Marsh

Building pandemic resilience through public–private partnership

Federal Advisory Committee on Insurance

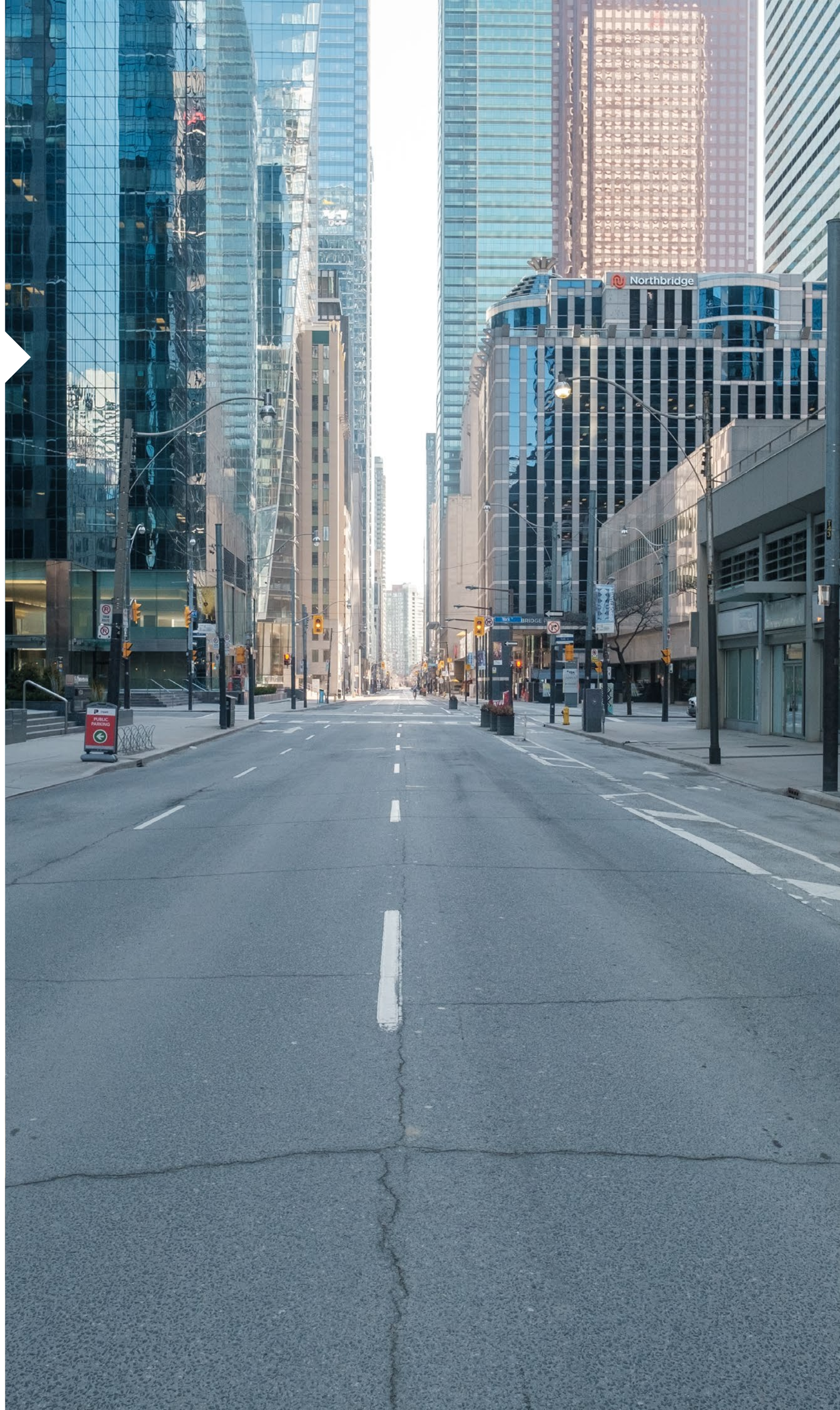
September 9, 2021

A new public–private partnership

In our new report, we present our view that a public-private partnership is essential to containing the effects of the next pandemic or epidemic.

