

# Insuring against SARS

Last year's epidemic of Severe Acute Respiratory Syndrome (SARS) has had a dramatic effect on the insurance sector. Now, as tried and tested control measures are put in place, how will insurers underwriting philosophies continue to react to the threat of a future outbreak of the disease?

Many aspects of the insurance industry were hit particularly hard by SARS, including business interruption, aviation, event cancellation, employees' compensation, health and general liability policies. Inevitably perhaps, a number of insurers incurred substantial losses, since the impact of SARS on coverage had never been fully considered before.

As a result, various insurers have excluded SARS coverage in their general insurance policies when these have come up for renewal. Contemporaneously, insurance companies have started offering special SARS-related cover – either as a separate policy or as an addition to an existing policy – at high premiums. While this can be construed as prudent underwriting practice, the reduction in coverage and increase in premiums is, obviously, not good news for the policyholders.

## **The healthcare sector**

These changes have had a particularly strong effect on the healthcare sector in some countries, due to the potentially high level of exposure to SARS by workers and visitors. Healthcare providers in particular have seen policy coverage exclude SARS completely or only included at considerably increased cost. Before deciding whether – and how – to insure against SARS, an insurer needs to make a careful assessment of the risks faced by the insured, especially the likelihood of its incurring legal liability following an outbreak of the disease. In the case of a healthcare provider, liability is usually one of two kinds. The first is its responsibility towards patients or the public.

Here, the healthcare provider owes a duty of care to the patient and the public, both for the acts of its doctors and in terms of its hospital administration. A hospital must not omit to do something that a reasonable hospital administration would do, or do something that a prudent and reasonable hospital administration would not do.

When SARS first broke out, a healthcare provider could be excused, to a degree, for being caught off guard by SARS even though, at the time, they were taking what were considered to be all the reasonable steps to control the disease. (Apart from anything else, the timing and location of outbreaks, and the rate at which the disease spread, could not have been anticipated – factors which surprised both insureds and insurers). But as better methods and precautions have been developed to deal with the disease, so healthcare providers now have to adjust their working practices in order to meet the improved standards.

Their second major legal liability is in respect of their employees. This aspect is obviously particularly important to any insurer supplying employee insurance packages. In this case, the healthcare provider (as employer) owes a duty to its employees to provide a safe place of work and to take all reasonable steps to ensure the safety and health of its employees. Among other things, this will include providing all appropriate equipment and supervision of its use.

But as with the healthcare provider's duty towards patients and the public, greater knowledge of the disease together with ever improving systems of control and prevention mean that the employer is under a greater burden to meet these standards.

Consequently, whilst the higher standards of care required may mean the potential exposure of the insurer is greater than before it is also true to say that exposure is lessened by virtue of the more effective methods of prevention and control.

## **Impact of new controls**

Over the last 12 months, policyholders have investigated various ways of dealing with any future outbreaks of SARS. Doubtless they will now argue that they should be given credit for the measures and risk assessment mechanisms they have developed and put in place – especially if they reduce the potential exposure of insurers to SARS-related claims in the event of any reoccurrence of the disease.

But if the liability insurance market changes, what steps will insurers need to take in order to remain competitive? It may be that strong evidence of effective control measures or developments in medical treatment will, in certain instances, result in the lifting of SARS exclusions. However, the devastating effect of last year's epidemic is still sufficiently fresh in insurers' minds that they will want to keep an eye on the impact of any possible re-emergence of Severe Acute Respiratory Syndrome. Consequently, any relaxation in present underwriting philosophy is likely to be slow.