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CIPR Event: The Risk of Pandemics to the Insurance Industry

Risks to Property/Casualty Insurers

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American Academy of Actuaries

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Overview

- Likely Threats
- Lines/Coverages Potentially Affected
- Potential Exclusions
- Modeling Challenges
- Risk Management & Future Outlook



Likely Threats

■ Disease

- Increase in volume and severity of illness in patients at hospitals and doctors' offices
- Potential workers' compensation (WC) liability for health care workers exposed and/or infected
- Antibiotic-resistant infections (agricultural policy can affect medical exposure)

■ Bioterrorism



Lines/Coverages Potentially Affected

- Workers' Compensation
- Medical Professional Liability
- General Liability/Directors and Officers
- Business Continuity/Business Interruption/Extra Expense Loss



Workers' Compensation

- WC provides coverage for work-related illnesses
 - Could be difficult to prove that illness/disease arose out of and in course of employment
 - Timing of symptoms in relation to work hours
 - Commonality of symptoms among coworkers
 - Must also prove illness/disease was caused by conditions “peculiar” to specific work
 - Likelihood of success of specific claims would depend on extent to which Centers for Disease Control & Prevention (CDC) precautions are taken



Workers' Compensation, cont'd

- Successful claims could negatively affect experience modification factors and WC rate and pricing models
- Current WC rate and pricing models ignore pandemic risk due to lack of historical experience (i.e., no losses) and modeling challenges (only recently has quantification of pandemic risk been explored)
- Employees working internationally:
 - Employers should determine whether they have coverage for foreign WC on existing WC policies or via separate international policy
 - Coverage for repatriation



Medical Professional Liability

- Failure to properly diagnose disease – harm to patient
- Negligent delay in diagnosis – harm to patient, staff, potentially the public
- Failure to establish proper prevention protocols
- Failure to follow proper prevention protocols
- Possible increase in claims if disease lowers number of health care professionals available to work



General Liability/Directors and Officers

- Successful claim would require proof of negligence in failing to prevent transmission of disease
 - Could be difficult to prove causation between actions of insured and infection/exposure (negligence standard)
 - Less likely avenues:
 - Wrongful eviction against landlord after closure or evacuation of building
 - HIPAA privacy violations



Business Continuity/Business Interruption/Extra Expense Loss

- Such claims usually require physical damage but could include the following conditions:
 - Quarantines
 - Shutdown of healthcare facilities
 - Building closures
 - Contingent business interruption (outbreak in another location could disrupt supply chain)
 - Could also cover diminished revenues resulting from above



Potential Exclusions

- Environmental pollution/contamination claims, which would preclude clean-up coverage
 - Naturally occurring substances
 - Microbial matter
 - Above could include biomedical waste
- When Ebola outbreak spread to the U.S. last fall, some insurers began writing Ebola exclusions into standard policies for hospitals and other vulnerable businesses
- Government action may also be subject to exclusion



Modeling Challenges

- Modeling difficult because only three widespread influenza outbreaks during 20th century; little information available with which to develop infection and fatality rates
- Severe Acute Respiratory Syndrome (SARS) 2003 outbreak studied as possible model for potential future influenza pandemic. Results:
 - Reduction in GDP growth
 - Lost business revenue
 - Travel restrictions
 - Quarantines
 - Building closures
 - Reduction in tourism
 - Full economic recovery took 18 months



Risk Management & Future Outlook

■ Necessary considerations:

■ Business continuity plans and preparations:

- Isolation of infected individuals
- Quarantine of potentially exposed individuals
- Closure of places of assembly (schools, churches, etc.)
- Furloughs of nonessential workers
- Changes in movement patterns (e.g., restrictions on discretionary travel)

■ Reserve of prophylactic treatments

■ Education regarding hand-washing and other hygiene-related precautions



Risk Management & Future Outlook, cont'd

- Insurers should create contingency plans like other businesses. Resources:
 - Department of Health & Human Services
 - CDC
 - Department of Commerce
 - Department of Homeland Security
- Reinsurance could mitigate some of financial effect of surge in claims



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