



# Marsh Captive Upside: 20/20/20 Webcast Series Session 3

May 29, 2020



## Marsh Captive Upside: 20/20/20 Series Agenda and Speakers, Session 3

- Pandemic Risk Insurance Coverage – US:
  - Summary.
  - Potential Captive Solution.
- International Solutions.



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# **Pandemic Risk Insurance Coverage in the US**





## Summary

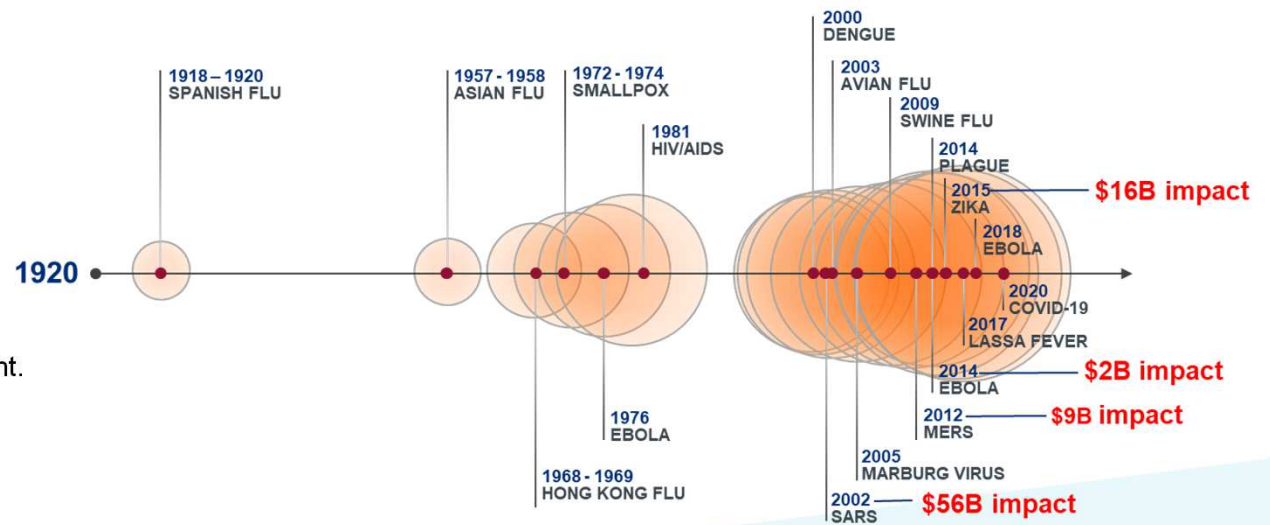
- Social and financial consequences of COVID-19.
- Impact to businesses of all sizes and sectors.
- Development of a public-private partnership that can be created to manage and fund future pandemic risks.
- Immediate action is needed to design and deliver a solution.
- The following summarizes the actions to date:
  - Marsh CEO John Doyle wrote a letter to House and Senate leaders on March 30, endorsing and offering assistance for the development of a pandemic risk insurance program.
  - Chair of the House Oversight Committee and member of the House Financial Services Committee, Representative Maloney (D-NY), released a discussion draft of proposed legislation on April 3.
  - 33 different trade associations, including RIMS, hospitality, and major sports leagues, endorsed the creation of a pandemic risk insurance program.
  - Representative Maloney released the second draft of proposed legislation on May 11.
  - The Pandemic Risk Insurance Act (HR 7011) was introduced by Representative Maloney and 20 other co-sponsors on May 22.

# Global Epidemic Threats: Deadly, Costly, Increasingly Frequent

In just the last two decades, more than 400 human disease outbreaks have been recorded, including at least seven events that cost US\$1 billion or more, according to Metabiota.

Several intensifying trends have increased the likelihood of pandemics, including:

