

# The Global (Re)Insurance Industry and the Challenges of Emerging from the COVID-19 Pandemic

**International Insurance Society  
Leadership Series Webinar  
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**SOUTH CAROLINA**

Darla Moore School of Business

# Coronavirus & the Recession of 2020: Outline

- **Scale and Scope of the COVID-19 Pandemic To Date**
- **Financial Impacts on the P/C (Re)Insurance Industry**
  - ◆ **Losses**
  - ◆ **Premiums**
  - ◆ **Investments**
- **The Global Economy and COVID-19: Overview & Outlook**
- **Litigation, Legislation and Regulation**
- **Summary and Conclusions**

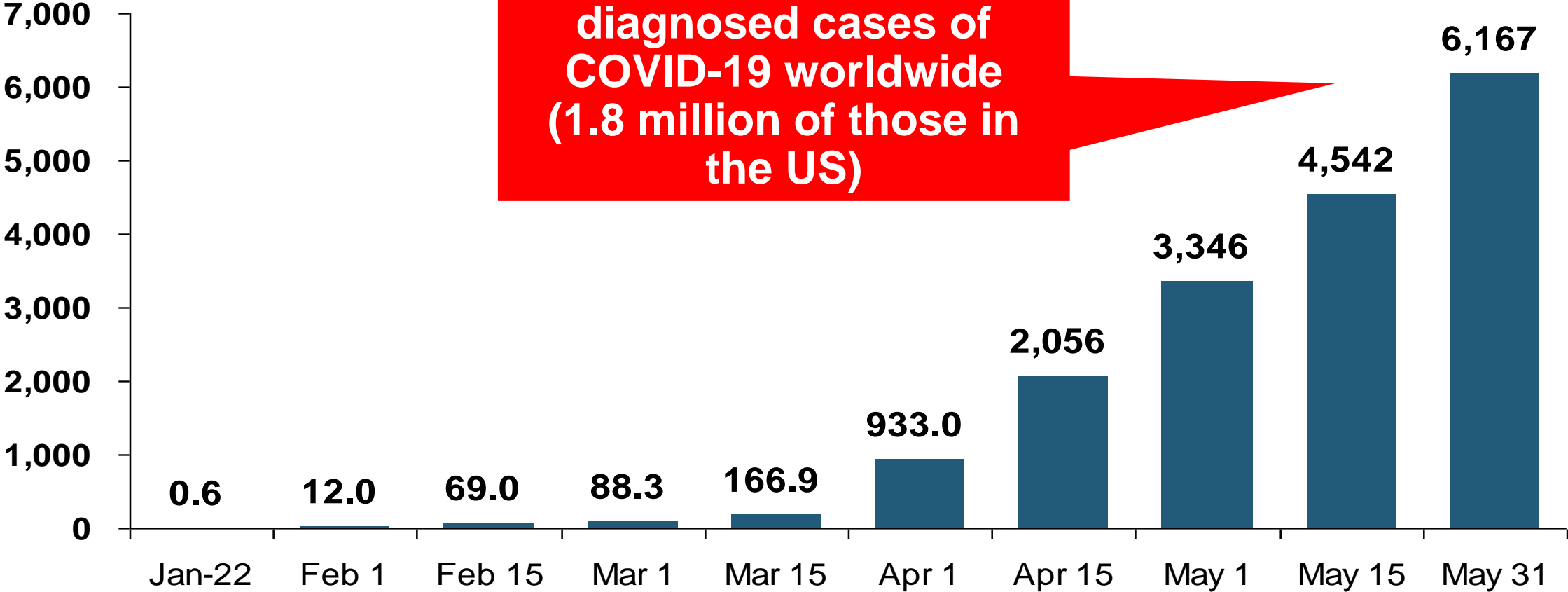
# Scale and Scope of the COVID-19 Pandemic

**The Pandemic's Toll is a Human Tragedy**

***COVID-19 Is Also an Economic Tragedy***

# Global Confirmed COVID-19 Cases (as of 31 May)

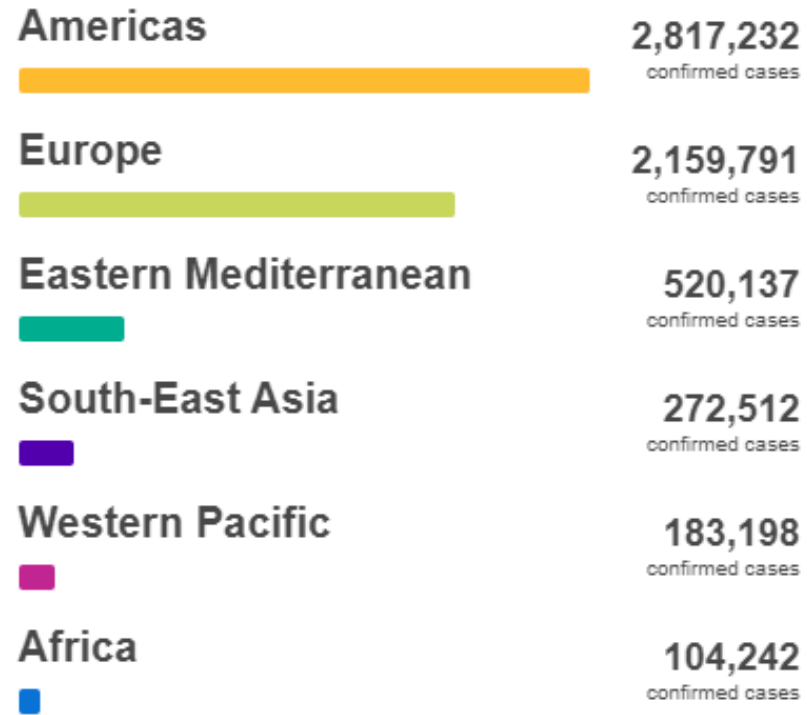
(Thousands)



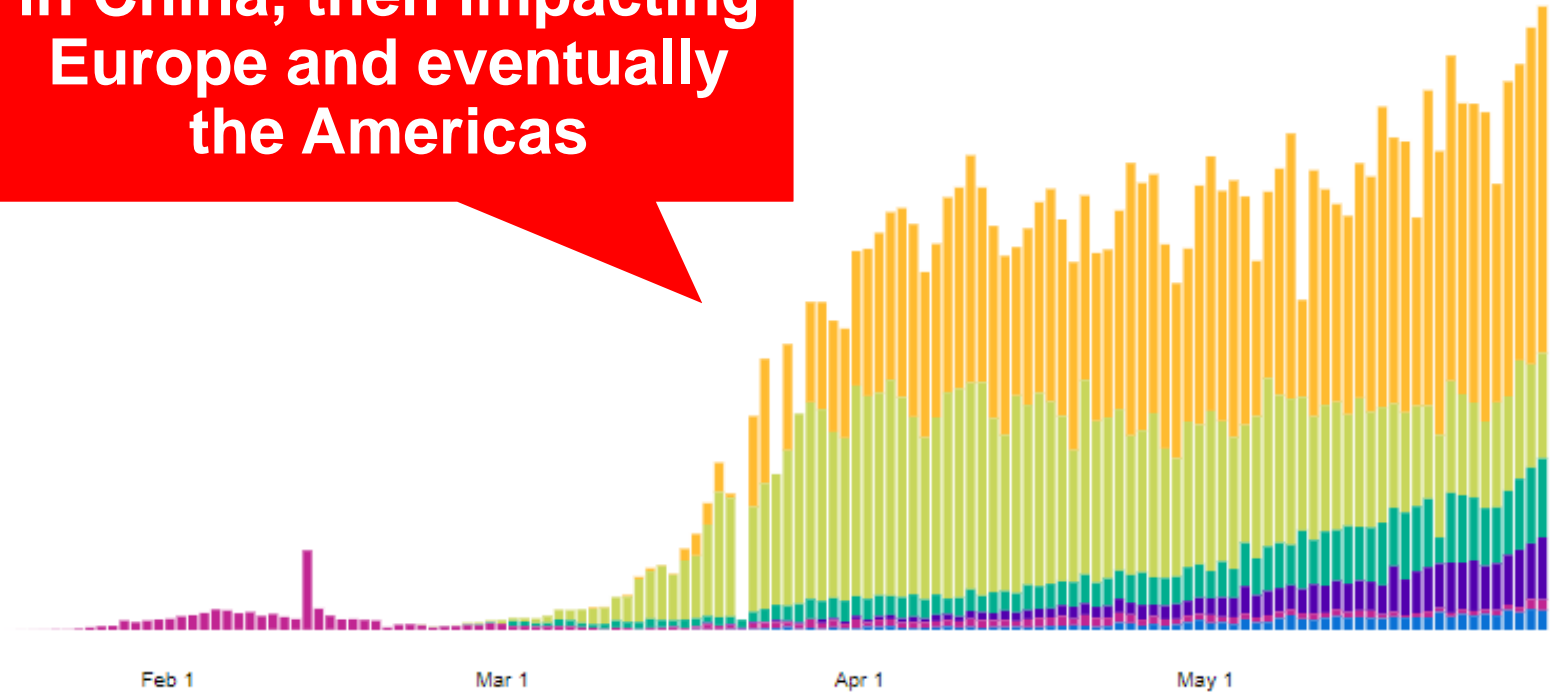
As of 31 May, there were nearly 6.2 million diagnosed cases of COVID-19 worldwide (1.8 million of those in the US)

Source: Johns Hopkins University accessed at: [coronavirus.jhu.edu](https://coronavirus.jhu.edu); Risk and Uncertainty Management Center, University of South Carolina.

# COVID-19 Confirmed Cases by Region (20 Jan - 31 May)



**COVID-19's sweep across the globe began in China, then impacting Europe and eventually the Americas**



# Mortality: Global Deaths per Day (21 Jan - 31 May)

## Global Death Toll

**373,973**  
(as of 1 Jun)

### Countries with Largest Number of C-19 Deaths

US: 104,658

UK: 39,127

Italy: 33,475

Brazil: 29,314

France: 28,805

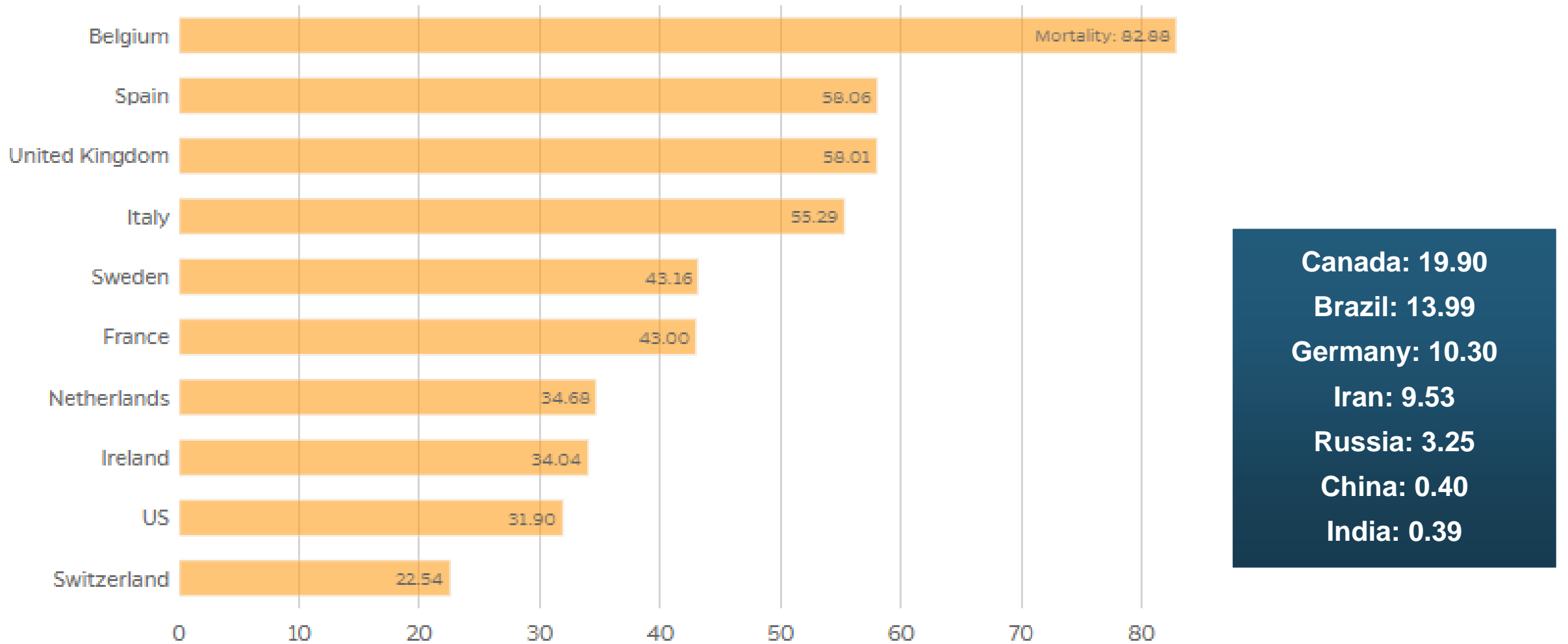
Spain: 27,127

...

China: 4,638



# Mortality: Deaths per 100K Population (as of 31 May)



# GLOBAL ECONOMIC REVIEW AND OUTLOOK

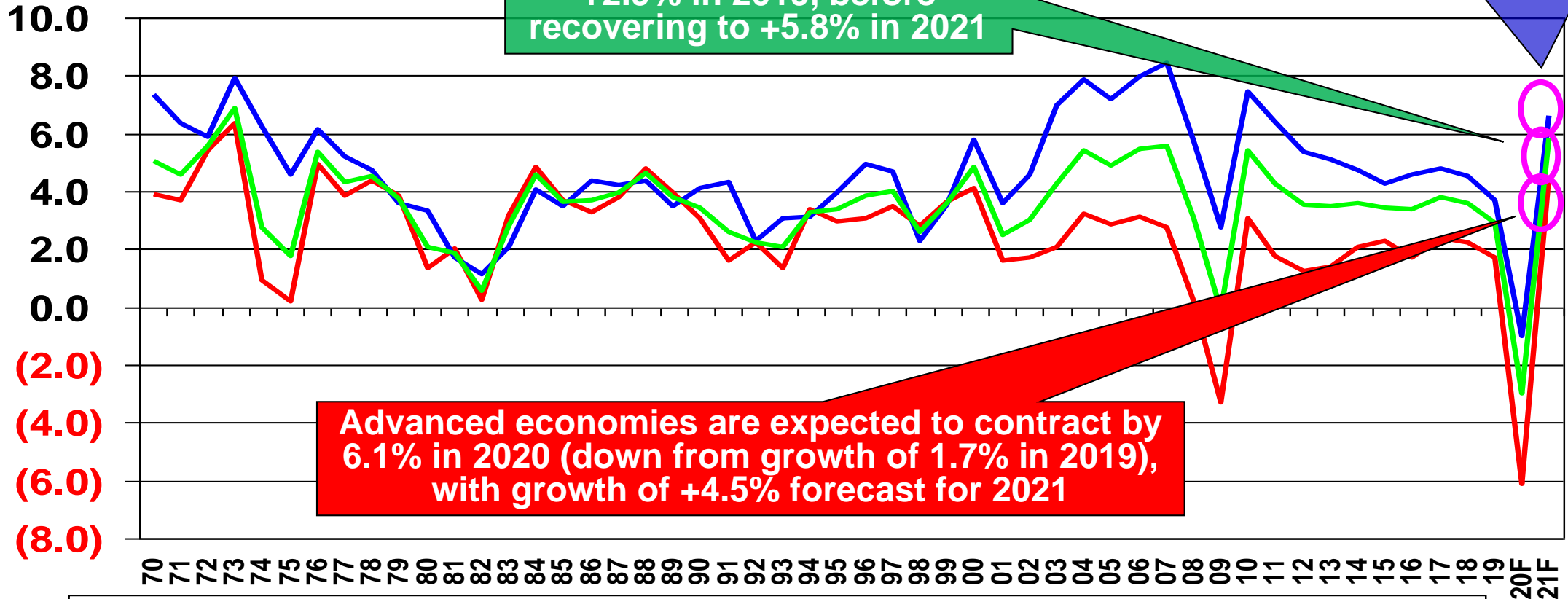
**COVID-19 Impacted All Regions, but Advanced Economies Are the Hardest Hit and Will Be the Slowest to Recover**

