

# Private market cannot insure pandemic business interruption, report says

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By Ben Dyson

Pandemic business interruption risk is uninsurable for the private non-life insurance industry, according to a new report.

The Geneva Association, an insurance industry-backed research organization, said in a study published Oct. 26 that pandemic business interruption risk associated with nationwide government-mandated lockdowns "violates all essential criteria of insurability."

Firstly, the losses far exceed the industry's premium base. The report said that, according to consulting firm McKinsey, global non-life annual premium income stands at \$1.6 trillion, of which the Geneva Association estimates about \$30 billion relates to business interruption.

According to the World Bank, the COVID-19 pandemic and responses to it have caused a loss of \$4.5 trillion to global GDP in 2020. The report said that therefore, insurers would have to collect business interruption premiums for 150 years, or premiums across all lines for almost three years, to cover the economic cost of the current pandemic.

The report also said pandemic-induced property and business continuity risk is "unique given its potential to impact virtually all policyholders simultaneously, over an extended period of time," and so renders unworkable insurance's "fundamental mechanism" — that the losses of the few are spread among the many.

The losses are neither random nor independent, and decisions to lock down entire economies are deliberate and intentional, meaning that "expected loss amounts and risk loadings cannot be set," according to the report. It also said modeling pandemic risk is "virtually impossible" for non-life insurers because it is "driven as much by subjective decisions of countless government officials on national, regional or local levels as by epidemiology."

However, the Geneva Association also concluded that life- and health-related pandemic risks are "generally non-systemic" and covered by most mortality- and morbidity-based policies at affordable prices and with wide availability. The report said that, unlike non-life insurers, life and health insurers are able to model pandemic risk and price it accordingly.

The report also urged policymakers to distinguish between insurable and uninsurable pandemic risks, as well as between pandemics and other catastrophic risks, such as natural disasters, cyberrisk and terrorism.

"Systemic pandemic economic and business continuity risk cannot be treated in the same way as other (catastrophic) risks. Government and society must accept this distinction when setting their expectations for the role of the insurance industry in addressing this issue in future," the report said.

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