

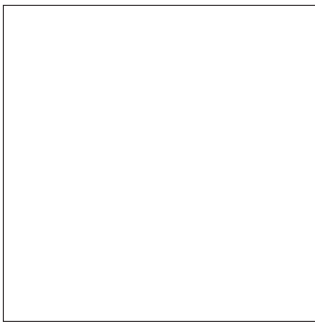
Avian Flu:

Preparing for a Pandemic

With increasing urgency over the past year, a variety of governments, nongovernmental organizations, industry groups, and media outlets have trumpeted the potential dangers of avian influenza, commonly called “bird flu.” Suddenly, the word “pandemic” is on the tongues of world leaders, references to the catastrophic 1918 Spanish flu are common, and many businesses are nervously looking for gaps in their business continuity plans.

Human deaths from the bird flu have been reported in seven countries. Thus far, the spread of the virus to humans has largely been through contact with infected birds, although a few possible cases of human-to-human transmission are being investigated. The possibility that the virus will mutate to allow sustained human-to-human transmission has health authorities on high alert.

“It is only a matter of time before an avian flu virus – most likely H5N1 – acquires the ability to be transmitted from human to human, sparking the outbreak of human pandemic influenza,” Lee Jong-wook, director-general of the World Health Organization (WHO), said during a late 2005 gathering of health experts from more than 100 countries. “We don’t know when this will happen. But we do know that it will happen.”



A global threat

A human influenza pandemic represents the extreme end of what risk managers call low-frequency, high-severity events. As with hurricanes, tsunamis, and earthquakes, we know the risk of a pandemic exists. And as with those catastrophes, we won’t know the severity of a pandemic until it is over. But a pandemic will not limit its damage to one or a few countries or a single geographic region. A pandemic’s worldwide consequences could include:

- More than seven million deaths from even a mild pandemic, according to the WHO (death estimates vary wildly – some top 350 million – and will ultimately depend on the virulence of a pandemic strain);
- 25% or more of countries’ workers needing to take between five and 20 days of sick leave, according to the United Kingdom Department of Health;
- \$800 billion in worldwide economic damage, according to The World Bank; and
- Major disruptions to every industry, particularly those with strong ties to travel, tourism, sports and entertainment, lodging, and health care.

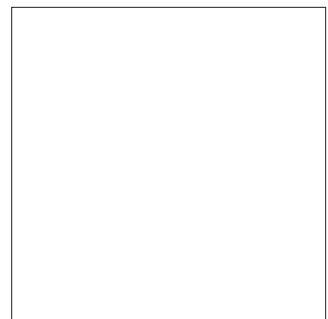
The hardest hit companies in any industry are likely to be those with worldwide operations, global supply chains, and/or international customers. Already, some local, state, and national governments are setting in place plans to curtail travel, close schools, quarantine individuals and communities, and ban public gatherings. Such steps were taken during the epidemic of

SARS (Severe Acute Respiratory Syndrome) in 2003, especially in Asia, where the disease was most prevalent. Such measures – while necessary to help slow the spread of the disease and allow time for medical efforts to ramp up – impede commerce. Even a relatively mild pandemic could “slow or halt economic growth in Asia and lead to a significant reduction in trade, particularly of services,” according to analysis by the Asian Development Bank.

Corporate preparedness and business continuity

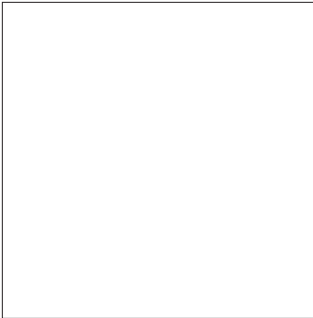
Many businesses, particularly large multinational corporations, have established avian flu/pandemic planning committees. According to media reports, some are creating task forces combining their strategic planning, operations continuity procedures, human resources, and health services to adopt event-specific measures in anticipation of an avian flu pandemic. Others – primarily in parts of the food industry that use poultry – are preparing marketing campaigns aimed at allaying fears about the use of their products – and thus protecting their brands – should an avian flu pandemic occur.

It’s also likely that many companies are not making any special preparations in advance of what they see as the slim likelihood of an avian flu pandemic; instead operating with the belief that should one occur, either it will not affect them, or they will respond as the need arises. An outbreak of avian flu will severely test even the best business continuity plans, and businesses are well advised to review and revise their plans in light of this threat.