***The COVID-19 Pandemic Will Destroy Exposure and Exposure Growth on a Massive Scale***



# GDP Growth: Advanced & Emerging Economies vs. World, 1970-2021F

GDP Growth (%)



Global GDP is forecast to shrink by 3.3% in 2020 from +2.9% in 2019, before recovering to +5.8% in 2021

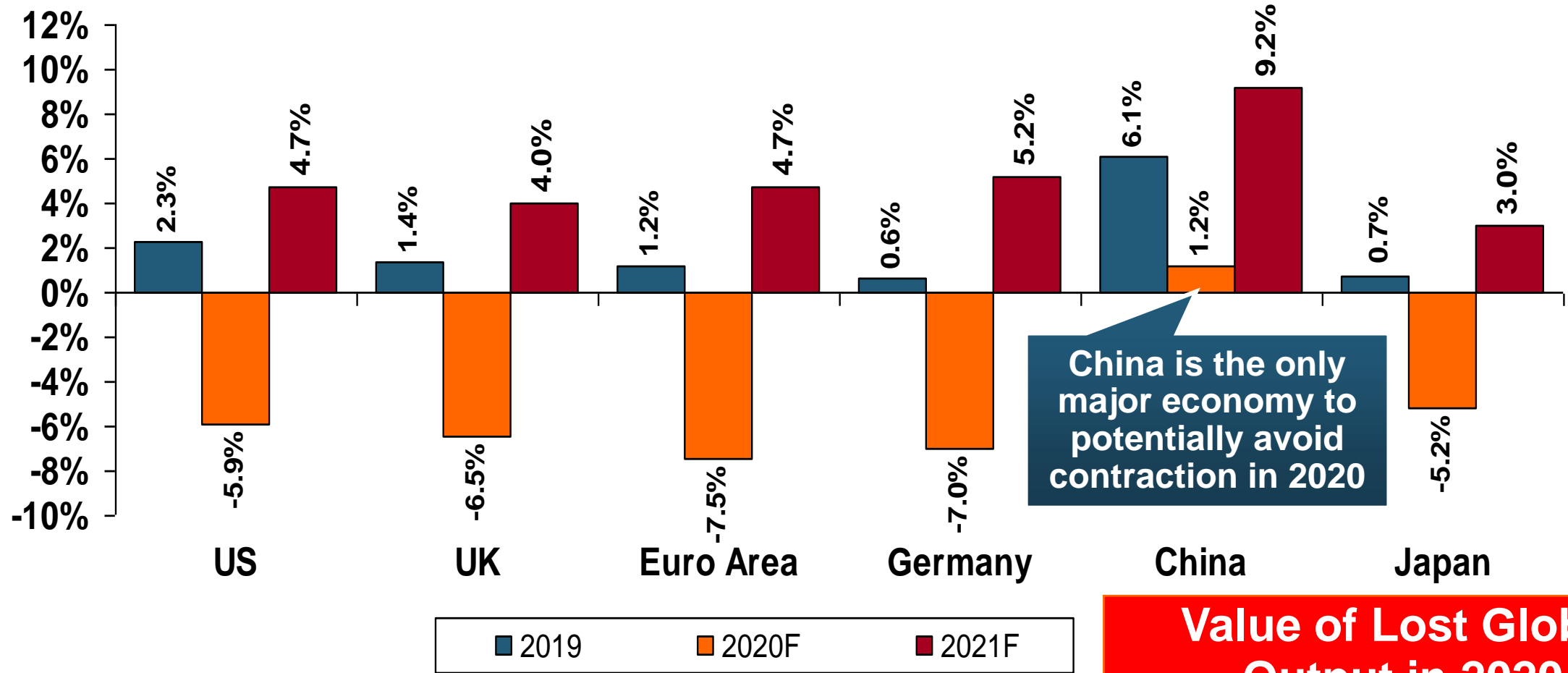
Emerging economies (led by China and India) are expected to contract by 1.0% in 2020 before resuming growth forecast at 6.6% in 2021

Advanced economies are expected to contract by 6.1% in 2020 (down from growth of 1.7% in 2019), with growth of +4.5% forecast for 2021

— Advanced economies — Emerging and developing economies — World

Source: International Monetary Fund, *World Economic Outlook*, Apr. 2020; Univ. of South Carolina, Risk and Uncertainty Management Center.

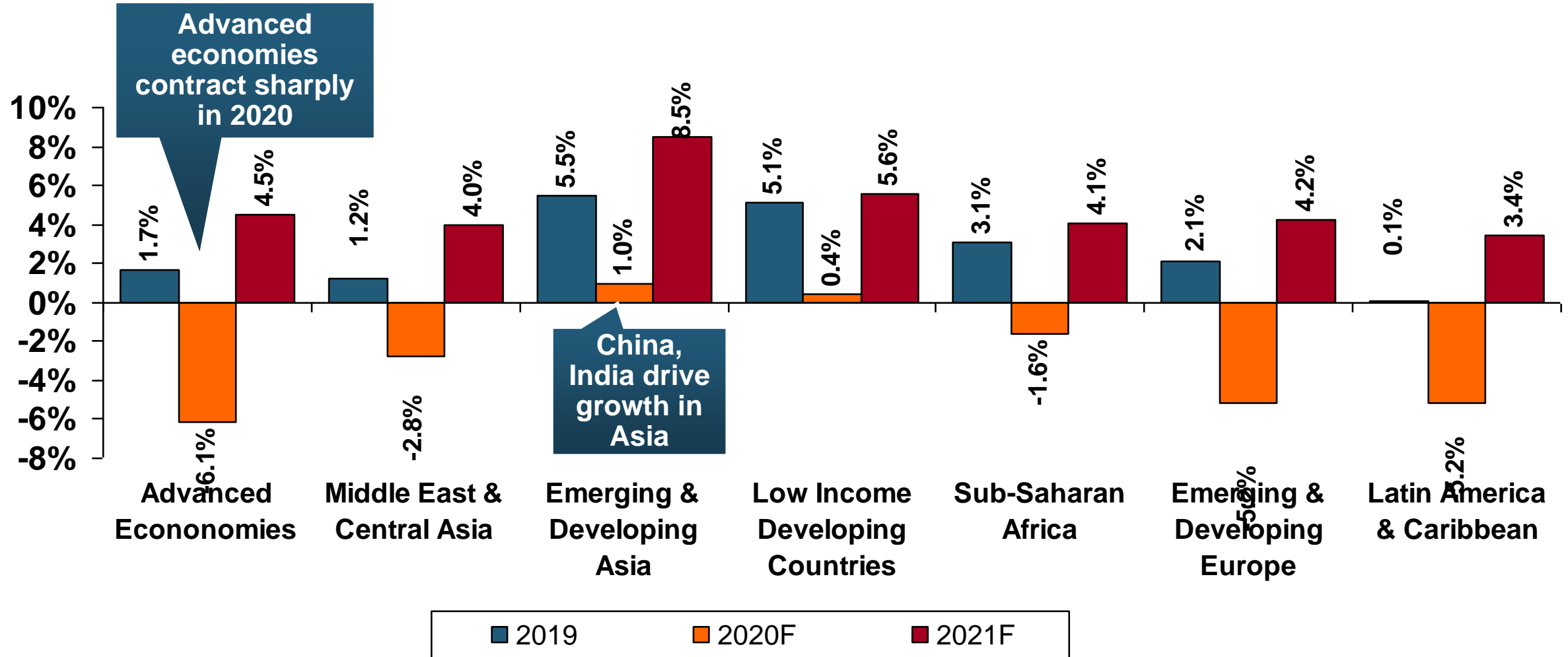
# Real GDP Growth Forecasts: “Advanced Economies”: 2019 – 2021F



**COVID-19 Destroyed Global Growth Prospects for 2020.  
Recovery Period Will Extend Through 2021**

**Value of Lost Global Output in 2020**  
**\$4.15 Trillion**  
**(\$15.7T in US from 2020-2030)**

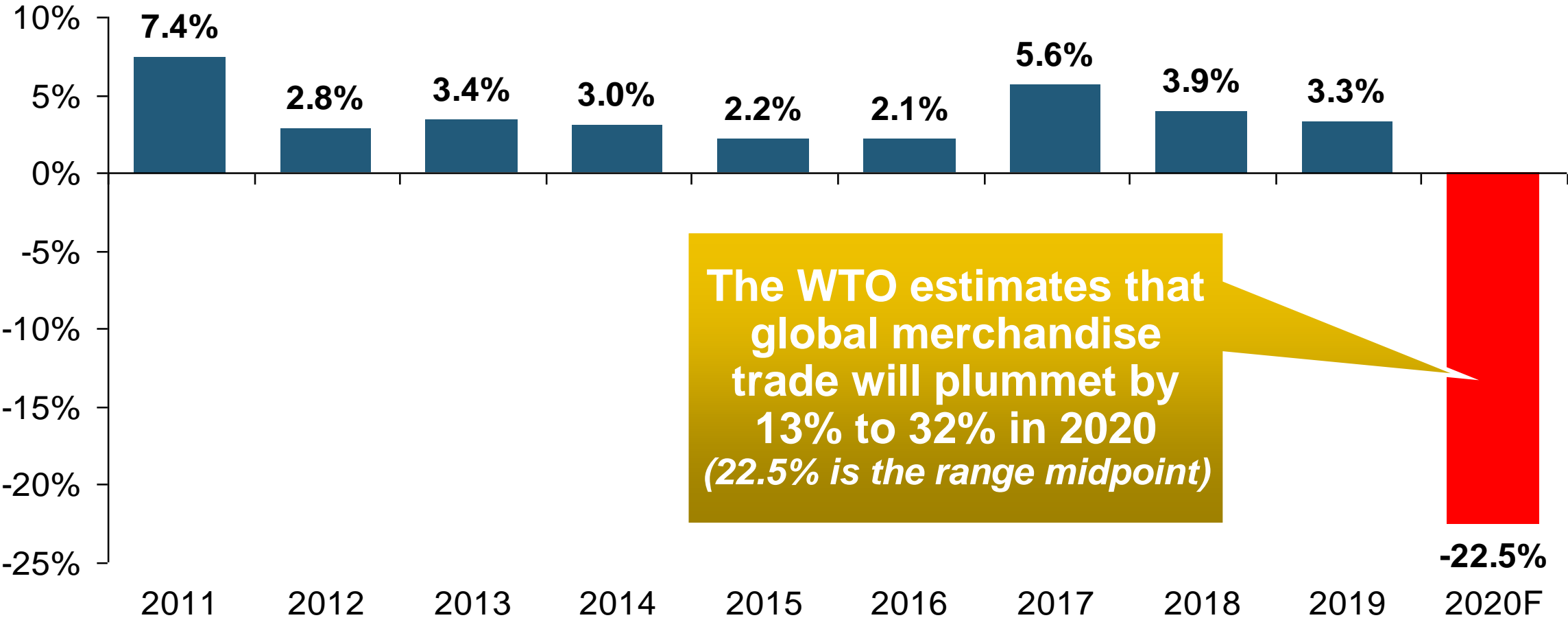
# Real GDP Growth Forecasts: Major Regions: 2019 – 2021F



**COVID-19's Impacts Vary Widely by Region but the Global Economy is Expected to Shrink by 3.0% in 2020 Before Rebounding by 5.8% in 2021**

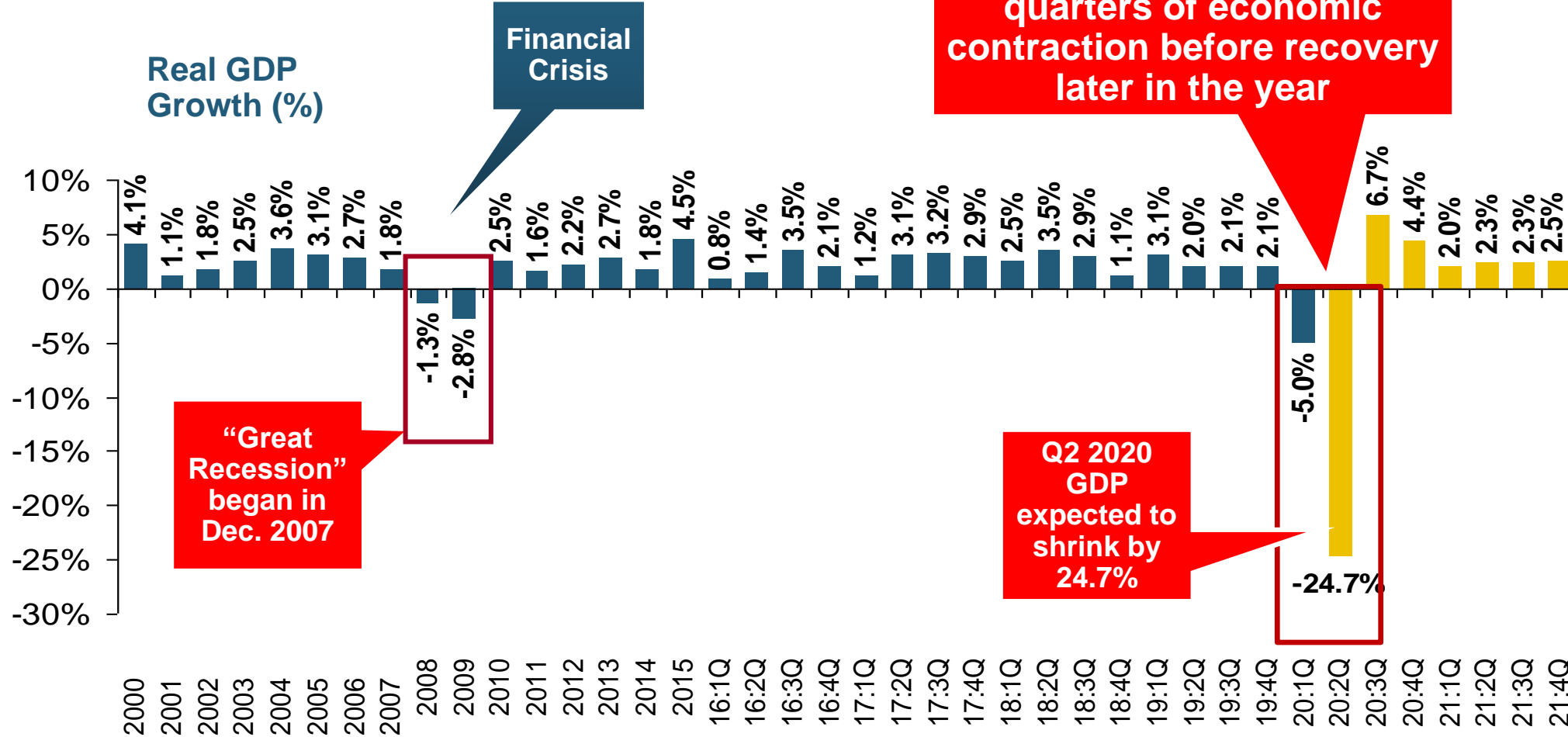
# Growth in Global Merchandise (Goods) Trade : 2011 – 2020F

(Annual Change)



Source: IMF, *World Economic Outlook*, April 2019 and World Trade Organization (8 April 2020) accessed at: [https://www.wto.org/english/news\\_e/pres20\\_e/pr855\\_e.htm](https://www.wto.org/english/news_e/pres20_e/pr855_e.htm).

