



Frédéric de Courtois
Vice-president, Insurance Europe
General manager, Generali Group, Italy

PANDEMIC RISK

Preparing for the future

Work is already under way to find innovative solutions to cover the risks of future pandemics

As the COVID-19 pandemic took hold in Europe and the continent scrambled to respond to the unprecedented public health crisis that ensued, governments announced lockdown measures in an effort to limit the spread of the disease. As a result, economic and social activity in many sectors ground to a halt, with many businesses forced to cease their activities and a widespread cancellation of events and travel.

This, in turn, led to debate over the extent to which the insurance industry covers the pandemic-related losses incurred by these industries and individuals, as well as discussion more generally over the extent to which insurance can cover pandemic risk. This debate has since matured into a discussion — taking place at both national and supranational level — about possible solutions to cover the economic losses and other risks linked to future pandemics.

A challenge to insurability

Pandemic risk poses a challenge to insurability, as it is — by definition — global and potentially affects many individuals and economic sectors at once. This sets pandemic risk apart from risks that are insurable — ones that do not materialise everywhere and all at once — as it prevents the diversification and pooling mechanisms at the heart of insurance (see box opposite).

In practical terms, this means that while it is possible to cover a



“While it is possible to cover a limited number of policyholders against pandemic risk in well-defined circumstances, insuring a very large group cannot be done relying exclusively on the principles of insurance and on the resources of the insurance industry alone.”

limited number of policyholders against pandemic risk in well-defined circumstances, insuring a very large group cannot be done relying exclusively on the principles of insurance and on the resources of the insurance industry alone. Pandemic risk therefore takes its place among similarly potentially large risks, such as natural catastrophes or terrorism, which require partnerships between public bodies and the private insurance industry in order to devise innovative solutions. It is important to note, however, that even natural catastrophes and terrorism do not share the same global nature intrinsic to pandemic risk;

their potential losses are much lower and diversification can be achieved.

Pandemic risk on paper

Despite posing a challenge to the principles of insurability, modelling the risks created by pandemics is not uncharted territory. Pandemic risk has been modelled by the insurance industry by using risk assessment tools to map certain scenarios and their expected consequences, allowing for the spread of a disease to be predicted with relative accuracy.

What is insurable?

To assess the insurability of a risk, it must be weighed against a set of conditions. The risk is insurable if:

- It is definable and financially measurable.
- It is random and independent.
- It is possible to build a risk pool in which the risk can be shared and diversified (mutualised) at economically fair terms.
- The insurer can calculate a fair premium for the risk, ensuring that the premium is sufficient to cover future claims on its pool of risks and that it is also affordable for consumers.
- The likelihood of the risk is calculable, implying notably that there is a reasonably large history of losses and sources of data from which to calculate the average severity and frequency of future losses.
- There is limited risk of catastrophically large losses and the financial impact of such losses is not so significant that an insurer/the insurance sector cannot afford to pay it.

Pandemic risk in practice

Pandemics are not isolated events, however, as they are accompanied by government efforts to reduce their negative effects. Preventive measures put in place by governments in the interests of public health — such as full or partial lockdowns of the economy and society — while effective in limiting the spread of a disease, significantly affect the insurance industry's ability to assess, mitigate and price pandemic risk.

In the case of COVID-19, the economic losses have not arisen primarily from the pandemic itself but from government action to mitigate the impact of the virus on the population. Besides a pandemic's global nature, it is this factor that also sets pandemic risk apart from other catastrophic risks, as it is closely linked to — and can be exacerbated by — political decisions.

While the main focus on insurance during the COVID-19 pandemic has been the economic losses associated with the widespread interruption of business activity, the extent to which pandemic risk is covered or not in other lines of business has also been discussed. While pandemic risk does raise insurability challenges across the board, European insurers do cover certain elements of the risk in a number of business lines. Pandemic risk can appear on the balance sheet of insurers offering the following insurance lines:

- general liability
- medical, professional and directors & officers liability
- travel
- event cancellation
- trade credit
- life

Searching for solutions

The insurance industry is committed to playing its part in the search for a workable solution to help societies and economies to better prepare for future pandemics. For insurers, tackling the challenges associated with insurability will be the precondition for participation in any such solution.

At European level, Insurance Europe has been involved in

“For insurers, tackling the challenges associated with insurability will be the precondition for participation in any pandemic solution.”

discussions on future pandemic solutions since the early days of the current outbreak, providing a platform for markets to share information on developments at national level and forming part of a workstream established by EIOPA to explore pandemic and shared-resilience solutions. Through this workstream, Insurance Europe contributed to an [issues paper](#) published by EIOPA in July 2020, which sets out possible solutions and explores their feasibility.

The economic impact of the measures taken to mitigate the effects of the pandemic will be borne by governments for many years to come. Given the sheer scale of the losses and the challenges it poses to insurability, it is clear that pandemic risk cannot be borne by the private insurance industry alone. Neither will it be possible to devise solutions in time to cover second or subsequent waves of the current pandemic.

Looking ahead to future pandemics, governments and insurers in some member states have begun to explore the possibility of public-private partnerships, drawing on experience of existing partnerships for other — notably less global and potentially catastrophic — risks, such as natural catastrophes or terrorism. For the time being, these initiatives have not moved beyond the national level. This may be because, despite its global nature, COVID-19 has a strong national component, be it the extent and evolution of the pandemic, government responses or the resilience of healthcare systems.

Given the pan-European nature of a pandemic, there may also be a need to discuss a potential role for the EU. If there is such a role — whether in the form of an added financial layer supplementing national risk-transfer solutions or limited to central coordination of, for example, prevention measures — it will require strong and broad political support at the highest level.

For now, many of these questions remain open. Indeed, as the pandemic continues to rage, it remains too early to fully assess all its economic consequences; the full effects of the COVID-19 pandemic may not be evident for many years to come. What is clear, though, is that pandemic risk poses a huge challenge to governments, society and the insurance industry alike. Moving forward, whatever the role for the insurance industry may be, helping society to be better prepared for future pandemics will require new and innovative solutions, drawing on experience from the current pandemic. The insurance industry stands ready to play its part. ●