In theory, business continuity management (BCM) should already be in place to identify, respond to, and recover from a broad range of potential interruptions. Pandemic influenza, however, isn't a "normal" business risk. Some of a pandemic's unique characteristics include:

- An international impact with no demarcation by culture, industry, or geography;
- The potential to escalate quickly and last for many months;
- A projected infection rate of 25% or more of the world's population, according to many public health experts;
- Extreme taxation of health care facilities, public health agencies, and their workforces; and
- A macro impact on regional and global economies that could result in a significant shift in the way companies conduct businesses and their ability to continue operations.



There are a number of steps companies should be taking and issues they should be considering before, during and after an outbreak. If avian flu does not emerge, the time spent on planning and preparation will not have been wasted. After all, avian flu is a good proxy for other potential pandemics; pandemics are a good proxy for potential bioterrorism; bio-terrorism is a good proxy for other forms of terrorism. Corporate preparedness is a transferable skill – even if the risk emerges from a totally different direction or source than anticipated.

Before an outbreak

Before an outbreak, risk managers and other executives with risk management responsibilities should understand the nature of the disease and the means by which it could impact their operations, resources, reputations, and financial fitness. They should review, revise, and test existing corporate preparedness plans, procedures and policies; review and/or develop employee health procedures; and ensure that senior managers have the skills to handle an event before it becomes a crisis.

Upon outbreak

During a pandemic, the ability of an organization to identify problems and respond quickly and effectively will make a significant difference to the success or failure of protecting staff, profits, reputation and, ultimately, the company's survival. Companies should consider structuring their corporate preparedness plans for a pandemic crisis into four to six escalating action thresholds that would provide warning information in advance and allow individual facilities, regions, and businesses to detect an emerging event and respond appropriately at each escalated threshold. Tiered planning should provide applicable guidance in areas including allocation of resources, health and safety issues, operations responses, security measures, and more.

Companies should review their existing preparedness plans and consider how – and if – they will be able to respond to the following areas during an outbreak:

- Information and communication concerns;
- Human resources/benefits concerns;
- Operational concerns; and
- Risk communication concerns.

During an escalating pandemic

Businesses looking to ensure continued operations during the pandemic and in its immediate aftermath may find it critical to monitor closely areas including the business recovery team's operations; integration of continuity strategies for various processes; supply-chain issues; and transportation links.

Timing of corporate responses

The timing and severity of a pandemic, the nature of a particular business or industry, and other variables will all come into play during an actual incident and subsequently as the spread of the disease progresses. For example, at what point should a college or university with a large number of students living on campus decide to cancel classes and/or shut down

the campus? In that situation, a balance will need to be struck between acting too soon, which could mean canceling school unnecessarily, and acting too late, which could force students to attempt travel in a time of major transportation disruptions. Likewise, a professional services company may have a significant number of employees traveling overseas. At what point should it curtail overseas travel? How much of its resources should it be dedicating to increasing its ability to conduct business through teleconferencing?

It is not clear that the H5N1 avian flu will mutate into a human-to-human disease this season, or ever. However, it is widely believed that in the near term the global population will have to face a pandemic. It is incumbent on corporate officers to ensure that their companies have evaluated the risks and implemented the appropriate steps to mitigate those risks.

Insurance coverage questions

In the event of a pandemic, businesses around the world could suffer severe economic damage, the extent of which will depend on the severity of the outbreak. Whenever businesses suffer a loss, owners naturally look to their insurance policies for help. As was the case with the SARS virus, many claims stemming from a flu pandemic are likely to lead to disputes. Although the outcome of any claim is dependent on its facts and the legal rules in the applicable jurisdiction, there are some generalizations that can be drawn.

Understanding some of the underlying issues and potential responses may assist in planning and preparation. Some of the lines of coverage likely to come into play should a pandemic occur are:

General liability

The standard general liability policy typically responds to bodily injury, sickness, or death allegedly caused by the insured. Insurers are, therefore, likely to scrutinize closely the alleged

causal connection between a claimed infection or exposure and the actions of the insured. Because insurers take the position that the policy extends only to actual injuries, they are also likely to look closely at the nature of injuries alleged by third parties and may reject claims based on fear of exposure, exposure without actual symptoms, or other mental or emotional injuries. However, under the “bodily injury” and/or the “personal injury” language of some policies and the law of some jurisdictions, such emotional injuries may be covered, so careful review is necessary.

