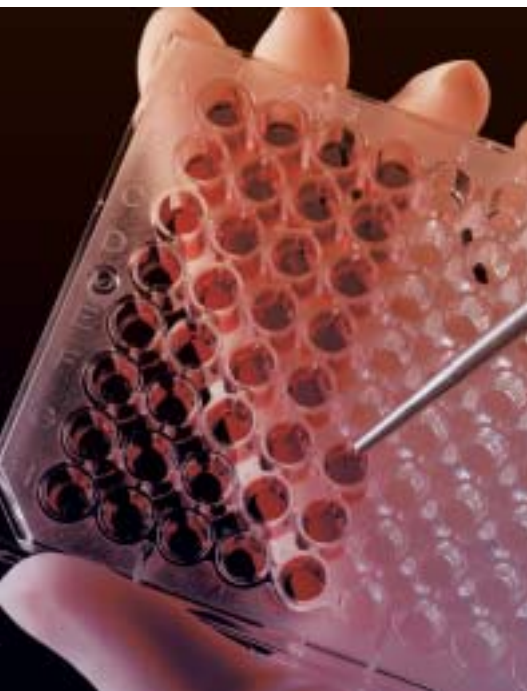


Asia Pacific Region Risk Update



Avian Flu: Preparing for the risk of a Pandemic

Recent cases of avian flu in humans in Asia and Eastern Europe – including several deaths - have kept the international spotlight focused on this emerging risk issue. While scientists, the media, and the public speculate on the potential impact a human pandemic could have around the world, governments, businesses and other organisations are now planning their responses.

All evidence to date suggests that an avian flu pandemic is a very real global risk. A pandemic is likely to threaten human life and disrupt a number of industries and supply chains, especially the service and agricultural sectors. It is also likely to have a broad and more far-reaching impact on the global economy.

In this update

- Background on avian flu
- Insurance guidelines
- Managing the risk
- Resources available to you

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Key Facts:

- Previous influenza pandemics have resulted in infection rates of up to 30% of the population
- World Health Organisation (WHO) estimates that a flu pandemic may debilitate up to 25% of the workforce at any one time
- Government strategies on avian flu are focussed on containment, attempting to eradicate the virus before it spreads to pandemic proportions
- According to the Asian Development Bank, the SARS outbreak (less infectious than avian flu) in East and South East Asia resulted in a loss in demand and revenue of approximately US\$ 60 billion
- It is not likely that insurance policies will provide any form of comprehensive cover against losses resulting from avian flu
- Businesses should revisit their business continuity strategies to better manage the risk

Background

A pandemic, and the losses resulting from such an event, are difficult to insure. Businesses should therefore follow government and world health organisation recommendations and evaluate their own preparations and preventative measures to ensure that the impact of a pandemic would be contained. Specifically, business continuity planning, and a review of human resource policies and procedures are recommended.

What is Avian Influenza (Bird Flu)?

Avian Influenza (avian or bird flu) first surfaced in 1997 when a strain of flu, known as H5N1, mutated from birds to infect humans. The virus has now spread from Asia through to Europe, via the migratory bird population. It is difficult to control as it is carried by a range of birds and can be spread through the large migratory flocks which travel across several continents.

What is a 'pandemic'?

A pandemic occurs when a new strain of the influenza-A virus strikes humans, spreads easily from person to person, and causes serious illness with a high death rate. Since at least the 16th century, flu pandemics have swept the globe an average of three times per century, emerging every 10 to 50 years. In the 20th century, pandemics emerged in 1918, 1957 and 1968. Nearly 40 years after the last pandemic, the appearance of an especially virulent strain of flu in birds in 1997 and again in 2004 raised an alarm among world authorities when it infected a small number of people.



