

Future Pandemics: Approaches to Dealing with Business Interruptions

Illinois Business Interruption Task Force

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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)

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

Business Continuity Protection Program (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

How Does the BCPP Work?

- Revenue replacement assistance to protect the business community
 - Businesses purchase up to 80% of payroll/benefits/necessary expenses, up to 3 months protection
- Simple application – IMMEDIATE RELIEF in a crisis
 - One-page electronic application
 - Straightforward parametric trigger (state requested Presidential declaration)
 - Automatic revenue replacement based on previous tax returns
- Resistant to political manipulation
 - Rules/relief formulas established in advance (no certification delay, claims adjustment delay or uncertainty)
 - Protection precisely aligned with closure orders

How is the BCPP Sold/Purchased?

- Eligibility:
 - Revenue replacement assistance available to any interested firm in the U.S.
 - All for-profit and non-profit entities – not barred by size
 - Entities must enroll at least 90 days prior to a Presidential viral emergency declaration in order to receive assistance
- Distribution Channel:
 - Program distribution through state-regulated insurers, agents, and brokers
 - Presentation and policyholder opt-out requirements to encourage take-up rates
- Federally Funded Protection:
 - Subsidies and program designed to ensure widespread take-up

BCPP – Additional Programs

- **Excess Coverage Backstop:**
 - BCPP provides foundation for private insurance to develop
 - Would create a voluntary excess backstop to cover losses beyond what is protected by the BCPP
- **Event Cancellation:**
 - Program would provide financial protection products to address event cancellations
 - Parametric event cancellation product by 2021
 - Excess backstop to support private event cancellation insurance by 2021

BCPP – Why it would work!

- **Businesses**
 - Available, simple, immediate relief for businesses directed to close
 - Servicers compete for business
 - Federally subsidized availability/affordability
- **Government**
 - Preestablished private mechanism for distributing immediate closure relief
 - Alignment of medical/health recommendations, government decisions triggering program, and business's ability to close
 - Costs are partly offset through purchase payments
- **Everybody**
 - More economic and legal certainty!

Questions and...

Thank you!

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