

Pandemic Business Insurance Proposals

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Issue

Briefly summarize the proposed Pandemic Risk Insurance Act of 2020 and the insurance industry-proposed Business Continuity Protection Program.

Summary

Insurers generally have difficulty accurately underwriting and quantifying a pandemic's risk because its extent (i.e., its severity and duration) and breadth (i.e., the likelihood many claimants are impacted simultaneously) are unknown.

In 2020, Congress proposed two bills to mitigate future business risk due to pandemics and other health emergencies, known as the [Pandemic Risk Insurance Act](#) (PRIA) ([H.R.7011](#) and [H.R.6983](#)). Several insurance industry groups alternatively proposed the [Business Continuity Protection Program](#) (BCPP).

Modeled after the existing [Terrorism Risk Insurance Program](#), PRIA is a risk sharing program under which the federal government assists private insurers in compensating insureds for public health emergency-related losses (e.g., pandemic related closures). This creates an incentive for insurers to offer pandemic-related business interruption insurance. Under the proposed act, the government does not charge insurers to participate in PRIA, but participating insurers bear the risk up to 5% of their annual direct earned premiums (the "insurer deductible"). Both PRIA bills were introduced in May 2020 and referred to the House Committee on Financial Services.

BCPP is an alternative risk sharing program proposed by several insurance industry groups, including the American Property Casualty Insurance Association, the National Association of Mutual Insurance Companies, and the Independent Insurance Agents and Brokers of America. It establishes a framework for private insurers to sell pandemic-related risk policies that reimburse businesses for necessary operating expenses and for retaining employees following a presidentially declared viral emergency. Under this proposal, the government charges insurers a premium to participate in the program, but in return bears all risk in the event of a declared viral emergency.

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PRIA

PRIA establishes within the Treasury Department a program under which insurers who elect to participate provide private businesses with public health emergency-related business interruption coverage. Specifically, the program pays out claims based on each business' insured losses related to pandemics and other disease outbreaks.

If a Department of Health and Human Services' certified public health emergency causes industry insured losses to exceed \$250 million, participating insurers pay policy claims up to an aggregate total of 5% of their annual direct earned premium for the prior year (i.e., the "insurer deductible"). Under the program, the government pays 95% of claims above the insurer deductible, with the insurer responsible for the rest. The government pays until claims reach \$750 billion.

BCPP

Under the BCPP, businesses purchase business interruption protection through brokers, agents, and insurers. The Federal Emergency Management Agency administers the program and charges insurers a premium for participating. In the event the president declares a viral emergency, the BCPP pays businesses a "revenue replacement" payment for the amount of protection purchased, which can be up to three months and up to 80% of the businesses' payroll, employee benefits, and operating expenses. As a condition of the program, businesses receiving payments must certify that they will (1) use relief payments to retain employees and keep the business viable and (2) follow applicable federal pandemic guidance.

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