



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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Richard Gibson

senior casualty fellow, American Academy of Actuaries

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Rich Gibson, Senior Casualty Fellow, MAAA, FCAS

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6

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Business Interruption Coverage—Public Policy Perspective

7

- 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

7



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Actuarial Perspective—General Considerations

8

- 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



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Actuarial Perspective—General Considerations (cont.)

9

- 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



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Actuarial Perspective—Considerations for Insuring Pandemics

10

- 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

10



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Actuarial Perspective—Insuring Pandemics (cont.)

11

- ▣ 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



Actuarial Perspective—Insuring Pandemics (cont.)

12

- ▣ Consideration given to the nature of the coverage
 - Payroll vs. net income, for example
- ▣ Overall goals of the program should be clear



Questions?

- Contact: Rich Gibson, MAAA, FCAS
(Gibson@actuary.org)

Senior Casualty Fellow, American Academy of Actuaries





Donald Griffin

department vice president, American Property Casualty
Insurance Association



Leon Buck

vice president, Government Relations Banking & Financial Services, National Retail Federation

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Q&A

Thank you for joining us!



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Contacts

- heather.morton@ncsl.org
- tres.york@ncsl.org