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Pandemic Business Interruption Insurance

- *The COVID-19 crisis exposed the challenge of insuring businesses against pandemics.*
- *The NAIC supports 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

When the COVID-19 pandemic began, many existing business interruption (BI) policies had exclusions for viruses or diseases and required physical damage to trigger coverage. A 2020 nationwide data call by state insurance regulators found that 83% of policies excluded viral contamination, virus, disease, or pandemic, and 98% required physical loss. Thus, these policies were not intended to cover COVID-19 claims. Historically, some carriers have offered limited pandemic coverage, but few businesses have purchased it.

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

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

Key Points

- ✓ Legislative solutions must protect insurance consumers and the insurance industry's solvency while respecting state insurance regulatory authorities.
- ✓ A new federal mechanism should 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, while minimizing taxpayer exposure to pandemic risks.