Business Interruption Insurance and Pandemics

February 15, 2021

2 p.m. ET / 1 p.m. CT / Noon MT / 11 a.m. PT
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NCSL Executive Committee Task Force on Insurance

Rich Gibson, Senior Casualty Fellow, MAAA, FCAS
American Academy of Actuaries—Overview

- Mission of the American Academy of Actuaries (“Academy”) is to provide objective and independent advice to policymakers on matters relevant to actuarial practice
- Academy is the national organization for actuaries in the United States
- Academy is made up of member actuaries practicing in multiple practice areas (Pensions, Life, Health, Property and Casualty)
Academy does not endorse particular legislation or legislative proposal regarding business interruption (BI) coverage

Has provided testimony to the U.S. House Financial Services Committee regarding H. R. 7011: https://www.actuary.org/sites/default/files/2020-12/Pandemic_Risk_Actuaries_Statement.pdf

Numerous technical issues to be considered
An actuarially sound insurance program requires rates that consider the expected value of all future costs to the program.

Rates are prospective in nature, estimated prior to knowing the actual costs.

Costs of the program will include cost of capital:
- Capital required to support the program in case actual costs are higher than expected.
- Volatility is a key consideration.
Actuarial Perspective—General Considerations (cont.)

- Catastrophic events and the insurance programs that cover them are by nature subject to greater volatility
  - Harder to estimate accurately
  - Low frequency of occurrence but can be quite severe in magnitude
  - Higher cost of capital
- Normally, catastrophic events are geographically localized
- Occur within a short period of time
Actuarial Perspective—Considerations for Insuring Pandemics

- Characteristics of a pandemic
  - Clearly catastrophic in nature
  - Not localized in place or time
- Accurately estimating an actuarially sound rate may not be possible
  - Affordability would be questionable
- Capital required to support a private market program would be quite large, perhaps unreasonable
- Operational capacity to settle all claims may not be available
Actuarial Perspective—Insuring Pandemics (cont.)

- Magnitude of losses from a pandemic is large and a federal backstop likely to be necessary
- Consideration given to speed of claim settlement
  - BI claims are complex
- Consideration given to affordability
  - Will impact uptake
  - Likely to require federal subsidy
Consideration given to the nature of the coverage
- Payroll vs. net income, for example

Overall goals of the program should be clear
Questions?

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Please type your questions into the chat box in the lower right-hand corner of your screen.
Thank you for joining us!

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- NCSL Insurance Task Force

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