# US Real GDP Growth\*



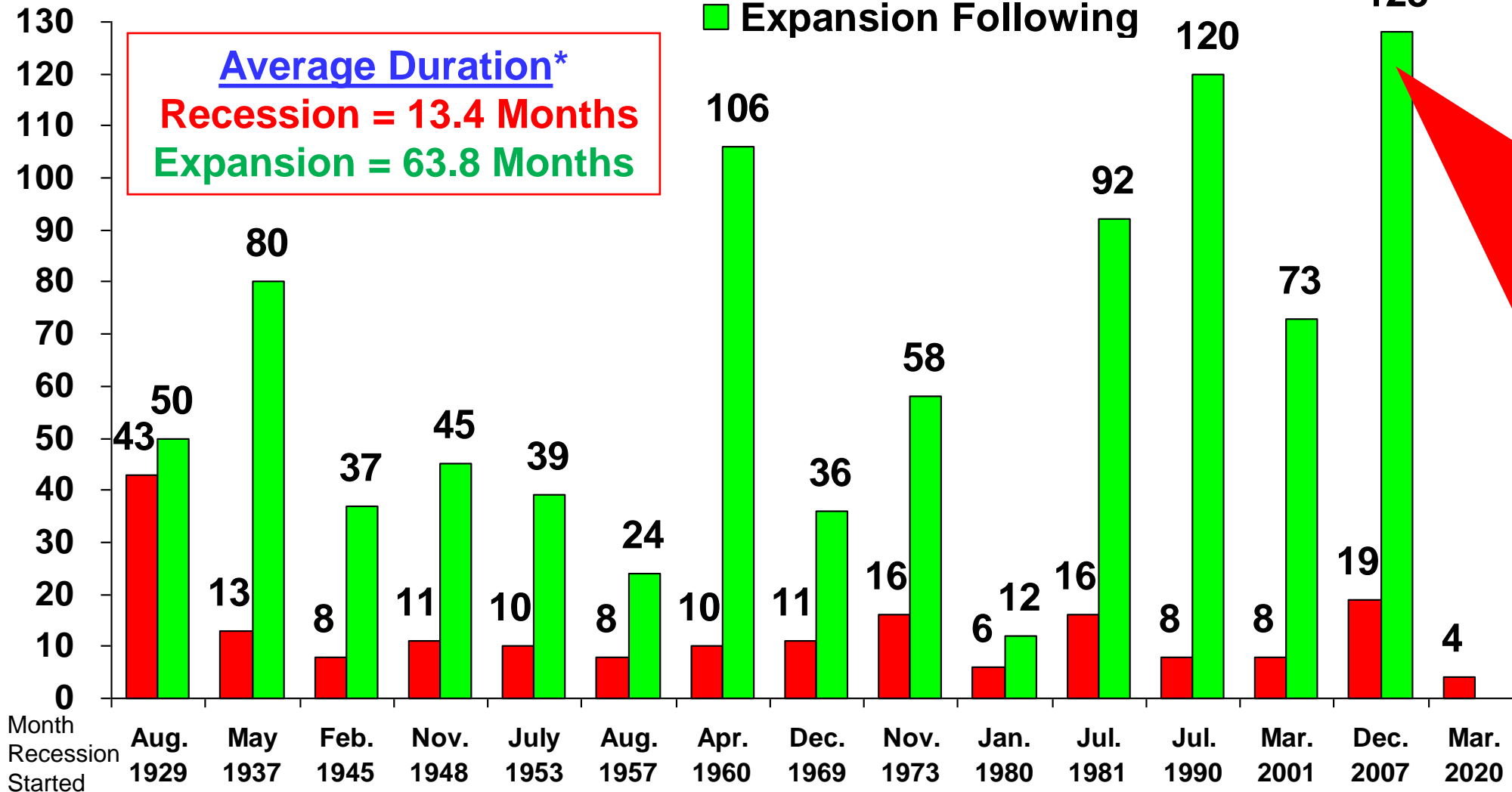
**Demand for Insurance Will Be Severely Impacted As the Economy Slows but Should Improve by Late Q3 and into Q4**

\* Estimates/Forecasts from Wells Fargo Securities.

Source: US Department of Commerce, Wells Fargo Securities 5/13/20; Center for Risk and Uncertainty Management, University of South Carolina.

# Length of US Business Cycles, 1929-Present\*

Duration (Months)



Average Duration\*  
**Recession = 13.4 Months**  
**Expansion = 63.8 Months**

The most recent economic expansion ended in Feb. 2020 and was the longest in US history (began July 2009)

Recession may officially last only 5-7 months

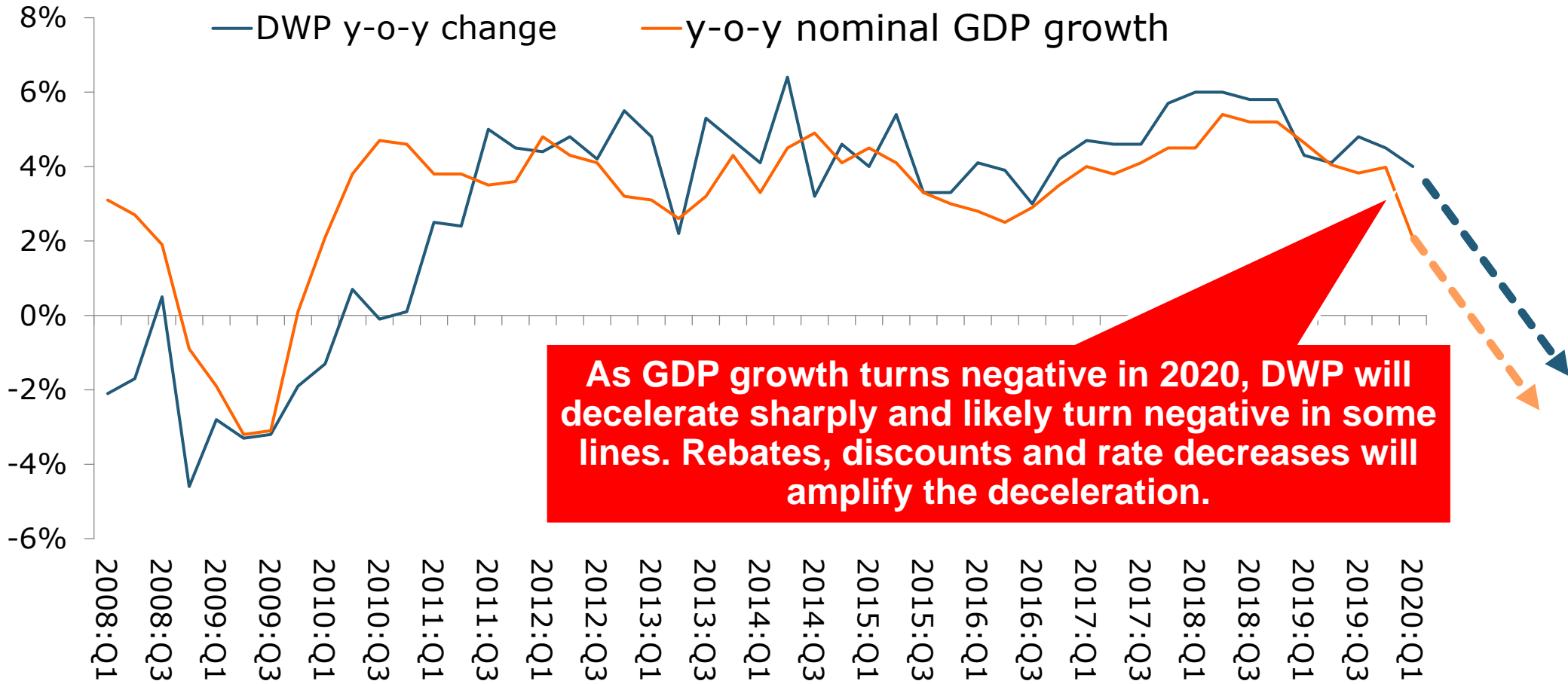
Will likely take 2+ years to recover lost growth

\* As of June 2020 but excluding current COVID-19 recession which began in March/April 2020 and is ongoing.

Sources: National Bureau of Economic Research; Risk and Uncertainty Management Center, University of South Carolina.

# The Economy Drives P/C Insurance Industry Premiums: 2006:Q1–2020:Q1\*

Direct Premium Growth (All P/C Lines) vs. Nominal GDP: Quarterly Y-o-Y Pct. Change

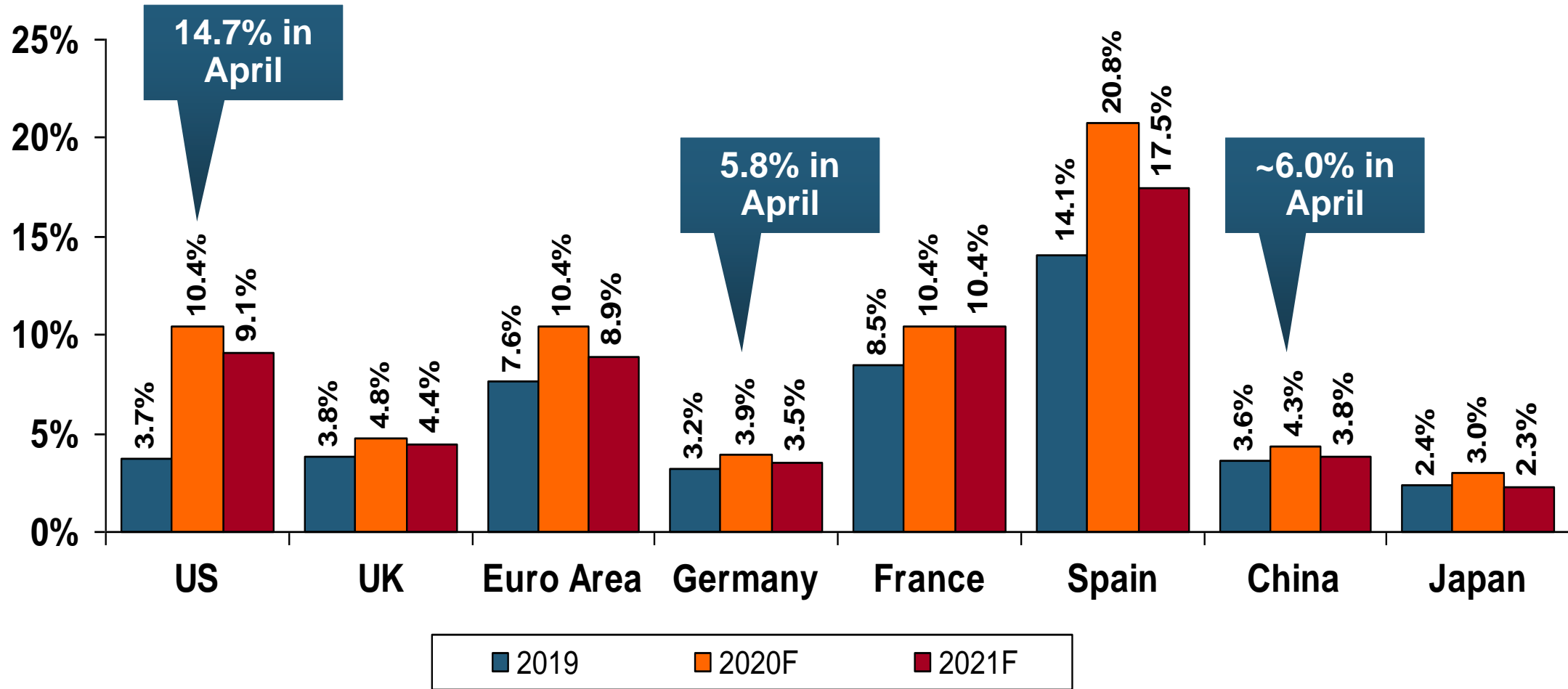


**As GDP growth turns negative in 2020, DWP will decelerate sharply and likely turn negative in some lines. Rebates, discounts and rate decreases will amplify the deceleration.**

**Direct written premiums track nominal GDP fairly tightly over time, suggesting the P/C insurance industry’s growth prospects inextricably linked to economic performance.**

\*2020:Q1 GDP figure is actual. DWP is estimate from Risk and Uncertainty Management Center, University of South Carolina. Sources: SNL Financial; U.S. Commerce Dept., Bureau of Economic Analysis; ISO; I.I.I.; Risk and Uncertainty Management Center, University of South Carolina.

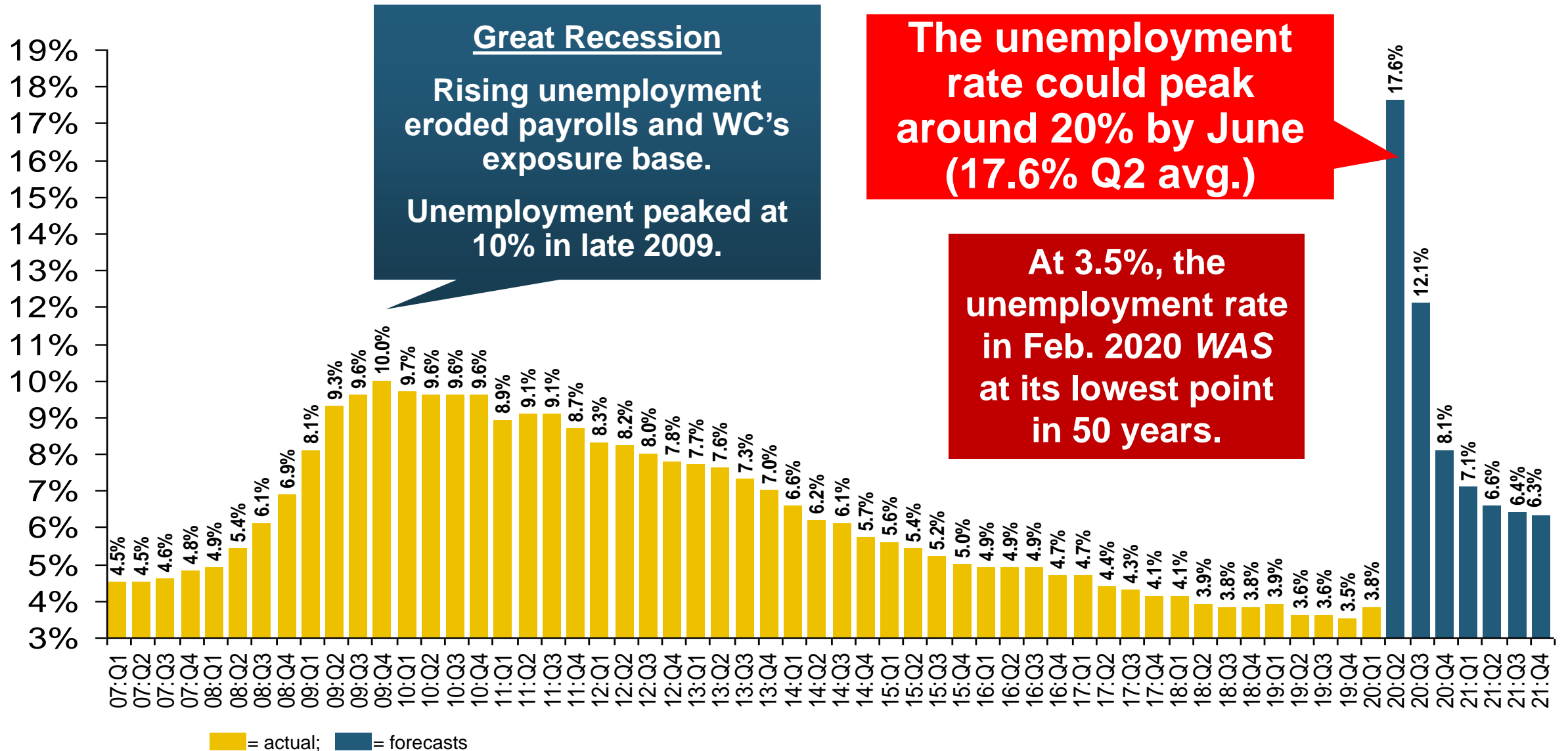
# Unemployment Rate for Selected Large Economies: 2019 – 2021F



**COVID-19 Destroyed and estimated 305 Million Jobs Around the World in the Span of Weeks (UN). It Will Take Years to Recover and Some Jobs Will Never Return.**

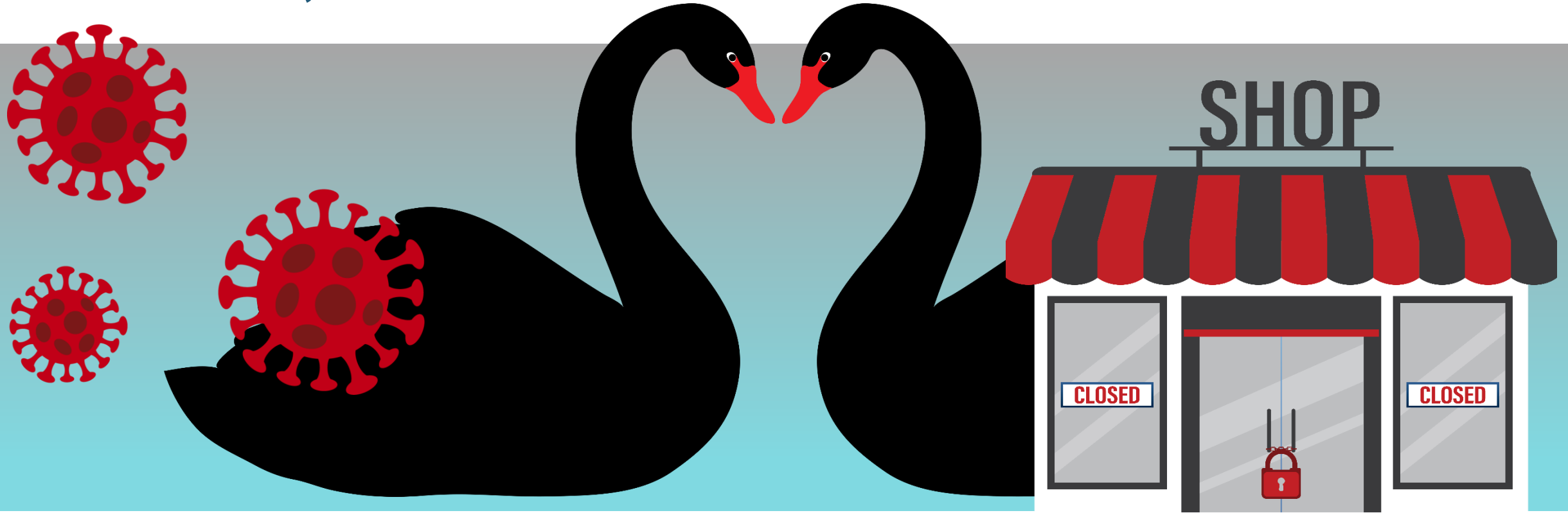


# US Unemployment Rate Forecast: 2007:Q1–2021:Q4



Sources: US Bureau of Labor Statistics; Wells Fargo Securities (5/20 edition); Risk and Uncertainty Management Center, University of South Carolina.

