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**Contact:** David Mendes

**Phone:** 202.384.2075

**Email:** [mendes@actuary.org](mailto:mendes@actuary.org)

## **Actuaries: Coverage of Pandemic Risk Through Property/Casualty Insurance Could Be Designed Like Existing Federal Programs**

**WASHINGTON**—Existing federal insurance programs for costly, hard-to-estimate property/casualty risks are more appropriate models for a federal insurance program to facilitate coverage of business interruption (BI) due to pandemics than a model that loads the costs of pandemic risks into premiums the way commercial insurers normally would, the American Academy of Actuaries told the U.S. House Committee on Financial Services in a May 11 [letter](#).

“Pandemic risk is more similar to the catastrophic risks covered by programs like the Terrorism Risk Insurance Program and the National Flood Insurance Program than to risks normally insured by the commercial insurance market, and any new federal program seeking to facilitate pandemic risk coverage should reflect that difference,” said Academy Vice President, Casualty, Lisa Slotznick, the signer of the letter on behalf of the Academy’s Casualty Practice Council to the House committee. “From an actuarial perspective, pricing the potentially infrequent but high, widespread costs of pandemic risk into premiums as they would typically be calculated in the commercial market could raise affordability and other issues that programs like Terrorism Risk Insurance Program and National Flood Insurance Program are specifically designed to address.”

The Casualty Practice Council delineated the Terrorism Risk Insurance Program’s and National Flood Insurance Program’s approaches to risk for the House committee members in light of a discussion draft of legislation that is currently circulating which would establish a federal program to support insurance and reinsurance providing BI coverage for pandemic risk in the future: “These [existing] federal programs help the insurance market by putting a cap on how much risk the marketplace is expected to handle and then providing a federal backstop for the rare and unpredictable event that exceeds that cap.”

The letter urges committee members to consider specific challenges that would be posed by adding coverage of pandemic risk to BI policies through a commercial insurance approach:

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- The difficulty of determining expected costs due to significant uncertainty in the estimation of the frequency or severity of potential pandemic-related losses.
- The large effects on premiums, potentially rendering policies unaffordable for many businesses. The letter notes: “Loading the estimated full cost of pre-funding payment of claims for business interruption in the next pandemic event—including the proposed new Pandemic Risk Reinsurance Program—onto the BI insurance contract would grossly distort the cost of that product and make it impractical for consumers.”
- The impracticality for insurers of high premiums and of setting aside appropriate capital and assets from a commercial perspective.
- The effect of economic shocks that accompany a pandemic event on the value of insurer assets set aside to pay claims.
- The inability to diversify risk geographically because of the widespread nature of a pandemic.

Read the letter and learn more about the Academy’s property/casualty policy work online under the public policy tab at [actuary.org](https://www.actuary.org).

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The American Academy of Actuaries is a 19,500-member professional association whose mission is to serve the public and the U.S. actuarial profession. For more than 50 years, the Academy has assisted public policymakers on all levels by providing leadership, objective expertise, and actuarial advice on risk and financial security issues. The Academy also sets qualification, practice, and professionalism standards for actuaries in the United States.