Insurance and cover for avian flu losses

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| Commercial Property | <p>Property covered by a Commercial Property policy must sustain physical loss or damage from an insured event for the policy to respond. Insurers are likely to argue that the presence of avian flu does not cause physical loss or damage to an insured premises. Additionally, policy exclusions for contamination, mould, disease and pollution contingencies may eliminate coverage.</p> |
| Business Interruption | <p>Businesses are only covered for loss of prospective earnings when business operations are interrupted or suspended as a result of physical loss or damage to property.</p> <p>Some policies may include an Endorsement providing limited cover against losses resulting from closure or evacuation of business premises by order of a competent public authority as result of the presence of human infectious or contagious disease. This cover is not universal and in the future insurers may seek a specific exclusion or withdraw cover.</p> |
| General Liability | <p>Standard policies provide coverage for a policyholder's liability to compensate third parties for bodily or personal injury and property damage caused by an unexpected and unintended event. Cover may be provided for avian flu under standard policies where it satisfies the terms of the policy. However the following important matters must be considered:</p> <ul style="list-style-type: none"> • Policy conditions require the policyholder to take reasonable measures and to comply with all statutory obligations and regulations imposed by any statutory or government authority. • Some insurers may argue that avian flu is excluded due to the application of broadly worded pollution exclusions. |
| Workers Compensation | <p>An employer's legal liability to its employees for injury or disease must arise out of and in the course of an employee's employment. Exposure to avian flu would have to be proven to be solely a result of workplace exposure to be considered for coverage under a workers compensation policy.</p> |
| Personal Accident & Sickness | <p>Is likely to provide coverage to employees at this stage where it satisfies the terms of the policy, although the situation may change when policies are renewed.</p> |
| Travel Insurance | <p>Where the terms of the policy are satisfied, Travel Insurance is likely to provide coverage to employees at this stage. Emergency evacuation expenses benefits may only respond after the insured person has contracted avian flu.</p> |
| Expatriate and Inpatriate Health Plans | <p>Medical costs associated with avian flu are covered at this stage where it satisfies the terms of the policy – although the situation may change when policies are renewed. Emergency evacuation costs may be covered if local medical treatment was unobtainable.</p> |
| Keyman: - Income Protection/salary continuance - Life (Death & Total Permanent Disablement) | <p>Avian flu may be excluded from a policy due to the application of broadly worded policy exclusions.</p> |

This table is current at the time of publication and provided as a guide only. There may be a wide variation in the terms and conditions of coverage in contracts of insurance from one insurer and from one jurisdiction to the next. The full terms of policies and endorsements need to be analysed in detail to determine how coverage applies. Contact Marsh to discuss your specific requirements and for further information.

Managing the risk

The business impacts of pandemic could be different to normal business interruptions and therefore businesses may need to revisit their business interruption strategies.

Traditionally, business interruption strategies focus on disruptions to plant facilities, equipment or accommodation, whereas the avian flu will predominantly effect people and therefore will impact on a company's workforce.

Accordingly it becomes important that businesses have a good understanding of the following elements of their operation and how they intend to manage them:

- Critical business operations that are dependant on people or specialists
- Product or service supply chains and the impact that supplier staff shortages may have on the availability to sustain supply
- Any potential downturn in the need for products and services that are delivered
- Any potential impediments to staff being able to get to their place of work
- Safety and welfare of staff at the workplace during this time

The approach to managing these events is not too different to normal comprehensive business continuity management strategies. However, depending on the business it may require some specialised considerations.

Resources available to you

To help you understand your business risk exposure, Marsh has prepared a number of resources to help you test preparedness and plan for potential business interruption.

Visit our dedicated website at <http://solutions.marsh.com/afpandemic/> to access the following resources:

- Online Pandemic Preparedness Survey
- White paper, *Avian Flu: Preparing for a Pandemic*
- Audio cast panel discussion on Avian Flu
- Links to key government and health organisation information
- Access to global MMC resources, such as Mercer Human Resource Consulting, for specialist expertise in human resource planning in the face of this risk.



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