# Government Mandated Business Closures Were the Real Black Swan, Not the Coronavirus



- The US (and world) has endured several other major infectious disease outbreaks killing 100,000+ Americans without shutting down the economy
  - Hong Kong Flu (1968-70)
  - Asian Flu (1957-58)

- It is the reaction to the virus that is unprecedented and represents the *true* Black Swan event
- The ramifications of this decision will be consequential for a generation (e.g., \$3 trill. in new debt in US alone)

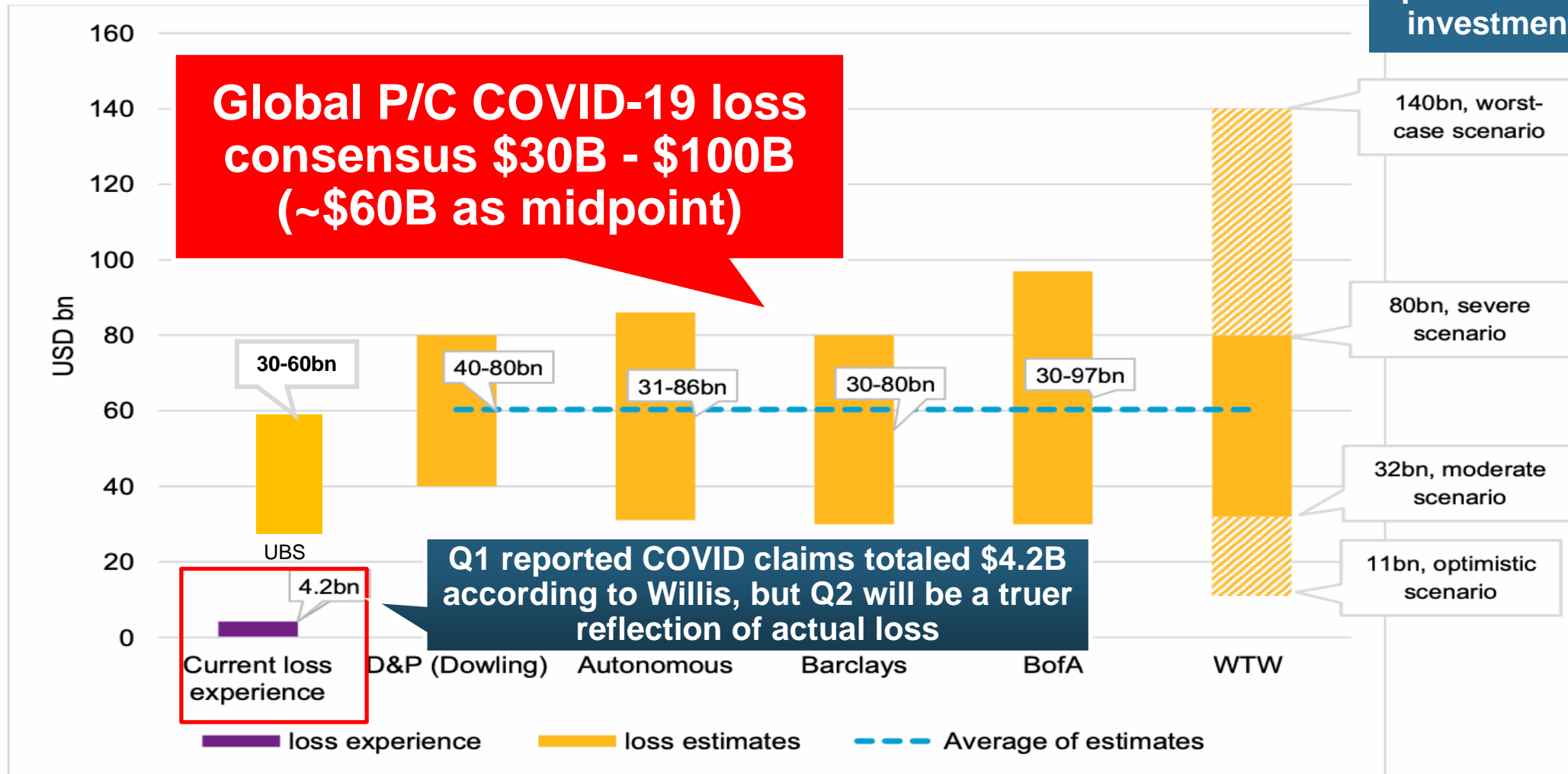
# COVID-19 Pandemic: Direct P/C Insurance Industry Impacts

**COVID-19 Will Directly Impacts Many  
Aspects of (Re)Insurer Performance**

***Profitability, Losses, Exposure,  
Growth, Investments***

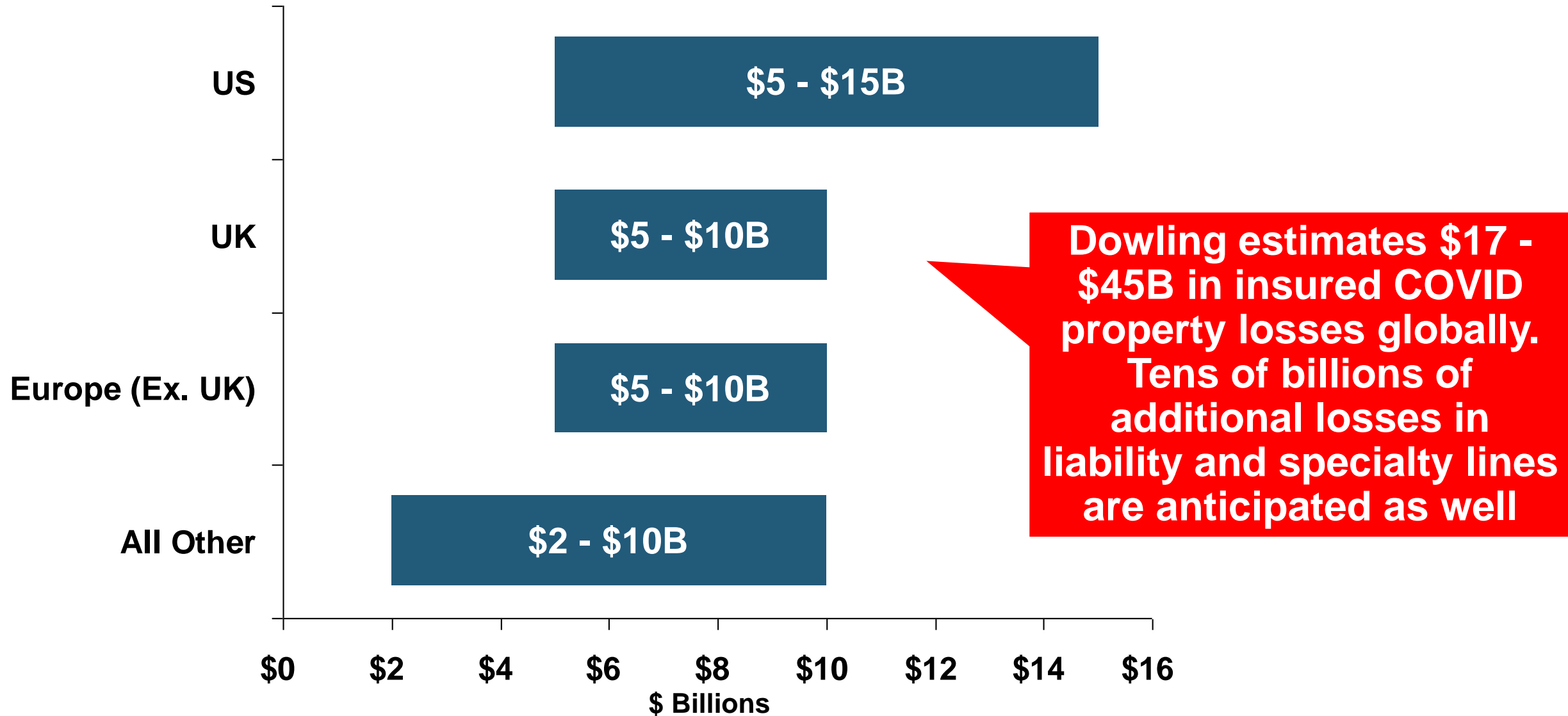
# COVID-19 Announced Losses vs. Top-Down Industry Estimates (as of May 12, 2020)

Lloyd's: Says its own p/c claims could reach \$4.3B by June 30. Estimates global p/c losses at \$107B; Global investment losses = \$96B\*

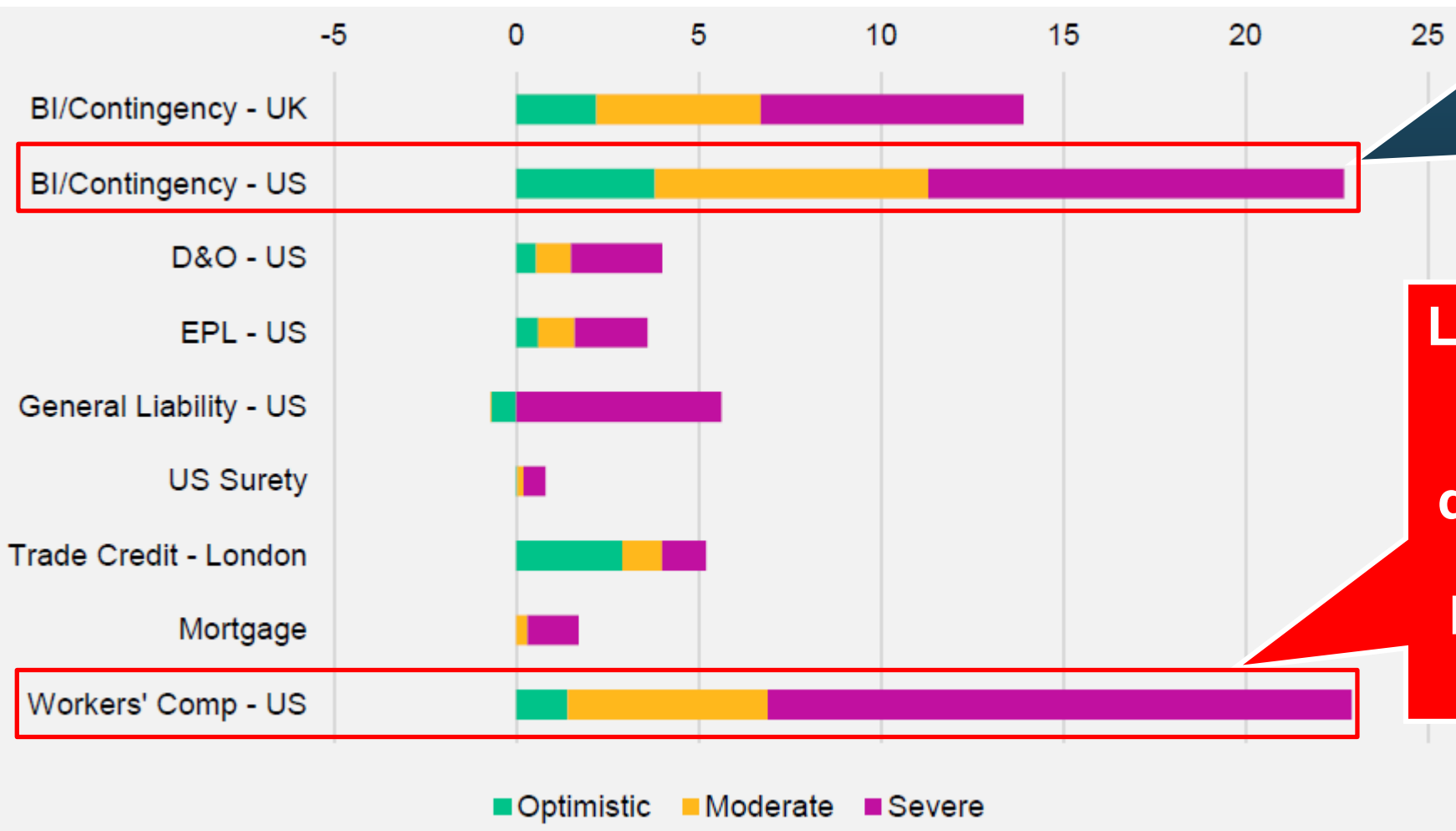


\*Lloyd's CEO John Neil appearance on CNBC, May 14, 2020: <https://www.cnbc.com/2020/05/14/lloyds-of-london-coronavirus-will-be-largest-loss-on-record-for-insurers.html>  
 Sources: Company disclosures, Dowling & Partners, Barclays Research, Autonomous Research, BofA Global Research, UBS Securities, Willis Towers Watson from Artemis.bm accessed at <https://www.artemis.bm/news/consensus-emerging-on-30bn-to-100bn-covid-19-industry-loss-willis-re/>; Risk and Uncertainty Management Center, University of South Carolina.

# Estimated COVID-19 Insured Property Losses by Region



# Potential Impact of COVID-19 on Insured Losses by Line



**Business Interruption losses are potentially material even under the moderate severity scenario**

**Loss impacts of COVID-19 on the WC line are potentially severe but depend not only on the course of the disease but state decisions on presumption**

Source: Willis Towers Watson, *Scenario Analysis of COVID-19 Pandemic* (Fig.10), May 2020; Risk and Uncertainty Management Center, University of South Carolina.

# Potential Impacts of COVID-19 on Written Premium in 2020, by Key Line

Line	Estimated Premium Impact
Workers Compensation	12.5% to 25% reduction in premium written in 2020 <b>(equates to \$5.9B to \$11.75B DWP)</b>
Business Interruption & Contingency	7% to 13% reduction in premium volume (US & UK)
General Liability*	\$1.5B to \$6.3B premium reduction in US
Personal Auto	~\$10B in refunds, rebates (equates to ~4% of DWP)
Personal Travel Insurance	29% to 78% reduction in premium written (US & UK)
Personal/Comm. Motor	~10% reduction in US; 0% to 11% reduction in UK
Marine/Aviation/Transport	\$0.7B-\$1.5B (US); \$0.6 - \$1.2B (UK)

\*Includes nursing home professional liability.

Source: Derived from Willis Towers Watson, *Scenario Analysis of COVID-19 Pandemic* (Fig.11, 14), May 2020. and other sources; Risk and Uncertainty Management Center, University of South Carolina.