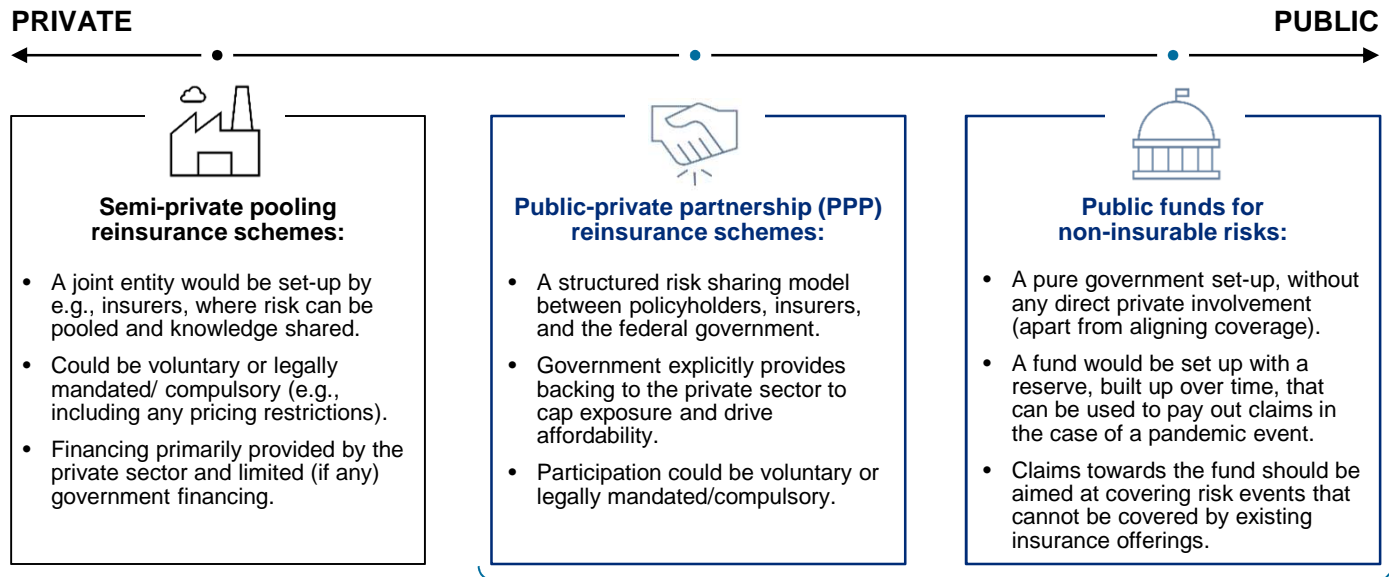
-  Global travel and connectivity.
-  Urbanization.
-  Land use changes.
-  Incursion into the natural environment.



## Options for Reinsurance and Risk Pooling

A spectrum of risk-pooling models exists for difficult risk types, ranging from pure private partnerships to state-financed funds for catastrophic (CAT) exposures.

Examples of insurance/reinsurance mechanisms used for risk management (non-exhaustive).



### Relevant option space for managing pandemic risk:

Given their global nature, pandemics are unlikely to offer (re)insurers any diversification. We expect some form of public support will be required to enable a (re)insurance market.

## Pandemic Risk Insurance Program – Why Now?

A pandemic risk insurance program will serve vital national interests:

1

***Accelerate recovery by reducing uncertainty:***

- The pace of recovery will depend on the nature and degree of confidence in the marketplace.
- Moving forward, lenders and equity markets will seek assurance that companies have protection against prospective pandemic risk.

2

***Financial protection against future pandemics:***

- A pandemic risk insurance facility will absorb some of the initial financial shock of a pandemic.
- Insurance coverage enables businesses to retain employees and meet financial obligations through the peak of uncertainty.

3

***Bend the risk curve:***

- Insurance creates the right economic incentives to drive change in society.
- It is critical that we act now to harness risk management to build a more resilient US economy.

## Potential Captive Solution

**Trigger:** Government entity declared pandemic.

**Policyholder coverage:** Standalone or business interruption policy that responds when triggered and provides 1-3 months of business continuity, including wage continuance coverage and/or event cancellation.

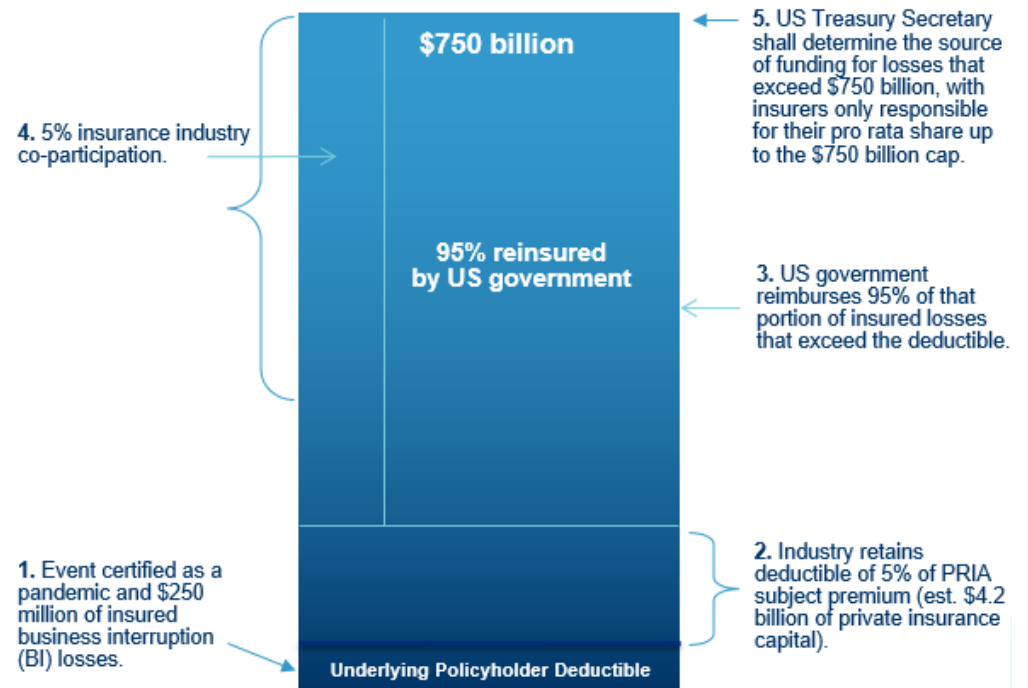
**Policyholder deductible:** ~15 to 30 days shut down based on company size.

