

PRESS RELEASE

Actuarial Association of Europe publishes AAE Position Paper “Insurability and pandemic (or more generally, shared resilience) risk”

Brussels, 29 June 2021:

The Actuarial Association of Europe (AAE) announces the publication of a paper titled “[Insurability and pandemic \(or more generally, shared resilience\) risk](#)”.

With Covid-19 causing a high number of deaths the insurance sector has managed without disruption the life and health cover it has underwritten. A more difficult discussion has emerged in the area of business interruption cover where many current policies do not have a state lockdown as a trigger for compensation. Not much can be done to make coping with the current situation easier. It is however important to discuss how we can be better prepared for something similar in the future. One thing to be learned from Covid-19 is that the crisis evolved in a way not anticipated beforehand. It is important to try to understand what kinds of crises are possible in our modern highly networked societies.

We show that the consequences of a pandemic for current types of business interruption coverage are impossible to fund ex ante. We look at possible macroeconomic tools and the creation of an ex ante fund to cover the losses. They are either impossible in practice or are too costly to be of much use.

From these analyses it seems clear that there is no realistic possibility for a totally private sector solution in anticipation for the next crisis; the size is too large and there is too much correlation across the world. Without modifying how a pandemic evolves we will also be in this same situation in the future.

A possible way forward involves public private partnerships. This could involve insurers or other actors from the private sector. The strength of insurers is that they manage similar risks in their ordinary operations. All this would make risks insurable – where insurability does not mean that only insurers could be the actors putting the arrangements into action.

When designing such a solution which contains risk sharing of the insurance type the main obstacles to overcome are high correlation leading to excessive accumulation of losses, and excessive moral hazard.

Notes for editors

1. For further information please contact Monique Schuilenburg, Operations Manager (tel. +32 2 201 60 21), moniques@actuary.eu
2. Copies of all AAE press releases are available on the AAE website (www.actuary.eu)
3. The Actuarial Association of Europe (AAE) was established in 1978 under the name Groupe Consultatif to represent actuarial associations in Europe. Its primary purpose is to provide advice and opinions to the various organisations of the European Union - the Commission, the Council of Ministers, the European Parliament, the European Supervisors and their committees – on actuarial issues in European legislation. The AAE currently has 36 member associations in 35 European countries, representing over 27,000 actuaries. Advice and comments provided by the AAE on behalf of the European actuarial profession are totally independent of industry interests. The Actuarial Association of Europe is registered in the EU Transparency Register under number 550855911144-54

An element that is important in any solution is that there should be incentives for loss prevention. This could come from making clear beforehand what is covered, to incentivize businesses to seek other ways to minimize risks not covered. It is also important that when there are premiums for the cover, the premiums are risk-based so that businesses again have correct incentives to take care of their risks.

It is a good ambition to create a solution that would be operational for all large-scale disasters (a “shared resilience solution” in the language of EIOPA). It will however be extremely difficult to anticipate everything that is possible in our modern highly networked societies. It is probably better not to aim too high and rather have a solution that is workable for some more easily understood crises.

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