CIPR Event:
The Risk of Pandemics to the Insurance Industry

Risks to Property/Casualty Insurers

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March 27, 2015
The American Academy of Actuaries is an 18,500+ member professional association whose mission is to serve the public and the U.S. actuarial profession. The Academy assists public policymakers on all levels by providing leadership, practice, and professionalism standards for actuaries in the United States.
Overview

- Likely Threats
- Lines/Coverages Potentially Affected
- Potential Exclusions
- Modeling Challenges
- Risk Management & Future Outlook
Likely Threats

- **Disease**
  - Increase in volume and severity of illness in patients at hospitals and doctors’ offices
  - Potential workers’ compensation (WC) liability for health care workers exposed and/or infected
  - Antibiotic-resistant infections (agricultural policy can affect medical exposure)

- **Bioterrorism**
Lines/Coverages Potentially Affected

- Workers’ Compensation
- Medical Professional Liability
- General Liability/Directors and Officers
- Business Continuity/Business Interruption/Extra Expense Loss
Workers’ Compensation

- WC provides coverage for work-related illnesses
  - Could be difficult to prove that illness/disease arose out of and in course of employment
    - Timing of symptoms in relation to work hours
    - Commonality of symptoms among coworkers
  - Must also prove illness/disease was caused by conditions “peculiar” to specific work
  - Likelihood of success of specific claims would depend on extent to which Centers for Disease Control & Prevention (CDC) precautions are taken
Workers’ Compensation, cont’d

- Successful claims could negatively affect experience modification factors and WC rate and pricing models
- Current WC rate and pricing models ignore pandemic risk due to lack of historical experience (i.e., no losses) and modeling challenges (only recently has quantification of pandemic risk been explored)
- Employees working internationally:
  - Employers should determine whether they have coverage for foreign WC on existing WC policies or via separate international policy
  - Coverage for repatriation
Medical Professional Liability

- Failure to properly diagnose disease – harm to patient
- Negligent delay in diagnosis – harm to patient, staff, potentially the public
- Failure to establish proper prevention protocols
- Failure to follow proper prevention protocols
- Possible increase in claims if disease lowers number of health care professionals available to work
Successful claim would require proof of negligence in failing to prevent transmission of disease

Could be difficult to prove causation between actions of insured and infection/exposure (negligence standard)

Less likely avenues:

- Wrongful eviction against landlord after closure or evacuation of building
- HIPAA privacy violations
Such claims usually require physical damage but could include the following conditions:

- Quarantines
- Shutdown of healthcare facilities
- Building closures
- Contingent business interruption (outbreak in another location could disrupt supply chain)
- Could also cover diminished revenues resulting from above
Environmental pollution/contamination claims, which would preclude clean-up coverage
- Naturally occurring substances
- Microbial matter
- Above could include biomedical waste

When Ebola outbreak spread to the U.S. last fall, some insurers began writing Ebola exclusions into standard policies for hospitals and other vulnerable businesses

Government action may also be subject to exclusion
Modeling Challenges

- Modeling difficult because only three widespread influenza outbreaks during 20th century; little information available with which to develop infection and fatality rates
- Severe Acute Respiratory Syndrome (SARS) 2003 outbreak studied as possible model for potential future influenza pandemic. Results:
  - Reduction in GDP growth
  - Lost business revenue
    - Travel restrictions
    - Quarantines
    - Building closures
  - Reduction in tourism
  - Full economic recovery took 18 months
Risk Management & Future Outlook

Necessary considerations:

- Business continuity plans and preparations:
  - Isolation of infected individuals
  - Quarantine of potentially exposed individuals
  - Closure of places of assembly (schools, churches, etc.)
  - Furloughs of nonessential workers
  - Changes in movement patterns (e.g., restrictions on discretionary travel)

- Reserve of prophylactic treatments

- Education regarding hand-washing and other hygiene-related precautions
Insurers should create contingency plans like other businesses. Resources:
- Department of Health & Human Services
- CDC
- Department of Commerce
- Department of Homeland Security

Reinsurance could mitigate some of financial effect of surge in claims
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