ISSUE BRIEF

NAIC
NATIONAL ASSOCIATION OF INSURANCE COMMISSIONERS

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Pandemic Business Interruption Insurance

- *State insurance regulators recognize that the pandemic has caused massive disruptions to businesses and expect insurers to honor their commitments by paying claims that are covered by insurance policies.*
- *However, the COVID-19 crisis has highlighted that the risk of a pandemic is difficult to insure, and insurance regulators have seen evidence that demonstrates the insurance industry is not able to take on a substantial portion of this risk on their own, and indeed, regulators' nationwide data call indicated that 83% of all policies included an exclusion for viral contamination, virus, disease, or pandemic, and 98% of all policies had a requirement for physical loss.*
- *The NAIC supports Congress passing legislation establishing a forward-looking federal mechanism to help ensure widespread availability of business interruption insurance for pandemic risks without jeopardizing the financial condition of the insurance sector or undermining state insurance consumer protections.*

Background

Many existing business interruption (BI) policies have exclusions for viruses or other diseases, and coverage is generally only triggered by actual physical damage. Therefore, many of these policies were generally not designed to provide coverage for claims arising from COVID-19. Historically, some limited BI coverage for viral pandemics has been available as a separate endorsement or policy from certain carriers, but few businesses have chosen to purchase it.

Insurance works well and remains affordable when a relatively small number of claims are spread across a broader group, and therefore it is not typically well suited for a global pandemic where virtually every policyholder suffers significant losses at the same time for an extended period.

Because insurers are largely unable or unwilling to insure such risks, there is an enormous coverage gap for businesses. As a result, the NAIC supports the establishment of a federal mechanism to provide availability of pandemic BI coverage. Congress should consider forward-looking proposals that could limit taxpayer exposure to the economic consequences of the next pandemic and ensure adequate take-up rates without jeopardizing the solvency of the insurance industry.

Key Points

- ✓ It is critical that any legislative solution be designed in a manner that does not undermine state insurance regulatory authorities to protect insurance consumers and ensure the solvency of the industry.
- ✓ A new federal mechanism must not jeopardize the financial condition of insurers or affect their ability to pay other types of claims.
- ✓ Any solution should be affordable to policyholders to ensure adequate take up rates, but also reduce the overall taxpayer exposure to risks from a pandemic.

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