Our bottom line: Existing insurance solutions — and insurers alone — cannot fully protect businesses from the potentially sizable losses they could incur during the next pandemic or epidemic.

Given the complex nature of pandemic risk, a strong public-private partnership is required to effectively manage it and enable our economy to build the resilience it needs for the future.

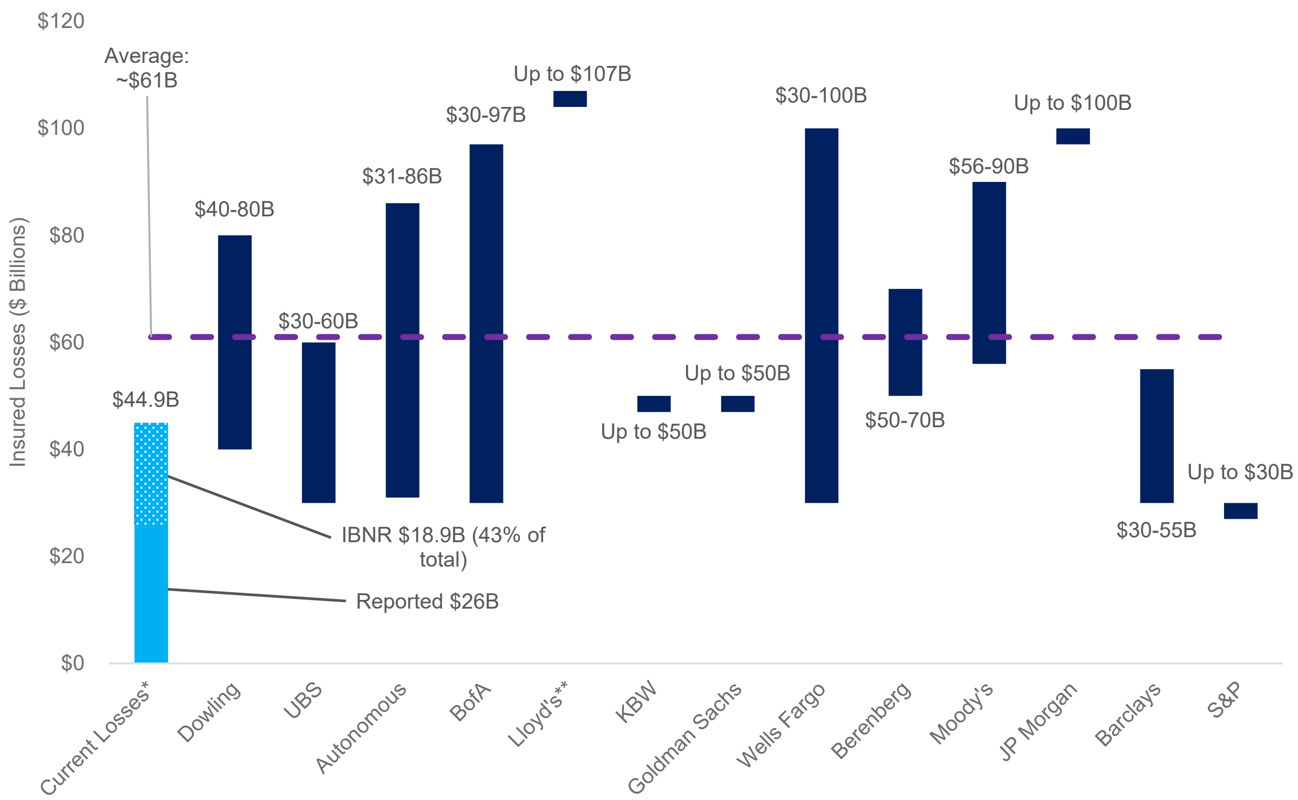


The pandemic’s insurance implications

Despite what ultimately may turn out to be substantial COVID-19 claims payouts from insurers, policyholders have often found little comfort in property and liability policies.

