

# Arnold & Porter

## Insurance Solutions for Pandemics

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# COVID-19 Exposed a Significant Protection Gap



- The current pandemic has shown that there is a significant protection gap for so-called non-damage business interruption insurance (NDBI). Commercial policyholders are now grappling with this “protection gap.”
- In addition, pandemic risk results in accumulation potential across several lines of insurance business, for example, event cancellation, credit, travel, and liability, not to mention life and health.
- The asset side of insurers’ balance sheets can also be affected by the adverse market conditions caused by the economic impact of the response to a pandemic (correlation risk).
- Since insurance depends upon pooling and diversification, it is evident that insurance for pandemic risk will not be provided solely by private commercial insurers and reinsurers, at least not until the future risk is better understood.
- **But**, inability of businesses to insure NDBI and other risks has significant wider economic and social consequences such as businesses and individuals being unable to obtain loans and mortgages. This may well be an important second round effect of the COVID-19 crisis.
- Public-private solutions should be found.

# Principles for Public-Private Pandemic Insurance Solution



- Risk Assessment – to assess NDBI risks of pandemic, following are necessary:
  - Access to data, both
    - On the pandemic itself (e.g., type of virus, contagion development over time, etc.)
    - Lockdown. In this era of “Big Data” much needs to be studied about where B/I actually occurred and why. Two sources of data:
      - Government sources
      - Private –financial institutions, etc.
  - Risk Modelling – current Cat Models need to be adapted -- ASAP
- Risk Prevention
  - Public prevention + private measures
  - Reflect prevention measures in NDBI insurance premiums and policy conditions
- Simple Transparent NDBI Coverage (Parametric)
- Support for Other Lines of Business Critical to the Economy
- Risk Transfer – “Put All Your Troops In”
  - Mandatory participation (in some form) by direct insurers
  - Incentive for customer take-up
  - Pooling
  - Develop reinsurance and capital market solutions for diversification
  - Government back-stop (probably stop-loss as well as quota share) is essential

# Early Proposals for Public-Private Solution



- PRIA (H.R.7411) – Adapting TRIA backstop to pandemic
- APCIA/NAMIC/IIABA – BCPP Plus – thoughtful development of NDBI parametric product
- Chubb – Explicit role for private insurers as underwriters/risk takers/claims adjusters
- Zurich – Building on the Federal Crop Insurance model, but again explicit role for private insurers
- Business Continuity Coalition (Commercial Policyholders) – Incorporating elements of all the other proposals

# Business Continuity Coalition (BCC)



- A broad-based (and still growing) coalition across industry lines, dedicated to working with insurers and policymakers to develop a workable solution.
- Members include
  - National Retail Federation
  - International Council of Shopping Centers
  - The Real Estate Roundtable
  - Nareit
  - Commercial Real Estate Finance Council
  - Media industry, including Fox, Viacom/CBS, and IFTA
- BCC seeks not only widespread availability and affordability of NDBI coverage but also restoration and expansion of coverage for the pandemic peril in other lines including, event cancellation, movie/TV cast insurance, and other impacted lines.

# Systemic Risks May Need to Be Addressed More Broadly



- The European Insurance and Occupational Pension Authority (EIOPA) issued a thoughtful [Staff Paper](#) on “Shared Resilience Solutions for Pandemics” (July 2020) which, among other things, asks whether a multi-peril approach, covering losses from pandemic, cyber, climate change, and terrorism could offer better diversification effects, ultimately improving society’s risk-bearing capacity and effectiveness.
- Similarly, Lloyd’s of London, as part of its “Global Recovery and Resilience” [Paper](#) proposed frameworks for three potential structures for systemic risk, including Black Swan Re, which would address these same systemic risks.
- Creating such a public/private backstop that supports systemic risks more broadly could take advantage of the insurance industry’s expertise in risk mitigation and loss adjustment while helping to avoid the reputational issues arise when the customer base discovers too late the lack of coverage.
- This should not delay pandemic solution, but build off it.

QUESTIONS?

