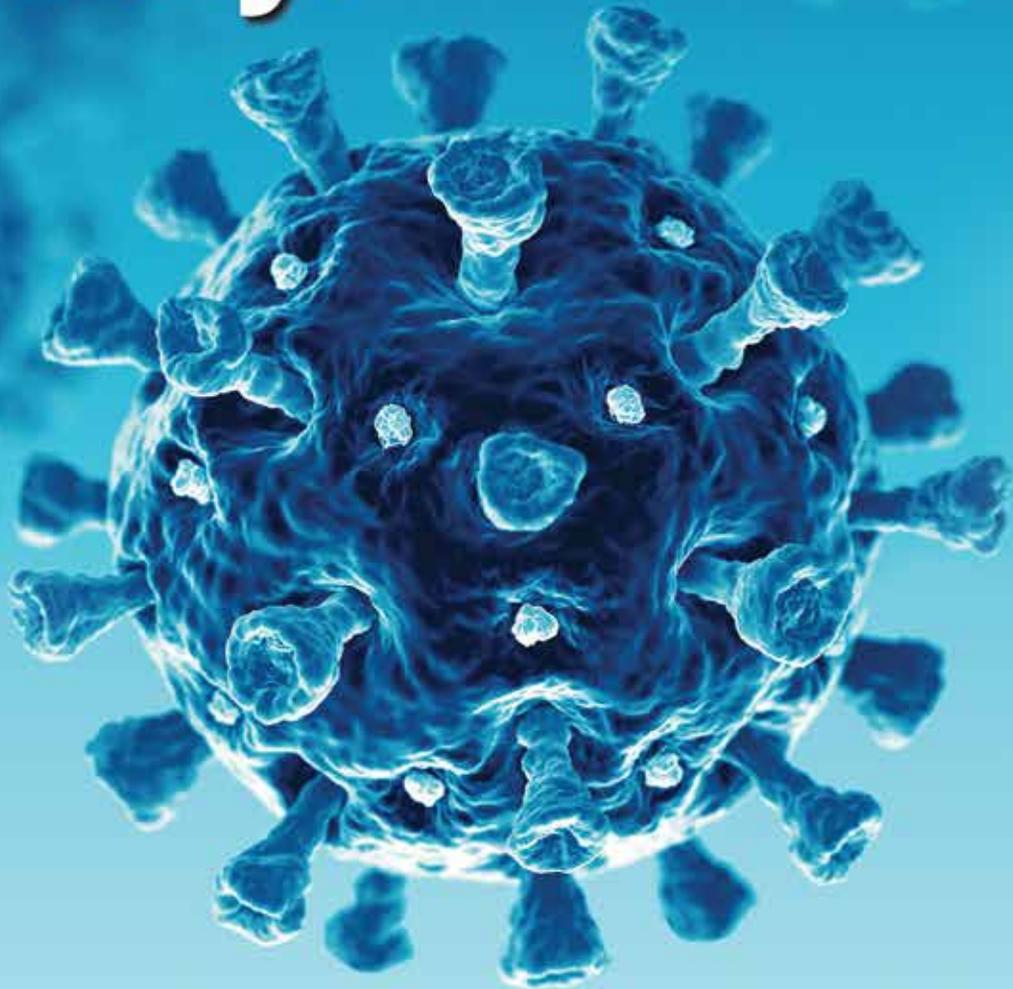


# The Risk of Pandemics to the Insurance Industry:

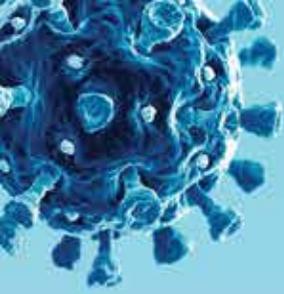


Lessons Learned from 2015 CIPR  
Symposium Applicable to COVID-19

April 15, 2020

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# The Risk of Pandemics to the Insurance Industry