Workers compensation

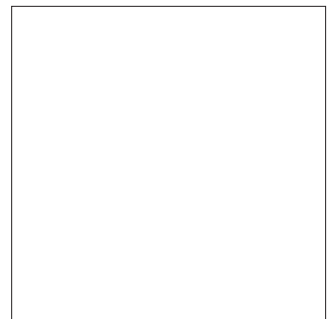
Workers compensation will undoubtedly be an issue in the event of an avian flu pandemic. As with any insurance coverage issue, the facts of individual cases will vary, as will the coverage afforded under various policies according to state and federal laws and the terms and conditions of policies that provide coverage beyond that which is mandated by law. Exposure falls into three categories:

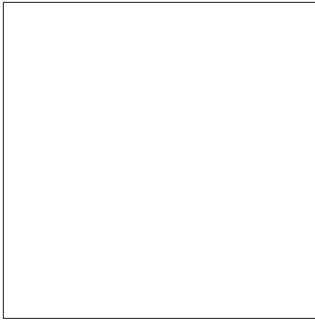
- Potential exposure in the U.S. workplace;
- Short-term or temporary assignments outside the United States and Canada; and
- Long-term work assignments outside the United States and Canada.

If an employee alleges a workplace exposure to avian flu, the employer should report the incident to its claims administrator and cooperate in any investigation. Compensability of each case must be determined on the merits of the situation and the law of the jurisdiction.

Pollution

Insureds may also have separate coverage for damage arising out of pollution. These policies may provide a basis for seeking coverage, but it is important to be aware of potential issues and possible insurer responses. A typical pollution policy





provides coverage for “pollution conditions,” which must result from a “discharge, dispersal, release, seepage, migration, or escape.” The term “pollution condition” is usually defined broadly and includes, as a general category, both “contaminants” and “irritants.” However, insurers have often resisted attempts to recover for nonindustrial pollution.

Property

Real property may potentially be contaminated in an avian flu outbreak. The government may close or quarantine a building or an entire neighborhood. Such events could give rise to claims under an insured’s first-party property coverage. Insurers begin every analysis of a claim under a property policy, whether for direct damage or time-element loss, by asking whether the insured property (or property of the type insured) has sustained physical loss or damage from an insured event or peril. Generally, unless the insured’s policy provides specific time element coverages for “infectious disease outbreaks,” coverage is unlikely to be triggered. In regard to avian flu, the two most likely scenarios resulting in a time-element loss are:

- Fear that the virus may be present in or near the vicinity where the insured’s property is located, thereby leading to employee absences and diminished customer traffic to the site; and
- The actual contamination of the site by the virus, resulting in governmental or voluntary closure.

Although it is unlikely any insurer will immediately acknowledge coverage under a standard property policy for avian flu scenarios, it is important that all such potential claims be reviewed. Where the insured can demonstrate that a public authority has closed or quarantined its premises as a result of an actual – provable – contamination by avian flu, the potential claim should be reported to its property insurers for review.

Conclusion

The question on the tip of everyone's tongue is, "Just how worried should we be about an avian flu pandemic?" The answer is not simple. Just as residents of San Francisco and Tokyo live with the knowledge they reside in an active earthquake zone, the entire world is becoming aware that we all live in a potential pandemic zone. Even if the H5N1 avian flu strain fails to mutate into a form easily transmissible among humans, it will have raised awareness that pandemics are a natural part of the world.

The issue has now become one that every corporate leader or board of directors must consider and take into account. Coupled with the awareness is the reality that it's impossible to predict ahead of time just how severe an outbreak will be. Beyond fears over the possible loss of life, avian flu has raised concerns about the readiness of governments and businesses to deal with a crisis of enormous scale. However, there is still time to prepare for the contingency. Now is the time to check your company's preparedness for handling a pandemic crisis.

This article is a condensed version of "Avian Flu: Preparing for a Pandemic," the January 2006 issue of Marsh's Risk Alert series. Full copies of the report and additional material related to the risks associated with avian flu and other pandemics are available at <http://solutions.marsh.com/pandemic>.