# Potential Impacts of COVID-19 on LOSSES in 2020, by Key Line

Line	Estimated Loss Impact
Workers Compensation	\$0.2B - \$92B ( <i>depends on severity of pandemic and “presumption” determination</i> )
Business Interruption & Contingency	\$2B - \$22B (US); \$1.1B - \$13.9B (UK)
General Liability*	\$0.7B to \$27B loss across US & Bermuda markets
Personal/Comm. Motor	\$26B - \$57B <b>reduction</b> in personal auto and \$4.2B - \$9.4B commercial (US); \$1 - \$7B overall <b>reduction</b> in UK
Mortgage	\$0 - \$1.7B loss across US & Bermuda markets
D&O	\$0.6 - \$4.0 loss across US & Bermuda markets
Marine/Aviation/Transport	\$0.3B-\$1.3B <b>reduction</b> (US); \$0.6 - \$1.1B (UK)

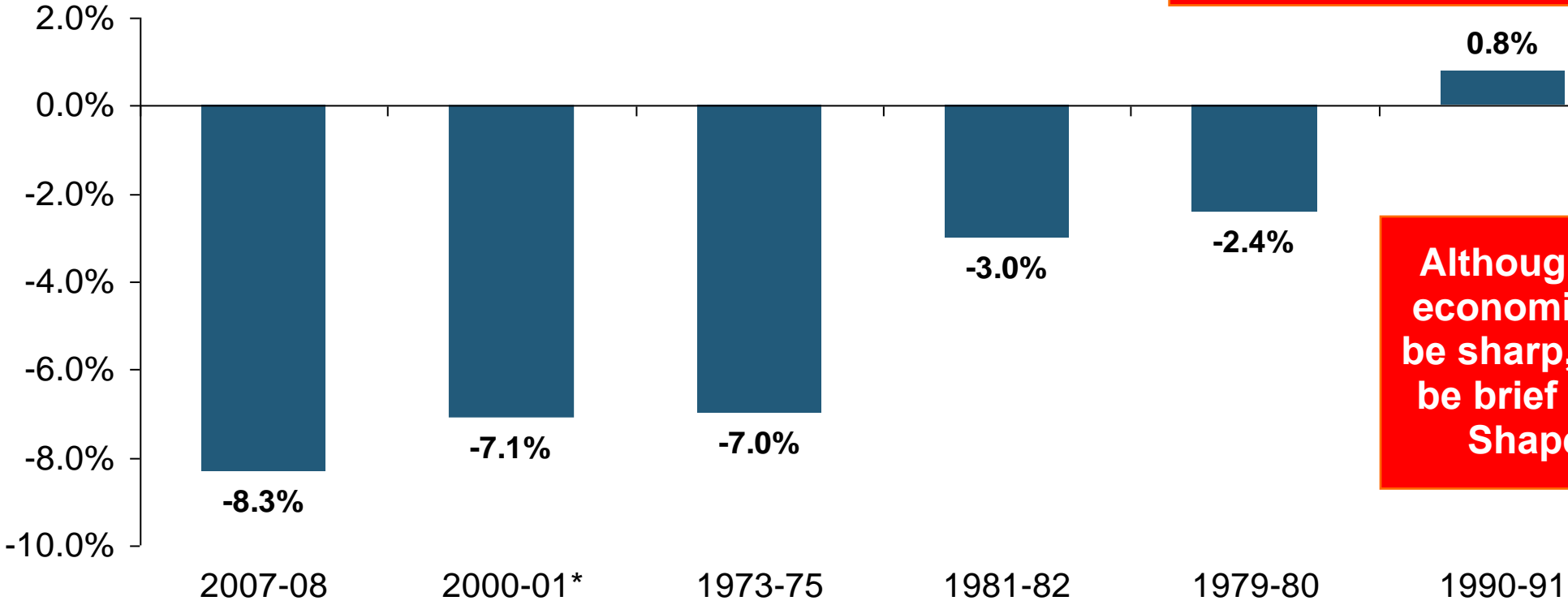
\*Includes nursing home professional liability.

Source: Derived from Willis Towers Watson, *Scenario Analysis of COVID-19 Pandemic* (Fig.11, 14), May 2020. and other sources; Risk and Uncertainty Management Center, University of South Carolina.



# Percentage Point Change in US P/C ROEs During Past Economic Downturns: 1971 - Present

Percentage Point Change

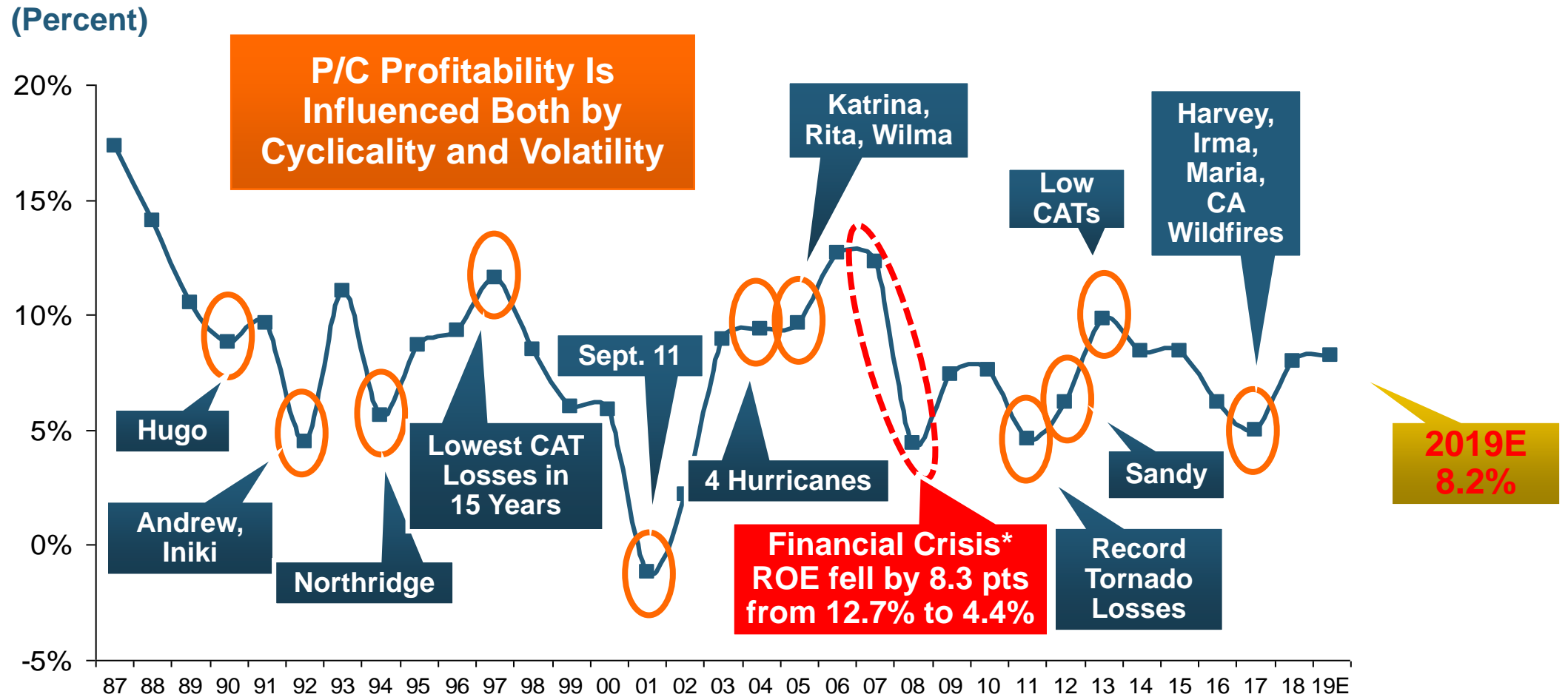


**Change in P/C ROE During Past Economic Downturns**  
Avg.: -4.5% (-4.0% ex. 2000-01)  
Median: -5.0% (-3.0% ex. 2000-01)

**Although the COVID-19 economic downturn will be sharp, it's expected to be brief with a rapid "V-Shaped" recovery**

\*2000-2001 decline impacted by 9/11 losses.

# ROE: US Property/Casualty Insurance by Major Event, 1987–2019E



\*Excludes Mortgage & Financial Guarantee in 2008 – 2014.  
 Sources: ISO, *Fortune*; A.M. Best (2018E-2019F); USC RUM Center.

# Are Pandemics an Insurable Risk?

**Some Pandemic Risk Are Privately Insurable but Some Are Largely Uninsurable in the Private Sector**

***Business Continuity Losses Pose the Greatest Challenges***

# Viral Outbreaks Are Not An Insurable Risk

Pandemics are frequent, severe, and widespread (7 pandemics with multi-billion\$ economic losses in just the last 18 years)

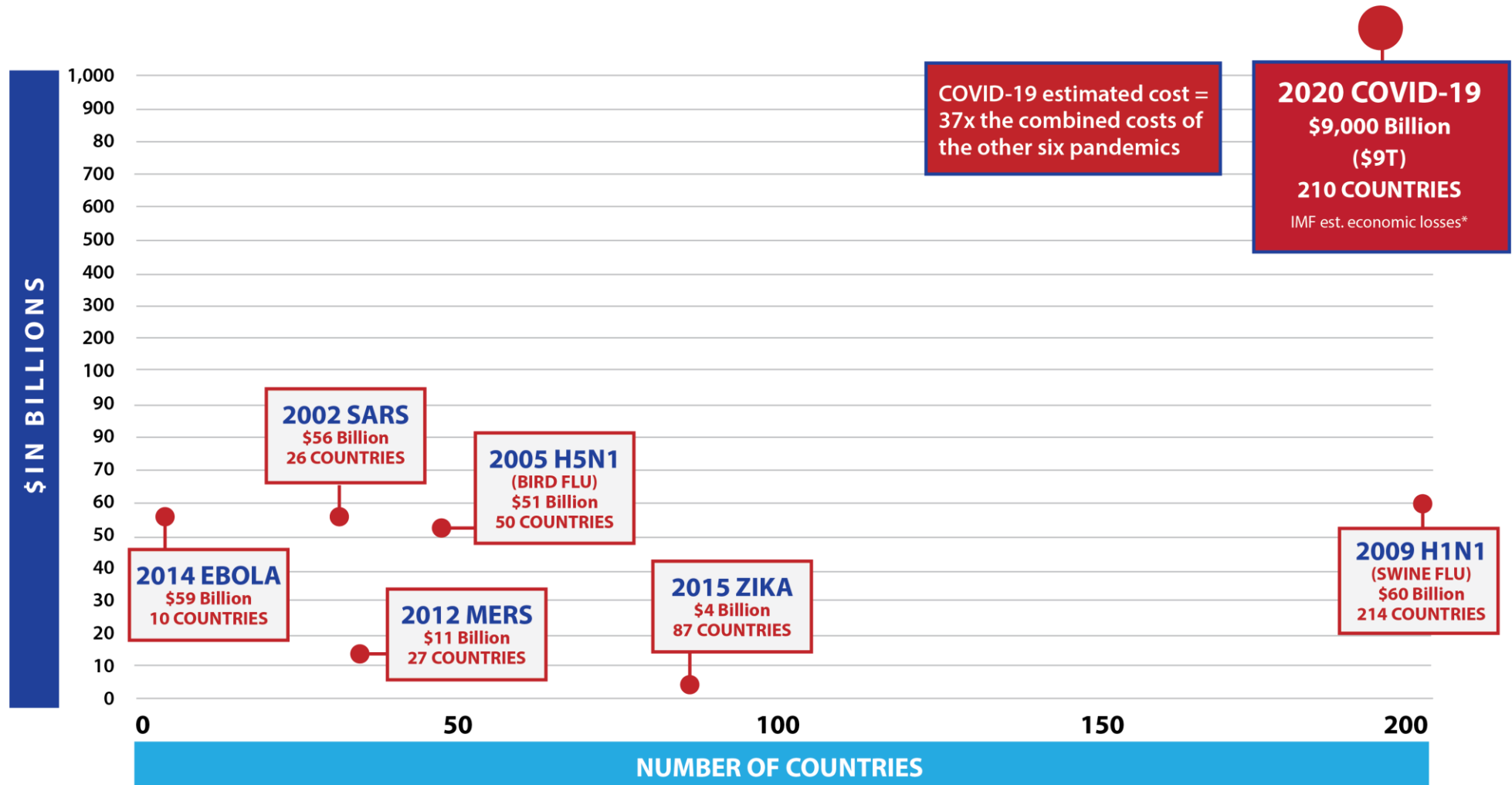
## For Reference

2005 Katrina  
\$58 Billion

2001 9/11  
\$48 Billion

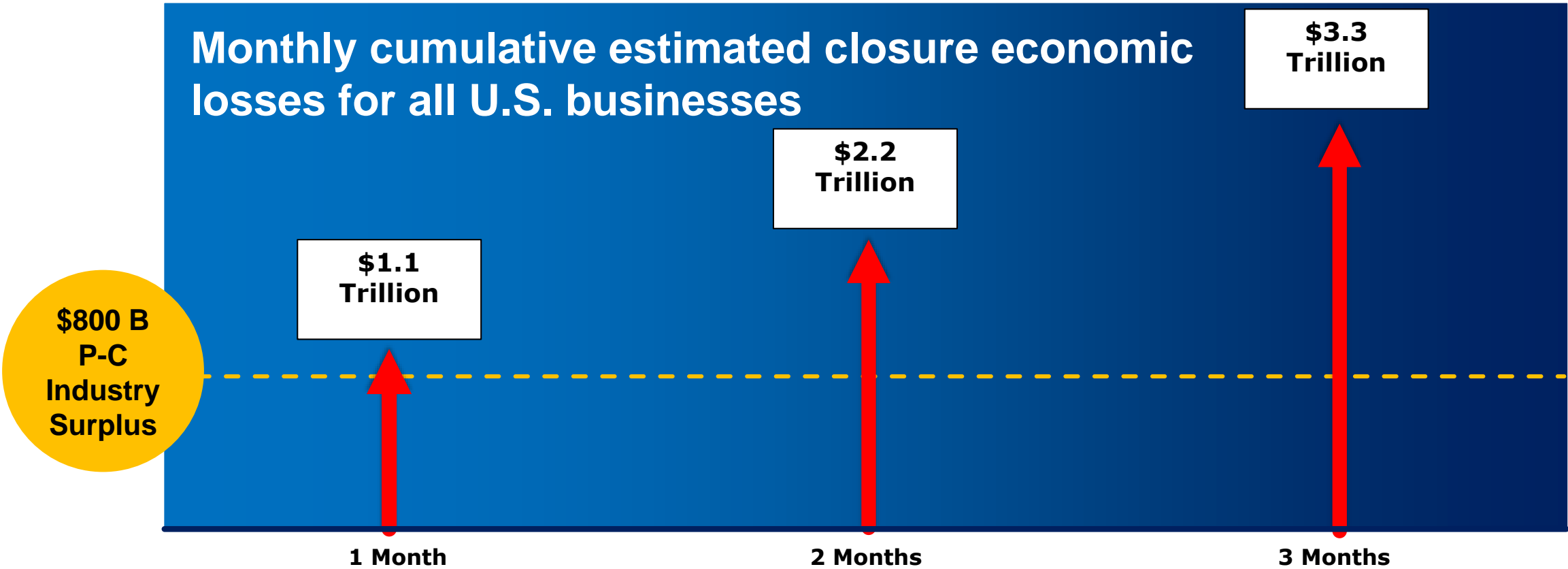
(insured losses)

