

The Insurance Industry and the Business End of Epidemic and Pandemic Outbreaks

Frequency of Pandemics and its Corresponding Severity on the rise

With the recent mpox outbreak in Africa, health experts have noticed an alarming trend: the severity and frequency of disease outbreaks has been on a significant rise. Between 1920 to 2020 the World Health Organisation (WHO) has reported that there have been a total of 17 large scale outbreaks. However, only 6 major outbreaks were recorded during the 80-year period from 1920 to 2000. The remaining 11 outbreaks were recorded between 2000 to 2020, of which included some of the world's deadliest viruses like the Ebola and Marburg viruses and chief among them the COVID-19 outbreak. Additionally, the severity and financial impact of outbreaks has greatly increased. The SARS outbreak in 2003 only lasted for just over 1.5 months and killed 774 people. This is in stark contrast to the COVID-19 outbreak which lasted more than four years and claimed the lives of over seven million people globally. SARS had a global financial impact of \$8.9 billion while COVID-19 dwarfed the SARS outbreak with a global financial impact of more than \$10 trillion. Evidently, WHO's findings are alarming and truly serves as a wake-up call for the whole world to be more prepared for future outbreaks.

It is no secret that pandemics are not only a strain on the global healthcare infrastructure but also cause widespread economic and social damage; none of the most obvious than the COVID-19 pandemic. As countries around the world shut their borders and adopted strict control measures, businesses were slowly being forced to shutter or consolidate with some professions experiencing mass layoffs.

Pandemic Insurance Coverage for Businesses

In light of the heightened frequency and severity of recent outbreaks, some insurance companies have come up with a risk transfer solution on an insured event i.e. prearranged coverage. What this means is that businesses can specify a trigger event for an outbreak (this is highly dependent on the severity of each outbreak and the classifications of the respective countries globally). Next, the business can then define what financial metric is used to assess the economic damages for the insured event e.g. decrease in net profit resulting from the direct impact of the insured event; a payout will then be paid to the respective business. Some insurance underwriters and providers like Munich RE have gone a step further and are considering crisis management as a coverage extension where businesses who face heightened threat of an outbreak i.e. in high risk countries, can approach these

insurers for advice on mitigation factors and potentially even obtain advanced financial support.

Pandemic Insurance Coverage for Individuals

While there has been significant progress in the introduction of pandemic related insurance products for businesses, the same cannot be said for individual coverage. The first and most obvious reason why personal pandemic coverage has been lacking would be the sheer number of people that the insurers have to insure, contrasted against the number of businesses insured. Some global insurers have voiced their opinions that pandemic insurance coverage should be borne partially by world governments as well, considering the scale of insuring a significant number of the global population. Lastly, insurance companies usually pay out sizeable sums of money whenever a claim is submitted and approved. In the event a large number of policyholders were to submit claims (this situation is highly likely to occur during a pandemic), the insurer would most likely not have the funds to honour the insurance agreement. This would likely trigger a cascading collapse of the insurance industry as a whole and affect millions if not billions of policyholders. However, the industry has seen progress since the COVID-19 pandemic. Insurance companies now offer a COVID-19 coverage on all personal travel insurance policies that insure against trip disruptions directly from COVID-19.

Although these developments are positive, more has to be done to bridge to protection gap.

The Need for a Private - Public Partnership

The impact of COVID-19 (and predicted future pandemics) is way too wide ranging for it to be economically sensible for a single industry to shoulder the risks solely. Therefore, some form of a private - public partnership is paramount to establish a more practical and sustainable solution to bridge the pandemic protection gap. Currently, insurance companies are engaged in discussions with governments to engineer a solution with a fully governmental solution thought to be the most effective would allow insurers to share part of the risk while enabling reinsurers to provide crucial risk capital. However, with that being said, implementation of such policies might be largely dependent on the risk appetite of country level insurers, which is assumed to be low attributable to the high correlation risks associated with pandemics. Nevertheless, there are some key characteristics that have been recommended for a more holistic solution:

Ensure all businesses have obtained prearranged pandemic coverage, ensuring that continued employment and business as usual operations can continue if another

major outbreak occurs again (it is noted that this need not be enforced as there are existing risk mitigation factors linked to policy premiums)

Preference for parametric insurance as it ensures policyholders receive their claim amounts in a swifter and more efficient manner compared to traditional indemnity products

A single standalone policy addressing pandemic coverage where a prescribed limit for essential operating expenses for a fixed period of time (subjected to the duration of lockdown orders) is efficiently disbursed i.e. not through any intermediaries like insurers, which saves the claims processing time and allows for better governmental control.

Governments or global governmental organisations as the insurer of last resort to protect insurance companies and individual policyholders from systemic and uninsurable risks to prevent a domino effect on the global economy when the next large-scale pandemic outbreak occurs

While the insurance industry is still working to innovate new pandemic insurance for both individuals and businesses, the COVID-19 pandemic has demonstrated that the global economy can be crippled easily and we should not take future pandemics lightly. NIACE will continue to work with and assist our industry partners to ensure that meaningful solutions to bridge the protection gap are formulated; our clients are the number one priority and the company is committed to providing the best possible service and insurance products.

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