

# Future Pandemics: Approaches to Dealing with Business Interruptions

---

Illinois Business Interruption Task Force

October 13, 2020

# 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!

Donald L. Griffin, CPCU, ARC, ARe, ARM, AU  
Vice President, Policy & Research  
[donald.griffin@apcia.org](mailto:donald.griffin@apcia.org)

Jon Bergner  
Vice President, Public Policy & Federal Affairs  
[jbergner@namic.org](mailto:jbergner@namic.org)