote location.
- Assess the impact of COVID-19 on operations and personnel to update the company's business continuity plans, including pre-disaster readiness and post-disaster responses.
- Revisit the supply chain strategy to posit a series of "what if?" scenarios, (E.g., If this particular country's supply base is impaired, what is the optimal scenario for sourcing parts and components elsewhere?) Since health crises can emerge anywhere in the world, this analysis should be global in scope.
- Make sure your property insurance program includes both business interruption and contingent business interruption coverage protecting income losses generated by inactive suppliers.

Risk Managers should use COVID-19 as a reminder to examine and test their emergency response and business continuity plans frequently.

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