## Economic Losses from Pandemics



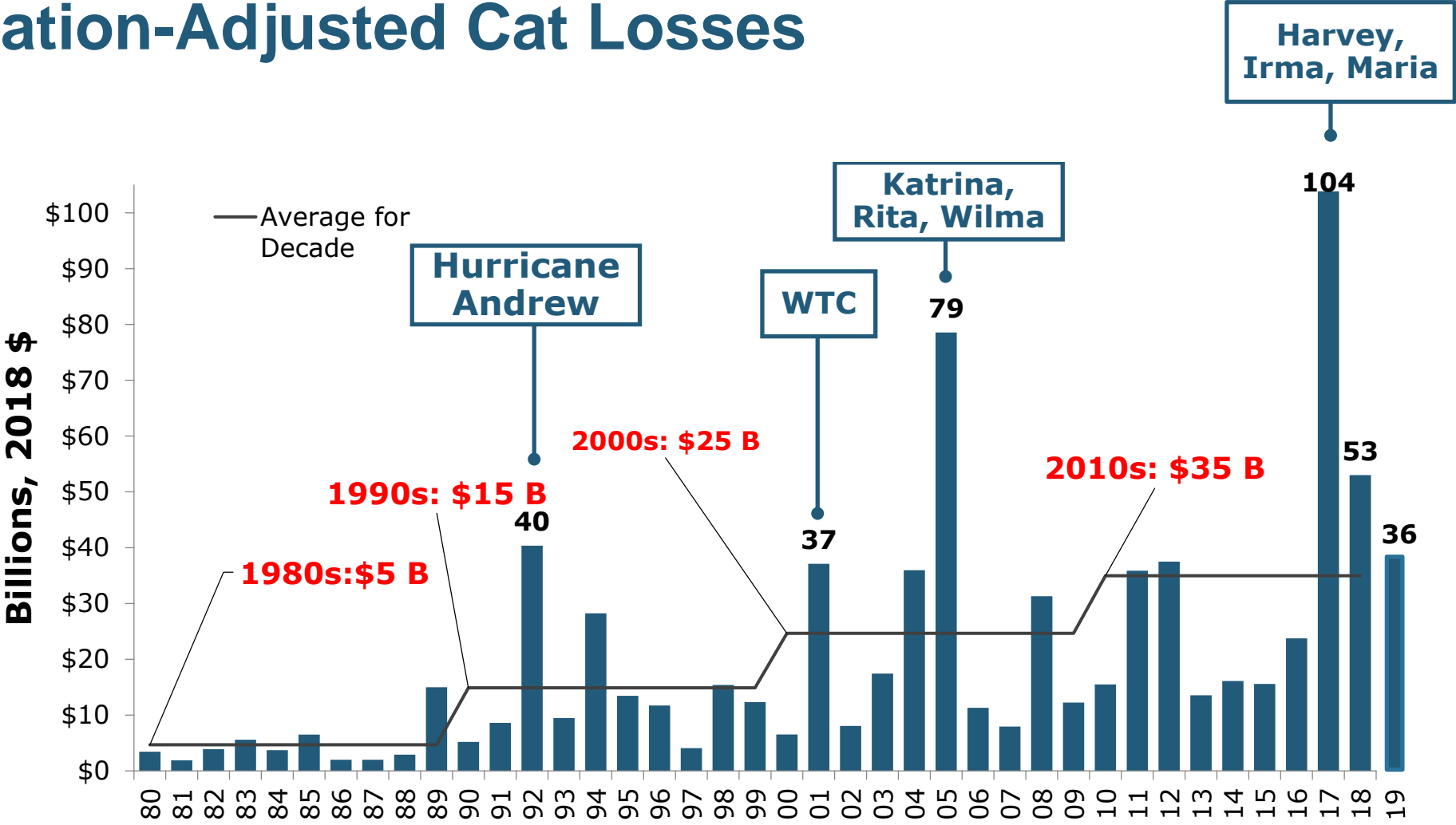
\*Sources: APCIA using published reports, including IMF, World Bank, Learnbonds.com; APCIA adjustment to 2020 USD

# Private Insurance Cannot Close the Gap



Source: APCIA estimates using publicly available data sources, including Bureau of Labor Statistics, Insurance Services Office (Verisk Analytics, Inc.), Houston Chronicle, S&P Global Market Intelligence, and other published reports.

# U.S. Inflation-Adjusted Cat Losses



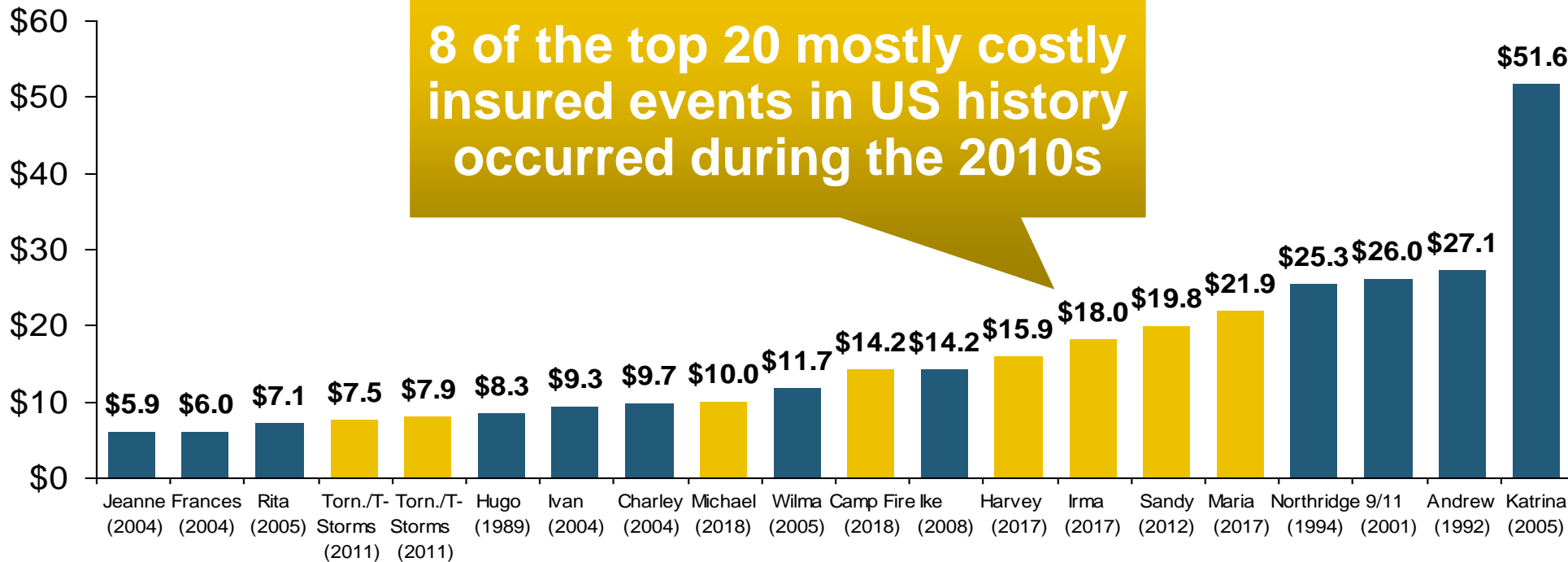
**2018 – Third worst year for U.S. Insured Catastrophe Losses. Average Insured Loss per Year for 1980-2019 is \$19.8 B.**

Sources: Property Claims Service, a Verisk Analytics business; Insurance Information Institute.

# Top 20 Most Costly Disasters in U.S. History—Katrina Still Ranks #1

**COVID-19 insured property losses remain highly uncertain, but could easily make the top 10**

(Insured Losses, 2017 Dollars, \$ Billions)\*



**8 of the top 20 most costly insured events in US history occurred during the 2010s**

**17 of the 20 Most Expensive Insurance Events in US History Have Occurred Since 2004**

\*Estimated.

Sources: PCS, RMS, Karen Clark & Co; USC Center for Risk and Uncertainty Management adjustments to 2017 dollars using the CPI.

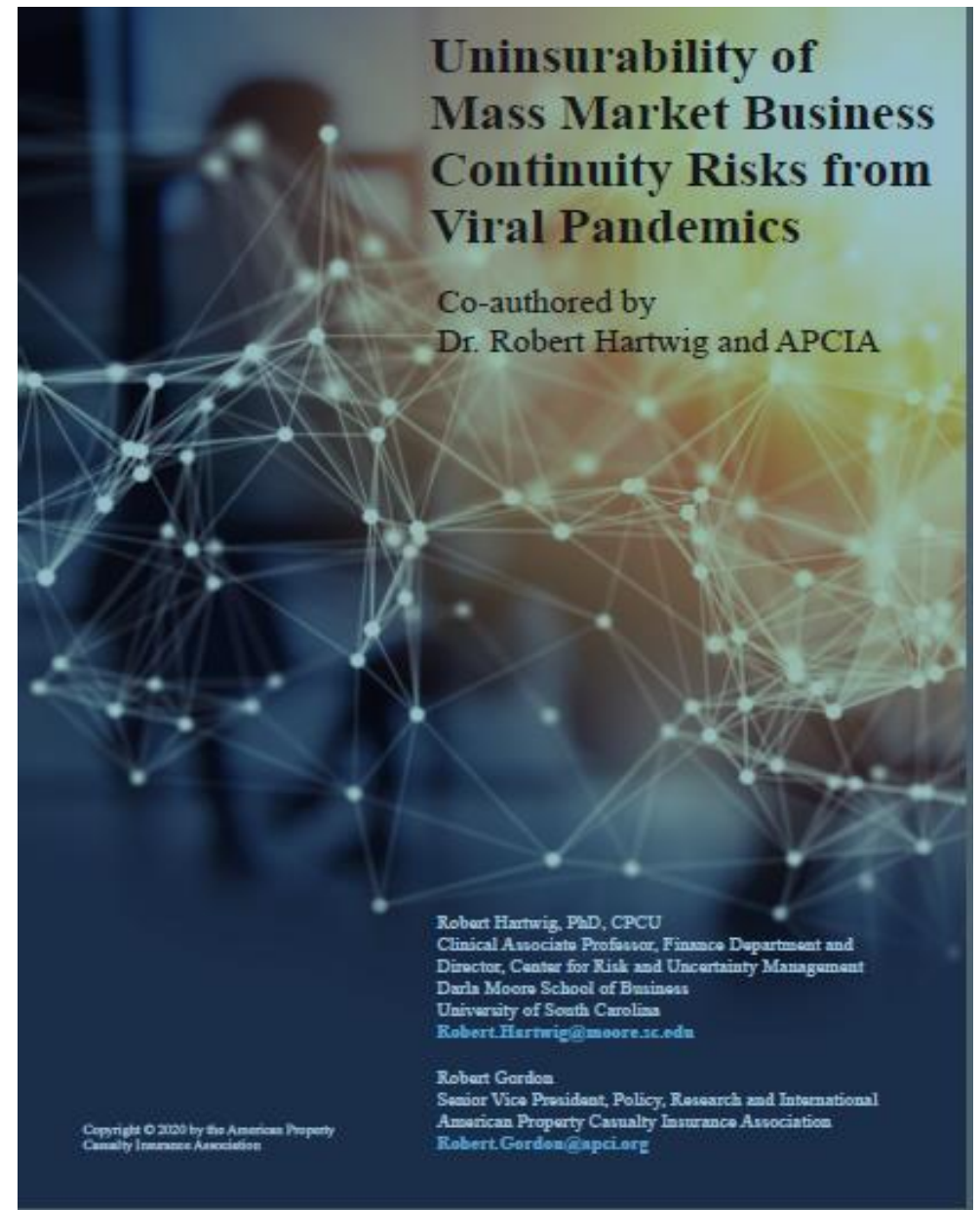
# Pandemic - An Insurable Risk?

Requirements of an Insurable Risk	Requirement Met? Yes/No
1. Large number of exposure units	<b>No.</b> While millions of individual businesses suffered business continuity losses arising from the COVID-19 pandemic, the pandemic's effects were global in scale and nearly simultaneous in scope, effectively reducing the number of exposure units to one—the business sector collectively.
2. Accidental/Random and unintentional loss	<b>No.</b> Pandemics are natural phenomena but the decisions by thousands of policymakers at all levels of government to close millions of businesses and restrict the movement of people was intentional.
3. Determinable and measurable loss	<b>No.</b> For insurers to determine losses, the scale and scope of losses for any given risk must be estimable. Business continuity losses from COVID-19, estimates for which remain highly uncertain and range into the trillions of dollars, are indeterminable due to their dependence on decisions made by thousands of policymakers at all levels of government, the pace at which consumers and businesses reengage in the economy and epidemiological developments.
4. No (ruinous) catastrophic loss	<b>No.</b> Unlike traditional catastrophe risks, pandemics by definition threaten all or most or the members of the risk pool simultaneously. The rapid aggregation of losses is destabilizing and potentially ruinous, threatening the solvency of individual insurers and the industry as a whole.
5. Calculable chance of loss	<b>No.</b> Pandemics have occurred throughout history but the policy response to COVID-19 is without precedent. Insurers traditionally rely on historical loss information and trends to estimate the frequency and severity (cost) for risks they insure. No such historical data exists for the policy response associated with the COVID-19 pandemic, hence premiums cannot be determined.
6. Economically feasible premium	<b>No.</b> Because pandemics by definition threaten all or most or the members of the risk pool simultaneously, the probability of loss is close to certainty. The high probability of loss combined with high claim severities necessarily lead to premiums that can approach or even exceed the cost of the claim itself.



# New Paper on Insurability of Pandemic Risk

- Large scale business continuity risks from pandemics are generally not insurable in the private sector
- Business continuity risks are largely undiversifiable within private insurance markets and are highly correlated with other risks (e.g., investment risks)
- Large scale business continuity losses pose a potentially systemic risk to the industry and overall economy
- Import role for government



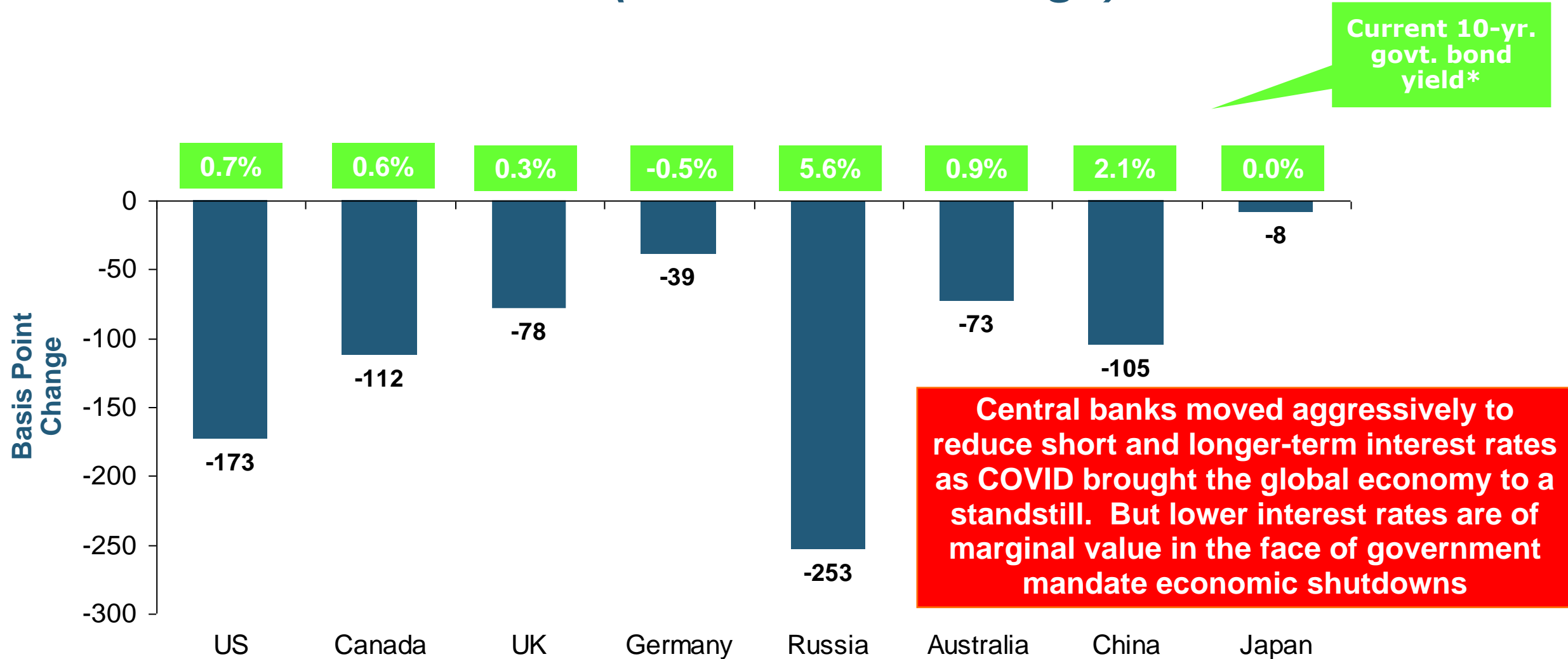
Download at: <http://www.pciaa.net/docs/default-source/default-document-library/apcia-white-paper-hartwig-gordon.pdf>

