



Future Pandemics: Approaches to Dealing with Business Interruptions

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Understanding the Math




- \$23.5 trillion long-term economic losses (WSJ)
- \$12 trillion 2020-2021 global economic losses (IMF)
- Over \$3 trillion USG relief provided to businesses mid-year
- \$203 billion global insurance losses/\$100b underwriting (Lloyds)
- Greatest previous global insured loss in history = Hurricane Katrina (\$54b)
- U.S. Business interruption premiums last year: \$2.4b (NAIC)



Uninsurability of Mass Market Business Continuity Risks

Six criteria necessary for risk insurability – none of which are met:

(The Uninsurability of Mass Market Business Continuity Risks from Viral Pandemics by Hartwig/Gordon; based on *Principles of Risk Management and Insurance* by Rejda, G., and M. McNamara)

-  1. A risk must consist of a large number of exposure units so that the losses of the few can be distributed across the entire population of policyholders
-  2. Losses must be accidental/random and unintentional in nature
-  3. Losses must be determinable and measurable, enabling accurate and timely adjustment



Uninsurability of Mass Market Business Continuity Risks

- X** 4. Losses cannot be exceedingly catastrophic or financially ruinous to the risk pool as a whole
- X** 5. The probability of loss must be calculable, necessary for the proper modeling and pricing of risk.
- X** 6. The premium charged by insurers to transfer the risk of loss must be economically affordable.



Insurability of Pandemic Risks

- **“Insurance works well and remains affordable when a relatively small number of claims are spread across a broader group. It is therefore not typically well suited for a global pandemic where virtually every policyholder suffers significant losses at the same time for an extended period.”** (NAIC statement on business interruption coverage to Congress, May 21, 2020)



Some Talk the Talk, But What is the Market Doing?

Communicable Disease Exclusions: Maintaining Stability in Property Casualty Insurance Markets Amid a Global Pandemic: (Hartwig/Gordon 2020)

- Viral risk has never been broadly covered
- Post-SARS exclusionary endorsements intended to provide additional clarity
- Communicable disease exclusions increasingly widespread in recent reinsurance renewals and primary filings
 - Concerns about market availability where filing approvals delayed



BCPP Coalition Objectives

- Understand and work to address business needs
- Create a solution to help the U.S. economy manage the risk of future pandemic events, facilitate economic recovery, and assure a more resilient economy
- Achieve stakeholder consensus on a proposal
- Secure enactment of constructive solutions



Business Continuity Protection Program (BCPP)

- Developed after lengthy review of catastrophic protection models
- War Damages Insurance Corp. = most applicable/successful model
 - WW II war risk was uninsurable
 - Government underwritten program sold by insurance agents
- BCPP also = Before Covid what would the Paycheck Protection Program have looked like if Congress authorized it in advance:
 - Government protection
 - Some offsetting revenue collection and registration (but subsidized)
 - Parametric trigger
 - Strong back-end anti-fraud protections



Closing Thoughts