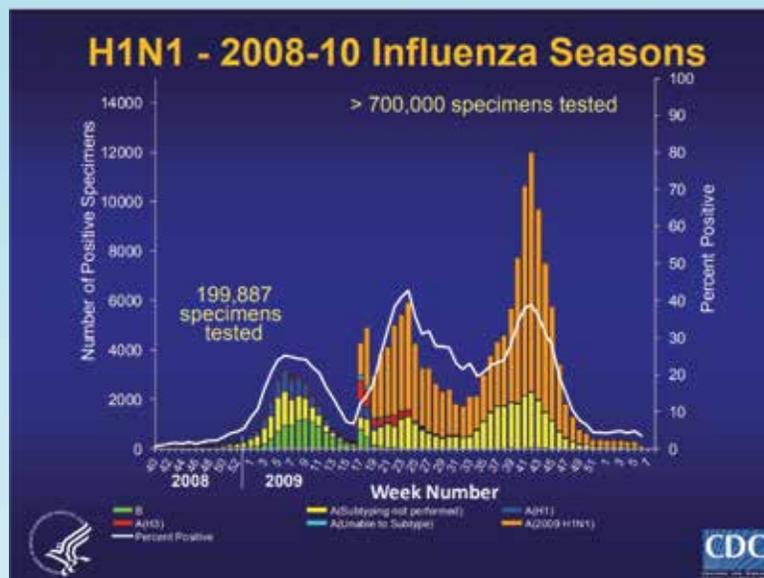
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In 2015, the Center for Insurance Policy & Research (CIPR) conducted a half-day pandemic symposium entitled “The Risk of Pandemics to the Insurance Industry.” The event gathered insurance regulators, consumer representatives and industry professionals to learn and interact with pandemic experts from government and the private sector including from the Center for Disease Control (CDC); the Federal Emergency Management Agency (FEMA); the medical community; the actuarial community; and risk managers. The discussion focused broadly on identifying and modeling pandemic risk and how to apply risk-focused tools to manage pandemics.

Here we provide an overview of five key take-aways from this expert symposium. Our goal is to highlight central areas of discussion and lessons applicable for insurance regulators facing our ongoing COVID-19 challenge and inevitable future pandemics.

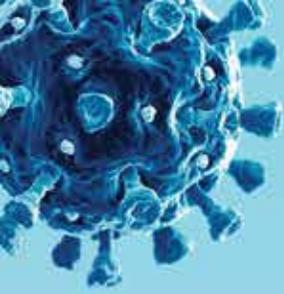
- 1) Pandemics can cause substantial direct health and life impacts over a long timeframe, typically in waves.** For example, during the 1918 influenza pandemic, sickness and death swept through the nation in three waves (Spring 1918, Fall 1918, and Winter/Spring 1919) before finally culminating in the summer of 1919. In more recent history, the 2009 H1N1 influenza pandemic began in April 2009, peaked in Fall/Winter 2009, and petered out in the first few months of 2010 when a vaccine was developed (see figure below presented during the CIPR symposium).



(source: John Auerback, CDC)

In addition to deaths and illness directly linked to virus spread, disruptions to the healthcare system may cause other health-related impacts such as worsening ongoing medical problems. Further, ongoing anxiety and stress will likely contribute to behavioral health issues.

**Relevance to insurance regulation:** Without a vaccine, it is likely that society, the insurance industry and regulators will be dealing with direct mortality and morbidity issues as well as other health-related impacts from COVID-19 through 2020 and possibly into 2021. Affordable health insurance coverage plays a critical role for containment of the virus and dealing with direct and indirect impacts. It is also important to address current related regulatory issues such as mental health parity.



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- 2) Given the long-term and unpredictable spread of the virus, regulatory and industry relief may be necessary.** Expert panelists proposed options for regulatory and industry relief such as reimbursement- related flexibility for information or hotlines; clinician telephone/computer counseling of patients advised not to come to the emergency department; care at unlicensed satellite sites; care by those outside of network; and rationing of care.”

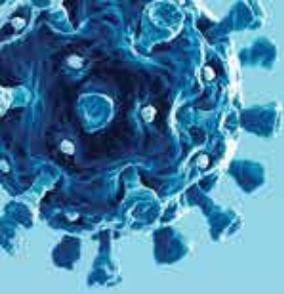
**Relevance to insurance regulation:** States have already initiated a number of regulatory relief actions across life, health, and P&C lines (see “State Bulletins and Alerts” at [https://content.naic.org/naic\\_coronavirus\\_info.htm](https://content.naic.org/naic_coronavirus_info.htm)). Continued and consistent implementation of these actions will remain important. Additionally, industry has asked for regulatory relief for emergency actions such as relaxing “on-site” requirements; allowing electronic communication; suspending deadlines/time restrictions; filing flexibility; producer licensing accommodations; uniform data collection; and relaxing policyholder claim reporting requirements. Open communication and partnership with industry on these requests will remain important.

- 3) Advance planning is critical to effectively dealing with pandemics. Tools and protocols already exist for regulators and the industry to use.** Further, in the U.S., planning and responding to emergency situations such as a pandemic **is a shared responsibility among agencies and departments at the local, state and federal levels**, with state and local authority often having the final say following federal guidance.