# COVID-19 Pandemic: Investment Impacts for Insurers

**COVID-19 Shutdowns Did Severe Damage  
to the Global Economy, Impacting Share  
Prices Everywhere**

***Aggressive Central Bank Responses  
Pulled Interest Rates Down to  
Financial Crisis Lows***

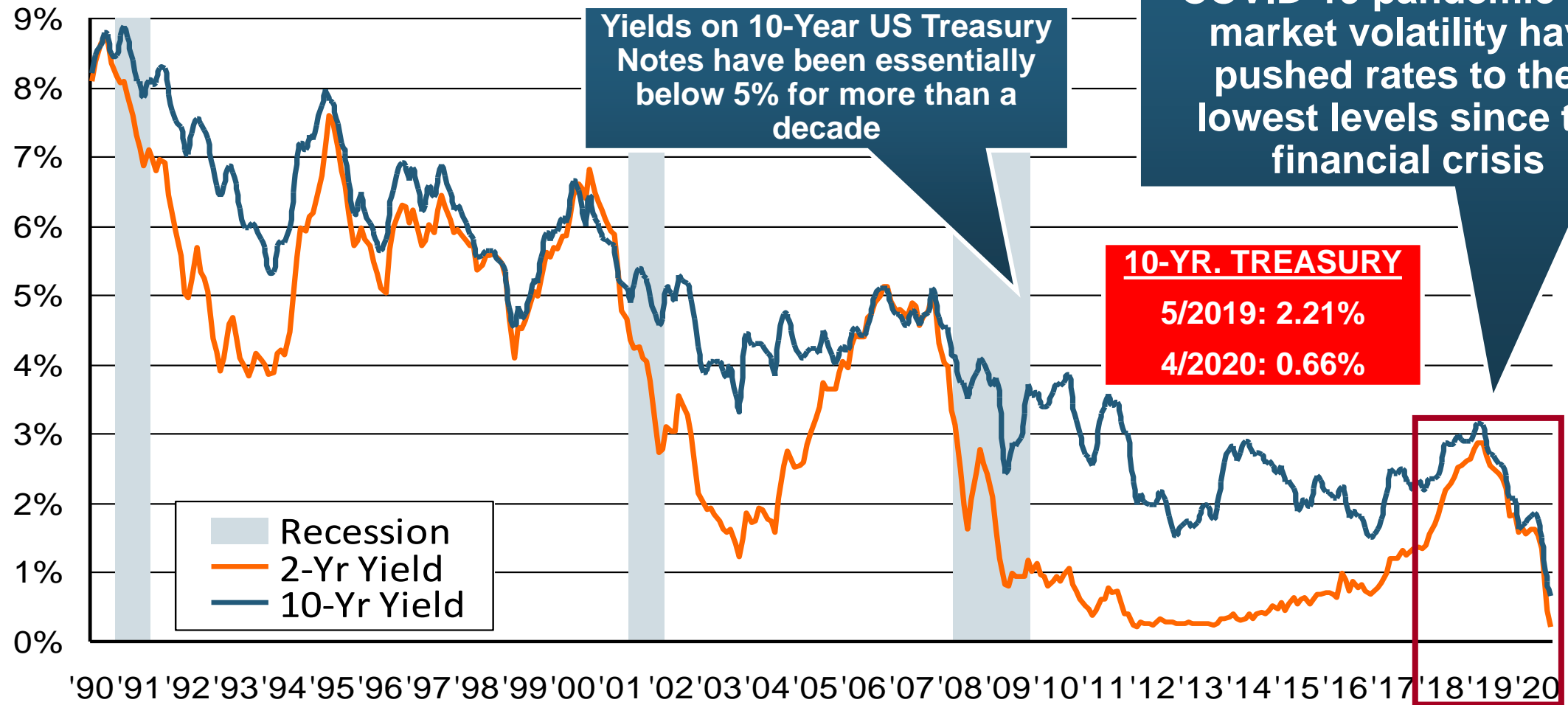
# Change in 10-Year Government Bond Yields: 31 Dec. 2019 to Present\* (*Basis Point Change*)



\*As of 23 May 2020.

Source: *The Economist*, 23 May 2020; Risk and Uncertainty Management Center, University of South Carolina.

# US Treasury Security Yields: A Long Downward Trend, 1990–2020\*



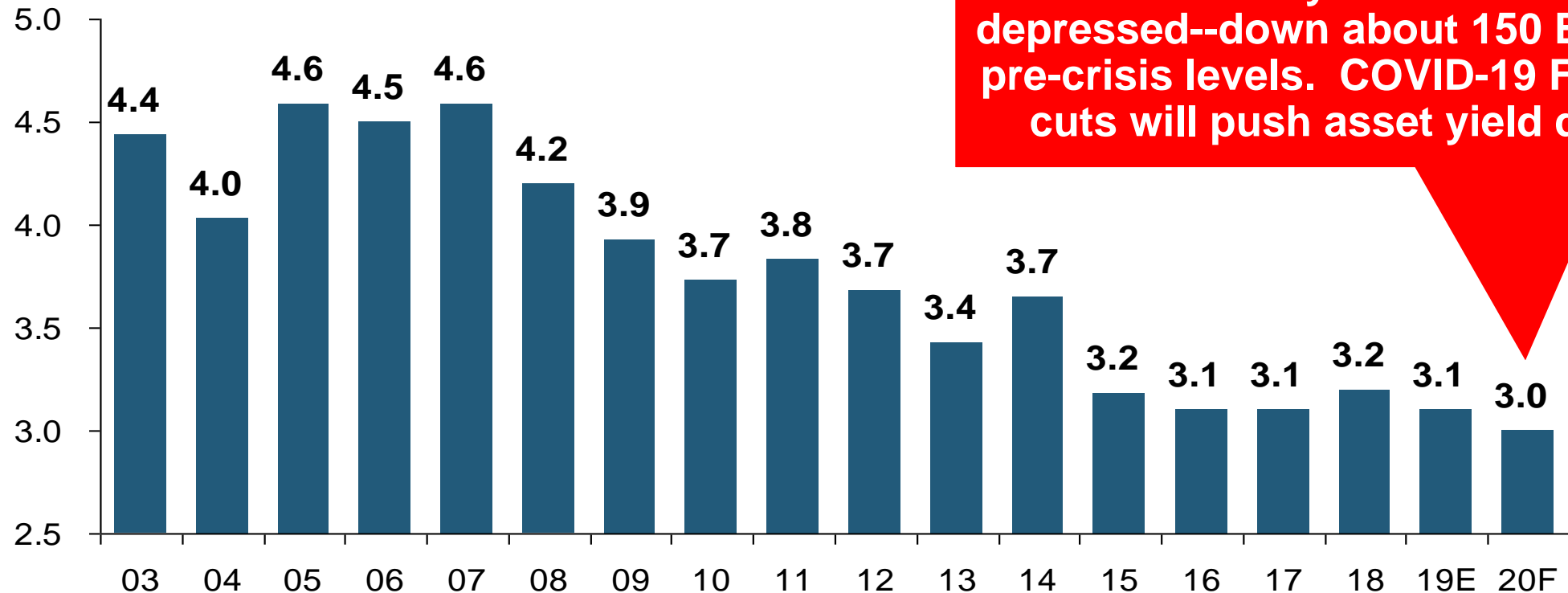
**Since roughly 80% of P/C bond/cash investments are in 10-year or shorter durations, most P/C insurer portfolios will have low-yielding bonds for years to come.**

\*Monthly, constant maturity, nominal rates, through April 2020.

Sources: Federal Reserve Bank at <http://www.federalreserve.gov/releases/h15/data.htm>. National Bureau of Economic Research (recession dates); Insurance Information Institute.

# US Net Investment Yield on Property/Casualty Insurance Invested Assets, 2007–2020F\*

(Percent)



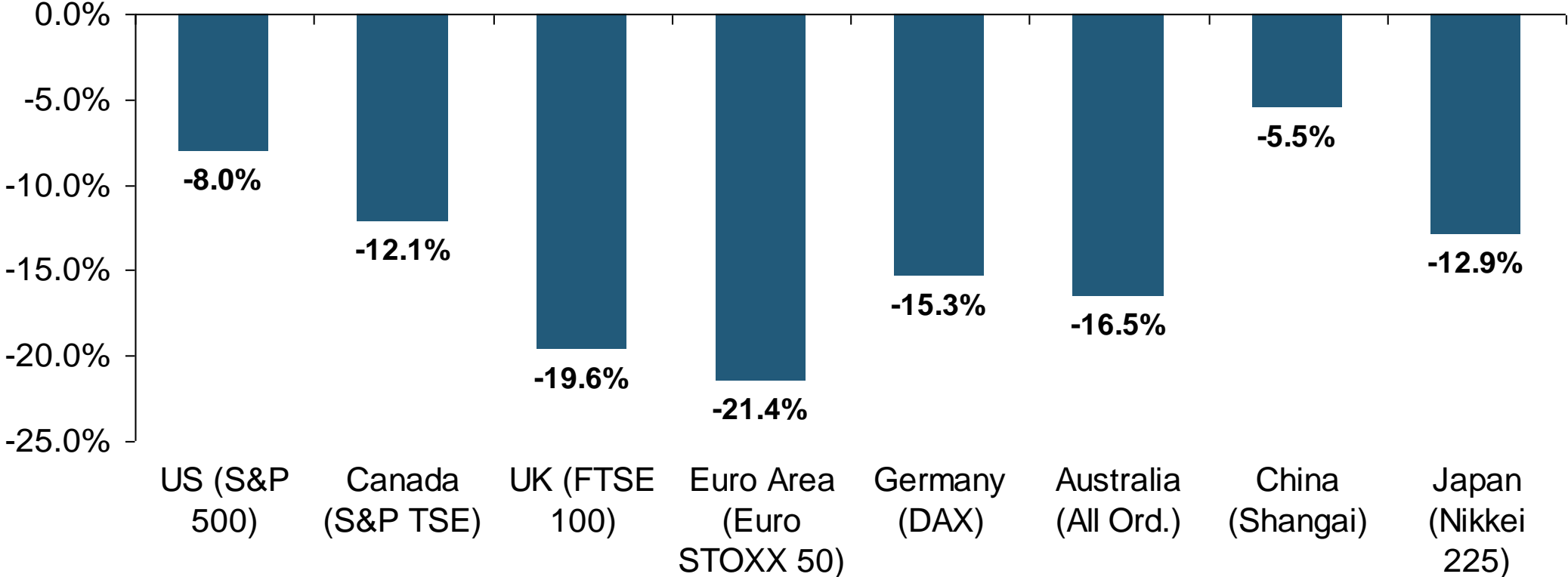
Investment yields remained depressed--down about 150 BP from pre-crisis levels. COVID-19 Fed rate cuts will push asset yield down

The yield on invested assets remains low relative to pre-crisis yields. Fed rate increases beginning in late 2015 through 2018 halted the slide in yields, but rate cuts in 2019/2020 will preclude future gains

# Percent Change in Stock Markets: 31 Dec. 2019 to Present\*

Equities markets are down for the year, but many are well off their March lows, when COVID shutdowns spread rapidly across the globe (US S&P 500 was down 34% on 23 March; *Down just 5.4% as of 1 June*)

Percentage Point Change

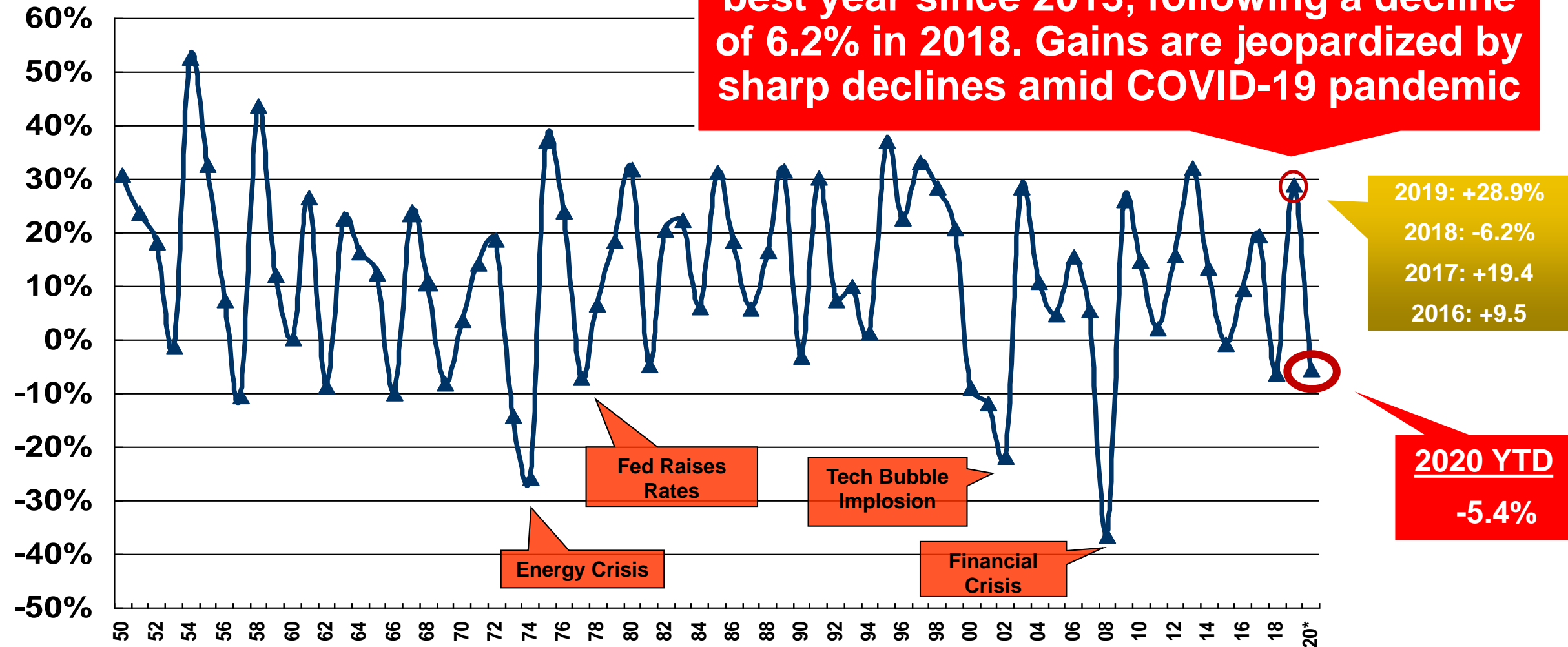


\*As of 23 May 2020.

Source: *The Economist*, 23 May 2020; Risk and Uncertainty Management Center, University of South Carolina.

