

To protect businesses from pandemic risk, governments need to be 'insurers of last resort'

- To support government-insurer discussions on how to close the protection gap for business interruption risk in the case of a pandemic, The Geneva Association has released [Public-Private Solutions to Pandemic Risk](#), outlining four possible government-led schemes: 1) direct insurance, 2) reinsurance, 3) social insurance and 4) post-event protection.
- The first report in this series, [An Investigation into the Insurability of Pandemic Risk](#), revealed that business interruption risk is uninsurable by insurers alone: compared to projected global output losses of more than USD 4 trillion for 2020 due to the pandemic, the global P&C insurance industry collects USD 1.6 trillion in annual premiums, with just an estimated USD 30 billion for business interruption policies.
- Capital at risk makes it impossible for private insurers to offer meaningful pandemic business interruption coverage, but they can make important non-risk bearing contributions that leverage their expertise in risk assessment, risk mitigation and claims management.

ZURICH, 21 April 2021 – COVID-19 has illustrated that pandemic-related business interruption is directly linked to the decisions of governments to implement lockdown measures, making it impossible for insurers to model and price such a risk. Furthermore, it is systemic in nature, inducing widespread and simultaneous financial losses. Coverage for pandemic business continuity risks with meaningful limits will therefore remain unavailable from the private insurance market due to prohibitively high capital requirements. Government involvement is essential to enhancing preparedness for and resilience to future pandemic shocks.

In this context The Geneva Association has just released *Public-Private Solutions to Pandemic Risk*, expounding four exemplary pandemic risk funding schemes where governments can play a leading role:

- **Direct insurance:** the public sector provides voluntary or mandatory insurance to businesses exposed to pandemic risk
- **Reinsurance:** governments provide reinsurance coverage to insurers that kicks in above a certain threshold and up to a certain limit
- **Social insurance:** modest public-sector coverage with mandatory participation through pre-event payments (e.g. tax or levy)
- **Post-event protection:** an ad hoc safety net offered by governments to those affected

Recognising there is no one-size-fits-all solution, the report assesses the benefits of each scheme against seven public policy goals: 1) maximum coverage, 2) limited public exposure, 3) matching of funds with needs, 4) risk mitigation incentives, 5) cost-efficiency of risk transfer, 6) operational efficiency, and 7) macroeconomic benefits.

Jad Ariss, The Geneva Association's Managing Director, said: "It is a tragedy that businesses, particularly SMEs, have suffered so much financial loss during the pandemic as a result of the lockdowns, which were beyond their control. The public sector had to step in with multi-trillion dollar emergency relief measures. Governments and insurers must work together on how to close the massive protection gap exposed by COVID-19, with governments as the leading players."

Kai-Uwe Schanz, The Geneva Association's Head of Research & Foresight and the leading author of the report, said: "We want to emphasise that of the four pandemic risk insurance schemes outlined, distributing cash post-event – as many governments did for COVID-19 – is likely least effective. For the other schemes, deciding

whether participation is mandatory or voluntary, as well as the role of insurers in pricing and offering coverage, are critical considerations. We hope this report effectively guides governments and insurers in finalising their partnership terms.”

About The Geneva Association

The Geneva Association is the only global association of insurance companies; its members are insurance and reinsurance CEOs. Based on rigorous research conducted in collaboration with its members, academic institutions and multilateral organisations, The Geneva Association:

- Identifies and investigates key trends and risk areas that are likely to shape or impact the insurance industry and develops corresponding recommendations for the industry and for policymakers;
- Provides a platform to its members, policymakers, academics, multilateral and non-governmental organisations to discuss these trends and recommendations;
- Highlights the positive contributions of insurance to a better understanding of risks and to building more resilient and prosperous economies and societies – in both developed and emerging countries – and thus a more sustainable world;

In total, the companies of Geneva Association members are headquartered in 25 countries around the world; manage USD 17.1 trillion in assets; employ 2.4 million people; and protect 1.8 billion people.

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