**Relevance to insurance regulation:** State insurance departments play a critical role in planning and responding to pandemics, just as they do for other large-scale emergencies. This is true not only within individual states but across states as coordinated through the NAIC. State insurance regulators should use existing pandemic related tools and protocols to plan for and respond to events in partnership with other state agencies and federal departments.

- 4)** In addition to the mortality and morbidity risks faced by the life and health insurance industries, **P&C coverages likely to be affected include workers compensation; medical professional liability; general liability/directors and officers; and business continuity/business interruption/extra expense loss.** Many of these liability coverages require proof of negligence.

**Relevance to insurance regulation:** Many liability coverages require proof of negligence. Insurance companies must properly implement appropriate planning and response protocols before and during the event. Regulators should consult with insurance companies to ensure that companies are internally implementing pandemic tools and protocols and that companies are providing appropriate education to policyholders.



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**5) Along with the various line of business coverage risks, insurers also face significant economic/market and counterparty risk. Risk-based models exist to assess these risks, but to what extent do insurers use and understand them?** One model outcome example discussed the ceded reinsurance counterparty risk for life insurance. Given that reinsurance is a relatively concentrated industry and global diversification does not necessarily work for pandemics in the same way it does for natural disasters (i.e., as the pandemic event is unfolding on a global basis), what sort of reinsurance solvency risk would this pose for the industry?

**Relevance to insurance regulation:** Opportunities exist to develop regulator best practices and tools for stress testing comprehensive insurance impacts that include coverage, economic/market, counterparty, and business continuity risks. Existing tools such as ORSAs may be developed further to accommodate this. Particular modeling aspects that likely need to be developed further include reinsurance counterparty risk, accounting for the complex nature of the administration of healthcare today and the potential critical shortfalls the system today would likely face; induced investment market stress; and the simultaneous unfolding of multiple disaster events such as a pandemic coupled with a natural disaster.

The replay of this event is available on our CIPR website. We invite you to listen for further context to these key take-aways as well as numerous other aspects that were discussed. The agenda and links to the speaker slide presentations and audio files are listed below.

**Jeffrey Czajkowski, Director CIPR**  
**Eric Nordman, Former Director CIPR**

[https://www.naic.org/cipr\\_events.htm](https://www.naic.org/cipr_events.htm)

## CIPR Spring Event:

The Risk of Pandemics to the Insurance Industry

March 27, 2015

### Session 1: The Big Picture

*John Auerbach, MBA, Associate Director for Policy Centers for Disease Control and Prevention (CDC)*

**Preparing for a Pandemic: Lessons from the Past, Plans for the Present and Future**

[Session 1 Audio 1](#)

[Session 1 Audio 2](#)

*Eric P. Justin, MD, MPH, MBA, VP, Chief Medical Officer Lockton Companies*

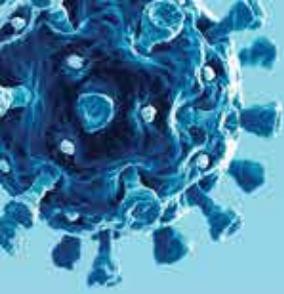
**Emerging Infectious Diseases and Risk**

[Session 1 Audio 3](#)

*Russell Fox, Continuity Manager–Region II, National Preparedness Division Federal Emergency Management Agency*

**FEMA Pandemic Accord Continuity Exercise Series**

[Session 1 Audio 4](#)



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## Session 2: Assessing, Modeling, and Measuring the Risk

*Mary D. Miller, MAAA, FCAS, President American Academy of Actuaries*

**Risks to Property/Casualty Insurers**

[Session 2 Audio 5](#)

*Cecil Bykerk, MAAA, FSA, FCA, RHU, President CD Bykerk Consulting*

**IAA - Ebola Presentation & Ebola Transition Model Tables**

[Session 2 Audio 5 \(Cecil Bykerk, 21:54\)](#)

[Session 2 Audio 6](#)

*Max J. Rudolph, FSA, CFA, CERA, MAAA, Rudolph Financial Consulting, LLC*

**Pandemics: Proactive Considerations**

[Session 2 Audio 6 \(Max J. Rudolph, 11:43\)](#)

*Jim Toole, FSA, CERA, MAAA, Managing Director FTI Consulting*

**Pandemic Modeling**

[Session 2 Audio 7](#)

## Session 3: Managing the Risk

*John Cookson, FSA, MAA, Principal Milliman*

**Pandemics, Catastrophic Trends and Capital Issues**

[Session 3 Audio 8](#)

*David A. Rains, FSA, MAA, Managing Director, Healthcare & Life Specialty Practice Guy Carpenter*

**Pandemic Solutions**

[Session 3 Audio 9](#)