Insurers have asserted that their policies are not designed to protect against the broader economic implications of pandemics — and are now explicitly excluding communicable disease coverage.

Estimates of insured COVID-19 losses have varied significantly.



Sources: Guy Carpenter analysis, Dowling, Autonomous Research, Barclays, Bank of America, KBW, UBS, Lloyd’s, Wells Fargo, Goldman Sachs, Berenberg, Moody’s, and JP Morgan; updated as of August 17, 2021.
*Represents consolidated COVID-19 losses tracked by Guy Carpenter’s Business Intelligence team as of August 17, 2021, accounting for end of period foreign exchange rates.
**Lloyd’s estimate is for underwriting losses from COVID-19, including claims and anticipated lower profits due to lower premiums.

Shrinking capacity, narrowing terms and conditions, and intensifying underwriting scrutiny

Property/business interruption

- Insurers have denied pandemic claims, citing a variety of reasons, including:
  - The asserted absence of a physical damage trigger.
  - The invocation of pollution/contamination and virus exclusions and other policy language.
- Nearly 2,000 COVID-19 coverage lawsuits had been filed through July 26, 2021.
- Capacity has rebounded somewhat from the initial shock of COVID-19, but communicable disease coverage remains restricted.

General liability and umbrella/excess

- Insurers are concerned about claims developing potentially years after alleged exposure or injury.
- Some insurers have sought to added communicable disease exclusions to their policies.
  - Policyholders are concerned that insurers' proposed language may be overly broad.
- Underwriters are applying greater scrutiny to all GL and umbrella/excess risks.

Workers' compensation

- 20+ states have introduced "rebuttable presumptions" that employees in certain professions who contract COVID-19 have been infected while working.
- While insurers cannot explicitly exclude coverage for occupational illnesses, they are:
  - Seeking to eliminate "same communicable disease" endorsements.
  - Choosing not to underwrite certain employers with significant communicable disease risk.

Event cancellation

- Capacity has fallen more than 30% amid the pandemic.
  - Several large underwriters have exited the market.
- Deductibles of 10% to 20% of insured sums are now standard for small to midsize outdoor events.
  - Coverage for indoor events is available without such deductibles, but with significantly higher pricing.
- Communicable disease coverage is now widely unavailable — and expected to remain so going forward.

Directors and officers liability

- Underwriters are concerned about pandemic effects on distressed companies and challenged industries.
- COVID-19 has sparked a limited number of securities claims, including some related to:
  - Its economic impact.
  - An alleged failure of company leadership to adequately address workplace safety concerns.
- Insurers are generally not imposing pandemic-related coverage restrictions.

Employment practices liability

- Workers had filed more than 3,000 COVID-19-related suits as of August 19, 2021, alleging retaliation, discrimination, and failure to properly track time.
- While pandemic-related coverage restrictions have not been commonplace, insurers are scrutinizing risks and probing employers about:
  - Reductions in force.
  - Vaccine mandates.
  - Plans to return employees to workplaces.

Sources: University of Pennsylvania, Oliver Wyman, Fisher Phillips, Marsh analysis

A new pandemic risk solution

A public-private partnership to establish a pandemic reinsurance program can offer substantial benefits.

A pandemic risk insurance facility can:

- Help limit — but not eliminate — private sector risk.
- Absorb much of the initial shock of a future pandemic.

A public-private partnership can range from a pure private partnership to a state-financed fund for noninsurable risks.

Policymakers can look to existing risk pooling schemes in the US and elsewhere for models, and learn valuable lessons from them.

Working together to manage pandemic resilience

Insurers, the private sector, and governments can work together to improve resilience and preparedness.

- Insurers can help businesses use data to understand risk and enact practices to prevent losses.
- Governments can apply lessons from COVID-19 to better ensure readiness for a future event.
- Businesses can take a forward-thinking approach to risk.

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