# S&P 500 Index Returns, 1950–2020\*

Annual Return

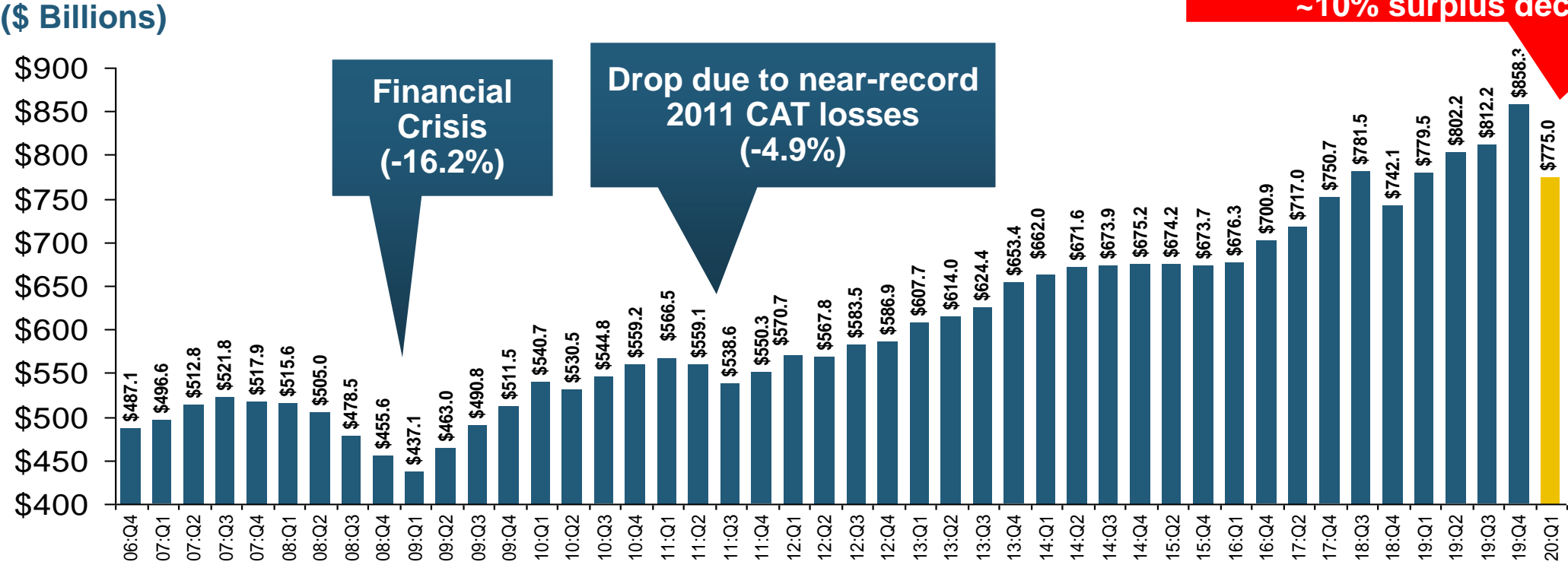


\*Through June 1, 2020.

Source: NYU Stern School of Business: [http://pages.stern.nyu.edu/~adamodar/New\\_Home\\_Page/datafile/histretSP.html](http://pages.stern.nyu.edu/~adamodar/New_Home_Page/datafile/histretSP.html); Center for Risk and Uncertainty Management, University of South Carolina

# US Policyholder Surplus (Capacity), 2006:Q4–2020:Q1E

The P/C insurance industry entered the COVID-19 pandemic from a position strength and can easily withstand the estimated ~10% surplus decline



Financial Crisis (-16.2%)

Drop due to near-record 2011 CAT losses (-4.9%)

2010:Q1 data includes \$22.5B of paid-in capital from a holding company parent for one insurer's investment in a non-insurance business.

**Policyholder Surplus is the industry's financial cushion against large insured events, periods of economic stress and financial market volatility. It is also a source of capital to underwrite new risks.**

Sources: ISO, A.M .Best; 2020E from Risk and Uncertainty Management Center, University of South Carolina.



# **P/C Insurance Issues in the Era of COVID-19**

**Litigation**

**Legislation**

**Regulation**

# **P/C Insurance Coverage & COVID-19**

- **Insurers have received tens of thousands of claims related to COVID-19 losses**

- |                                |                           |                          |
|--------------------------------|---------------------------|--------------------------|
| ◆ <b>Business Interruption</b> | <b>Event Cancellation</b> | <b>Trade Credit</b>      |
| ◆ <b>Workers Comp</b>          | <b>Travel Insurance</b>   | <b>Mortgage Guaranty</b> |
| ◆ <b>General Liability</b>     | <b>D&amp;O</b>            |                          |

- **Crises tend to precipitate efforts to stretch contract language in an effort to:**

- ◆ **Find coverage where none exists**
- ◆ **Find coverage where none was intended**
- ◆ **Find coverage for which no premium was paid**

- **Politicians frequently pile on: Zero political risk**

# Business Interruption

***Efforts to Create Coverage  
Where None Exists***

# Business Interruption Coverage (BIC) & COVID-19

- Most US business interruption policies clearly exclude COVID-19 claims
- The ISO Business Income form contains the following language:
  - ◆ ***“We will pay for the actual loss of Business Income you sustain due to the necessary “suspension” of your “operations” during the “period of restoration”. The “suspension” must be caused by direct physical loss of or damage to property...The loss or damage must be caused by or the result of a covered cause of loss.” [from ISO form: CP 00 30 04 02]***

COMMERCIAL PROPERTY  
CP 00 30 04 02

## BUSINESS INCOME (AND EXTRA EXPENSE) COVERAGE FORM

Various provisions in this policy restrict coverage. Read the entire policy carefully to determine rights, duties and what is and is not covered.

Throughout this policy the words "you" and "your" refer to the Named Insured shown in the Declarations. The words "we", "us" and "our" refer to the Company providing this insurance.

Other words and phrases that appear in quotation marks have special meaning. Refer to Section G. – Definitions.

**A. Coverage**

**1. Business Income**

Business Income means the:

- Net Income (Net Profit or Loss before income taxes) that would have been earned or incurred; and
- Continuing normal operating expenses incurred, including payroll.

For manufacturing risks, Net Income includes the net sales value of production.

Coverage is provided as described and limited below for one or more of the following options for which a Limit of Insurance is shown in the Declarations:

- Business Income including "Rental Value".
- Business Income other than "Rental Value".
- "Rental Value".

If option a. above is selected, the term Business Income will include "Rental Value". If option c. above is selected, the term Business Income will mean "Rental Value" only.

If Limits of Insurance are shown under more than one of the above options, the provisions of this Coverage Part apply separately to each.

**2. Extra Expense**

Extra Expense coverage is provided at the premises described in the Declarations only if the Declarations show that Business Income coverage applies at that premises.

Extra Expense means necessary expenses you incur during the "period of restoration" that you would not have incurred if there had been no direct physical loss or damage to property caused by or resulting from a Covered Cause of Loss.

We will pay Extra Expense (other than the expense to repair or replace property) to:

- Avoid or minimize the "suspension" of business and to continue operations at the described premises or at replacement premises or temporary locations, including relocation expenses and costs to equip and operate the replacement location or temporary location.
- Minimize the "suspension" of business if you cannot continue "operations".

We will also pay Extra Expense to repair or replace property, but only to the extent it reduces the amount of loss that otherwise would have been payable under this Coverage Form.

**We will pay for the actual loss of Business Income you sustain due to the necessary "suspension" of your "operations" during the "period of restoration". The "suspension" must be caused by direct physical loss of or damage to property at premises which are described in the Declarations and for which a Business Income Limit of Insurance is shown in the Declarations. The loss or damage must be caused by or result from a Covered Cause of Loss. With respect to loss of or damage to personal property in the open or personal property in a vehicle, the described premises include the area within 100 feet of the site at which the described premises are located.**

# Exclusion of Loss Due to Virus or Bacteria

- Business property and hence business interruption coverage also clearly excludes loss or damage due to viruses via exclusion
- The ISO “Exclusion of Loss Due to Virus or Bacteria” contains the following language:
  - ◆ *“We will not pay for loss or damage caused by or resulting from any virus, bacterium or other microorganism that induces or is capable of inducing physical distress, illness or disease.” [from ISO form: CP 01 40 07 06]*

COMMERCIAL PROPERTY  
CP 01 40 07 06

**THIS ENDORSEMENT CHANGES THE POLICY. PLEASE READ IT CAREFULLY.**  
**EXCLUSION OF LOSS DUE TO VIRUS OR BACTERIA**

This endorsement modifies insurance provided under the following:

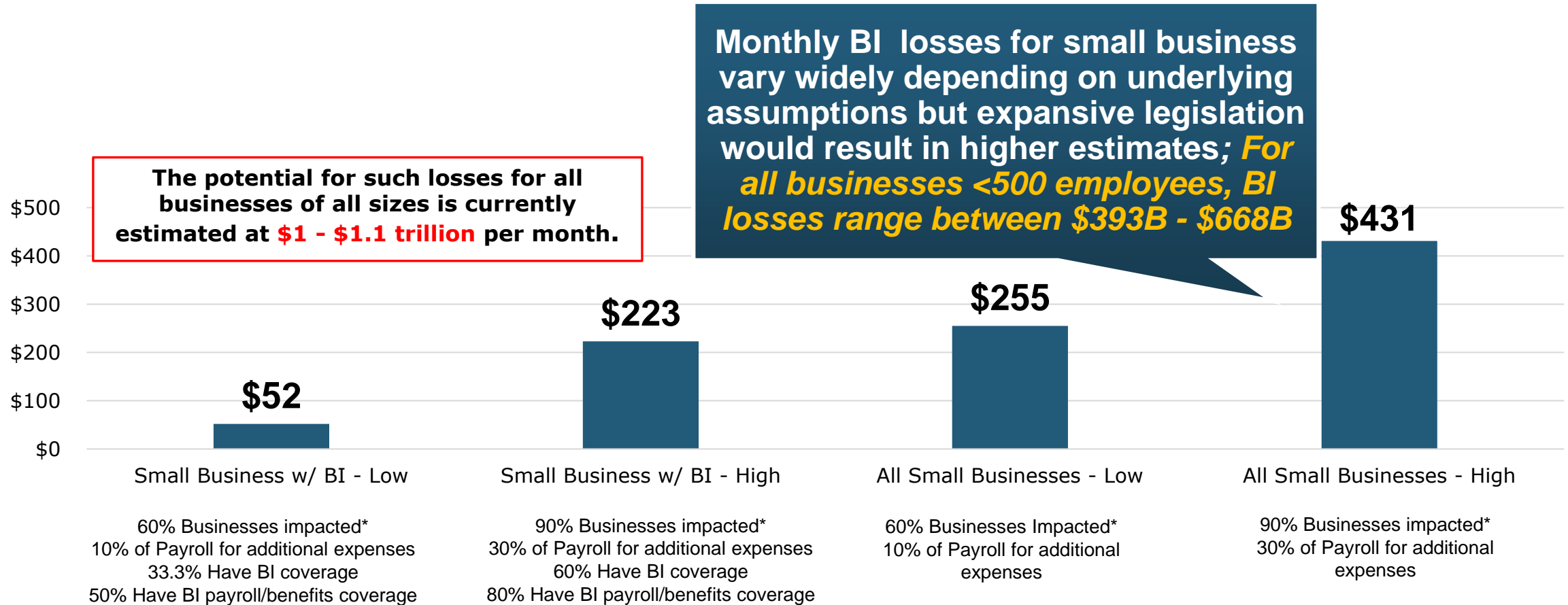
COMMERCIAL PROPERTY COVERAGE PART  
STANDARD PROPERTY POLICY

- A. The exclusion set forth in Paragraph B. applies to all coverage under all forms and endorsements that comprise this Coverage Part or Policy, including but not limited to forms or endorsements that cover property damage to buildings or personal property and forms or endorsements that cover business income, extra expense or action of civil authority.
- B. **We will not pay for loss or damage caused by or resulting from any virus, bacterium or other microorganism that induces or is capable of inducing physical distress, illness or disease.**
- However, this exclusion does not apply to loss or damage caused by or resulting from "fungus", wet rot or dry rot. Such loss or damage is addressed in a separate exclusion in this Coverage Part or Policy.
- C. With respect to any loss or damage subject to the exclusion in Paragraph B., such exclusion supersedes any exclusion relating to "pollutants".
- D. The following provisions in this Coverage Part or Policy are hereby amended to remove reference to bacteria:
1. Exclusion of "Fungus", Wet Rot, Dry Rot And Bacteria; and
  2. Additional Coverage – Limited Coverage for "Fungus", Wet Rot, Dry Rot And Bacteria, including any endorsement increasing the scope or amount of coverage.
- E. The terms of the exclusion in Paragraph B., or the inapplicability of this exclusion to a particular loss, do not serve to create coverage for any loss that would otherwise be excluded under this Coverage Part or Policy.

# Business Interruption Coverage & COVID-19: STATES

- Several states are attempting to override/invalidate/abrogate the longstanding, unambiguous language in commercial property and BIC contracts that makes it clear no coverage exists
- At least 7 states: NJ, OH, LA, MA, PA, NY and SC plus DC have introduced legislation that would oblige insurers to provide BIC to policyholders who purchased such coverage, irrespective of the “direct physical loss or damage” requirement and virus exclusion.
- From Massachusetts S. 2888 (as of 3/25/20)
  - ◆ “...**no insurer in [Massachusetts] may deny a claim** for the loss of use and occupancy and business interruption on **account of (i) COVID-19 being a virus** (even if the relevant insurance policy excludes losses resulting from viruses); **or (ii) there being no physical damage to the property** of the insured or to any other relevant property

# Estimated Monthly U.S. Business Interruption Coronavirus Losses for Small Business—Potential Range (<100 Employees; \$Bill)



\* Businesses impacted: Proportion of businesses completely or substantially closed related to coronavirus  
 Assumptions: Losses if standard insurance policy exclusions for viruses/pandemics are voided and physical loss/damage requirement is stricken; three main coverages - profit lost, payroll/benefits, additional expenses; average annual \$2m revenue and 7% profit margin; non-wage benefits of small businesses are 25% less than that for average US businesses

**Legislation in several states would trample over contracts and destroy the state's insurance markets**

# Is a Pandemic Risk Insurance Act (PRIA) Really Needed?

- Unlike TRIA, PRIA would create a large potential balance sheet liability for insurers
- This is because PRIA would impose a 5% coinsurance provision for industrywide BI losses exceeding a \$250 million industrywide and a 5% individual company deductible equal to 5% DPE
  - ◆ This is distinct from TRIA where the “reinsurance” is effectively “free”
- Program is capped at \$500 billion so a 5% co-insurance requirement implies a potential industry liability of up to \$25 billion
- These deductibles and coinsurance requirements would have potentially material implications for:
  - ◆ (Re)insurance balance sheets
  - ◆ RBC ratios
  - ◆ Surplus

**PPP program blew through \$700B in only a few weeks**

116TH CONGRESS  
2D SESSION

**H. R.** \_\_\_\_\_

To establish a Pandemic Risk Reinsurance Program, and for other purposes.

\_\_\_\_\_

IN THE HOUSE OF REPRESENTATIVES

M. \_\_\_\_\_ introduced the following bill; which was referred to the Committee on \_\_\_\_\_

\_\_\_\_\_

**A BILL**

To establish a Pandemic Risk Reinsurance Program, and for other purposes.

1 *Be it enacted by the Senate and House of Representa-*  
2 *tives of the United States of America in Congress assembled,*  
3 **SECTION 1. SHORT TITLE.**  
4 This Act may be cited as the “Pandemic Risk Insur-  
5 ance Act of 2020”.



# Why PRIA Is a Well-Intentioned but Bad Idea

Total PPP funding now expanded to \$700B

PPP Initial Funding \$349 billion

TRIA Claims Capacity

Total claims-paying capability of the Terrorism Risk Insurance Program including insurer shares of loss

Total PPP funding (now \$700B) is 7x TRIA claims capacity

TRIA Premium

Total amount of terrorism premium collected under all lines of business over the first 15 years of the TRIA program

Total Federal Crop Insurance Program claims paid over the 10-year period ending Dec. 31, 2016

- Katrina
- Maria
- Irma
- 9/11
- Andrew
- Sandy
- Harvey
- Northridge
- Ike
- Wilma

10 largest US property insurance losses in 2018 dollars

Federal Crop Insurance Program

NFIP

Total National Flood Insurance Program losses paid over the 10-year period ending Dec. 31, 2018

The insurance claims administration capabilities necessary to investigate, document and payout an amount of insurance claims equivalent to the just the initial \$349B in funding for the Paycheck Protection Program funding would be the same as if the top 10 US insurance catastrophes occurred in the same month PLUS 10 years of NFIP claim PLUS 10 years of federal Crop Insurance claims

Source: Centers for Better Insurance, Insurance Programs for Pandemic Events, (4/20); Risk and Uncertainty Management Center.

## SUMMARY

- **The Global P/C Insurance Industry Remains Strong, Stable, Sound and Secure**
- **The Rapid Economic Slowdown Will Temper P/C Growth, Especially in Economically Sensitive Lines**
- **Asset Price Volatility Will Persist and Low Interest Rates Will Pressure Investment Earnings for Years**
- **COVID-19 Exposures Are Substantial but Manageable with Headline Risk on BI and WC Issues**



UNIVERSITY OF  
**SOUTH CAROLINA**

Darla Moore School of Business

*Thank you for your time  
and your attention!*

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