Business Continuity Coalition

Principles for Legislative Solution for Pandemic Insurance Coverage

The magnitude of the COVID-19 pandemic's financial and social impacts has exposed significant shortcomings and vulnerabilities in our country's preparedness for and resilience to systemic catastrophic events of this scale and nature.

This includes gaps in insurance protection for losses from business interruption occurring arguably in the absence of "physical damage" to the business location. Gaps for the pandemic risk in other lines of insurance have also been revealed or developed as a result of this year's crisis.

While there is no currently foreseeable solely-private insurance solution, the expertise and risk capacity of the insurance and reinsurance sectors have an important role to play. Development of a public-private partnership with the right incentives for all parties is the only option to mitigate future economic impact of pandemics and accelerate economic recovery from COVID-19.

Members of the Business Continuity Coalition believe any pandemic risk insurance program should adhere to the following principles:

1) **Scope:** Any Federal backstop should support not only non-physical-damage business interruption (NDBI) coverage but also other pandemic impacted lines of insurance, such as event cancellation, workers compensation, production or cast insurance (for film and TV productions), and general and employment practices liability insurance. These lines may need to be supported by a robust backstop even for a recurrence of COVID-19.

2) **Private Insurer Utilization:** Insurers should be included in any pandemic insurance program to involve a number of current industry advantages: (1) determine appropriate premiums to reduce taxpayer outlays; (2) use existing claims-paying infrastructure to pay claims; and (3) leverage insurer expertise in risk mitigation to help businesses understand how they can reduce pandemic risk, comply with imposed requirements, and get their businesses up and running expeditiously.

3) **Availability**: Eligible insurers should be required either to share some portion of the risk in the primary NDBI coverage layer or to support other covered lines of insurance as a condition of being permitted to sell any government-supported NDBI coverage. Any pandemic program must properly balance the need to ensure participation with the reality that insurers cannot take on too much uncertain exposure.

4) **Affordability:** Premiums for the program should not aim to cover full program costs. During an initial economic recovery period, the backstop should be without premium, after which the government should charge at least some premium for the risk it bears, but policymakers should not expect premiums to cover the full cost of the program. Premium levels should be set to result in widespread take-up.

5) **Intergenerational Financing:** A government pandemic insurance program should not only provide backstop comprehensive protection, but can and should assume the risk of spreading the financing of "black swan" events over decades.

6) **Rapid Claims Payment/Minimum Transaction Costs:** Any primary NDBI program should be structured as parametric coverage which would be triggered by defined external conditions (national health declaration + state/local action affecting specified business categories) without recourse to usual proof-of-loss; although use of proceeds might be audited. A Federal Reserve liquidity facility should be authorized to ensure rapid pay-outs.

7) **Pooling Alternative for Offer of NDBI Coverage:** Insurers that do not wish to underwrite the primary NDBI coverage directly should be given the option to support a joint underwriting facility for that coverage which would also enjoy the Federal backstop support.

8) **Stop-Loss As Well As Quota-Share Protection:** Federal reinsurance protection for both NDBI primary program and for other covered lines should be offered, on an optional paid basis, in the form of stop-loss protection in addition to the co-share element, given the potentially extreme cumulative risk of pandemic losses.

9) **Utilization of Reinsurance and Capital Markets:** The Federal program should, like NFIP, be encouraged to foster development and use of private reinsurance markets as well as capital markets' alternative risk-transfer mechanism to further reduce or protect taxpayer exposure.

10) **Continuity:** A Federal pandemic risk insurance program should be administered by a Federal entity housed within the Department of Treasury with continuous existence, such as the WW II-era War Damage Corporation (later wound-down) or the Federal Crop Insurance Corporation.