**Insurance company deductible:** An insurer's deductible is proportionate to its size, equaling 5% of its annual direct earned premiums for the eligible lines of insurance specified in the program.

**Federal reinsurance program:** Once the 5% deductible has been met, the federal government would cover 95% of each insurer's losses above its deductible until the amount of aggregate losses to the facility total ~\$750 billion.

**Maximum program liability:** After ~\$750 billion in aggregate losses, there is no federal government coverage and no requirement that insurers provide coverage.

### Proposed Structure





## Benefit to Organizations Across all Sectors

- **Access to capital:** Going forward, lenders and equity markets will likely view risk differently and demand some type of assurance against pandemic risk; this solution could mitigate that risk.
- **Protect businesses and their employees:** Provides certainty for organizations and their employees during a future pandemic event.
- **Subsidized coverage for CAT exposure:** Government program critical to create affordable capacity.
- **Faster claims processing:** Non-damage business interruption (BI) solutions facilitate quicker payout as time consuming physical assessments of loss do not need to be completed.
- **Creates certainty and stabilizes the economy:** Mitigating initial shock reduces overall impact on the economy and incentivizes employee retention at the height of uncertainty.

## Conclusion

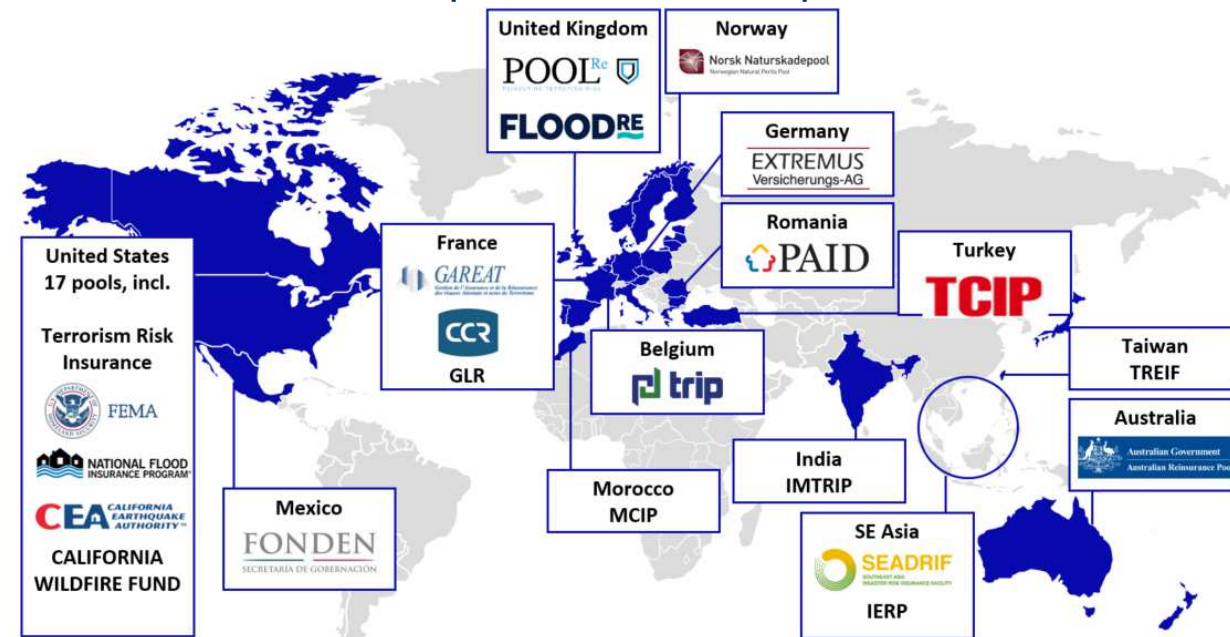
- COVID-19 highlighted a significant risk to the global economy.
- The recovery from COVID-19 and the future resilience of the US economy require the security and stability of an insurance-based solution for pandemics.
- This program can be implemented quickly and it can serve to mitigate future pandemic risk.
- Please encourage your government relations/lobbyist team to contact senators and representatives to support this initiative.

# International Solutions

## International Risk Pooling

Marsh & McLennan Companies (MMC) have been involved in designing and delivering many national CAT (Nat CAT) and terror risk pooling schemes around the world and dialogue is already underway in many locations around designing pandemic pools.

Selected examples: MMC involvement in pool schemes



## Coming Next

### Webcast Session 4 in June

**Questions or feedback for our next webcast?** Please reach out to us at:

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Marsh is one of the Marsh & McLennan Companies, together with Guy Carpenter, Mercer, and Oliver Wyman.

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