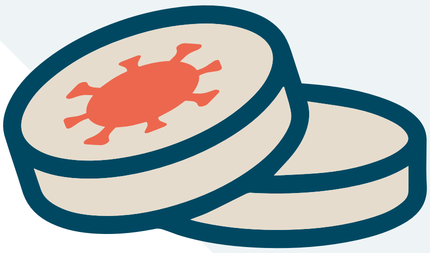
LIFE AND NON-LIFE INSURANCE ARE THE TWO SIDES OF THE COVID-19 COIN

BY **ROMAIN DURAND**



Covid-19 reminds us of the complex relationship between insurance and state-driven solutions in modern economies. Many governments rightly chose to spare as many lives as possible at the expense of the economy. In so doing they have triggered an unintended consequence for the insurance industry: what would be normally considered a life insurance issue – pandemic risk - turned out to be largely a non-life problem. In protecting lives through repeated and tight lockdowns, governments have, so to speak, moved the burden from life to non-life, from mortality to business interruption. This translated in a string of trials to determine what was covered and what was not under non-life policies. It also questioned the possibility to insure some events determined by a '*fait du prince*', or act of state.

But at the same time, it limited the load for life insurers and avoided the potential nightmare of the 1918 crisis. However, looking back to 1918 shows that even in these difficult circumstances, life insurance fared relatively well in the middle of a major human disaster.

> *'In 1918 one in 10 died, overall mortality being consequently around 3 per cent'*

The figures of 1918 are very different from those of 2020: the total number of people infected reached a stunning 500 million or 30% of the then-estimated worldwide population. Out of which one in 10 died, overall mortality being consequently around 3 per cent, far from the current estimated 0,6 per cent for Covid-19.

In those times, the war made government reactions complicated as it did not want to show weakness to the enemy[1], and transparency of information was limited by censorship; the

[1] Spain, a neutral state, was the first to declare cases and the virus was consequently attributed to this country by belligerents, too happy to hide their own cases...

vast majority of medical staff, doctors and nurses worked for the Army which made it difficult to treat civilians. In a highly debatable move, the US army even continued to convey soldiers to Europe in overcrowded ships after beginning of the disease. Lockdowns, hand washing and masks came late as well as efficient treatments. Coupled with a less developed non-life insurance offering, the crisis remained a life insurance problem.

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For life insurers the times were particularly difficult as exemplified by the US life insurance industry, already well developed since the end of nineteenth century.

First, insurers had to face a tide of claims. Contrary to Covid-19, the '*Spanish lady*' or '*Spanish flu*', as it was known, caused an overreaction of the body's immune system and 25–40-year-olds with their stronger immune systems suffered more deaths - an age band more likely to be insured. Metropolitan Life Insurance reported that 6.21 per cent of all coal miners whom it insured between twenty-five and forty-five years old died; in the same age group, 3.26 per cent of all industrial workers it insured died. And claims had to be settled relatively quickly as death was reaping breadwinners in families. Moreover insurance company had few staff to settle claims, some being drafted and others being sick (as for Covid-19 pandemic, employees were forbidden to show in the office in case of flu) which translated into an administrative quagmire.

Second, the amounts at stake were gigantic. It was estimated that life insurance had to pay a staggering 0.5 per cent of US GNP in less than 2 years. However, no insurer declared bankruptcy during this period. The crisis also muted the critics who accused the insurers of overcharging mortality rates which were common prior to World War I and people realised that covering pandemic exposures required some reserves.

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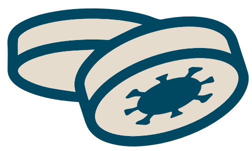
Insurance pre-finances claims through premiums and reserves. In so doing it provides a solution that fosters stability of economic systems. What would have happened in 1918 without life insurance? The money necessary to households (to provide after the death of a breadwinner) would have come from bank accounts. And the potential risk would have been a bank run, adding financial woes to the Pandemic ones. Through life insurance, households were provided with resources without tapping excessively in banking accounts.

In 2020, absent a sufficient insurance solution for business interruption, governments had to intervene and heavily finance the economy. One conclusion is that insurance has been a key pillar of our societies since the beginning of the last century. Where income protection is provided by insurers, it guarantees economic stability by pre-financing the claims as was the case during the Pandemic of 1918-1919. Where it is not provided by insurers, it has to be provided by governments as happened in 2020 and 2021 through loans, subsidies and tax cuts. The difference is perhaps that we have no clear idea of the potential consequences of this alternative way of providing protection through printing money.

Last but not least the Covid-19 crisis makes us think about the correlation between life and non-life and the role governments are playing in this. By giving priority to saving lives over any other considerations (which is reasonable) will governments always '*play*' in favour of life insurers against non-life?



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