

NATIONAL CONFERENCE OF STATE LEGISLATURES

NCSL Executive Committee Task Force on Insurance



AMERICAN ACADEMY *of* ACTUARIES

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American Academy of Actuaries—Overview

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- Mission of the American Academy of Actuaries (“Academy”) is to provide objective and independent advice to policymakers on matters relevant to actuarial practice
- Academy is the national organization for actuaries in the United States
- Academy is made up of member actuaries practicing in multiple practice areas (Pensions, Life, Health, Property and Casualty)



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Business Interruption Coverage—Public Policy Perspective

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- Academy does not endorse particular legislation or legislative proposal regarding business interruption (BI) coverage
- Has provided testimony to the U.S. House Financial Services Committee regarding H. R. 7011:
https://www.actuary.org/sites/default/files/2020-12/Pandemic_Risk_Actuaries_Statement.pdf
 - Numerous technical issues to be considered

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Actuarial Perspective—General Considerations

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- An actuarially sound insurance program requires rates that consider the expected value of all future costs to the program
- Rates are prospective in nature, estimated prior to knowing the actual costs
- Costs of the program will include cost of capital
 - Capital required to support the program in case actual costs are higher than expected
 - Volatility is a key consideration



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Actuarial Perspective—General Considerations (cont.)

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- Catastrophic events and the insurance programs that cover them are by nature subject to greater volatility
 - Harder to estimate accurately
 - Low frequency of occurrence but can be quite severe in magnitude
 - Higher cost of capital
- Normally, catastrophic events are geographically localized
- Occur within a short period of time

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Actuarial Perspective—Considerations for Insuring Pandemics

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- Characteristics of a pandemic
 - Clearly catastrophic in nature
 - Not localized in place or time
- Accurately estimating an actuarially sound rate may not be possible
 - Affordability would be questionable
- Capital required to support a private market program would be quite large, perhaps unreasonable
- Operational capacity to settle all claims may not be available

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Actuarial Perspective—Insuring Pandemics (cont.)

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- ▣ Magnitude of losses from a pandemic is large and a federal backstop likely to be necessary
- ▣ Consideration given to speed of claim settlement
 - BI claims are complex
- ▣ Consideration given to affordability
 - Will impact uptake
 - Likely to require federal subsidy

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Actuarial Perspective—Insuring Pandemics (cont.)

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- ▣ Consideration given to the nature of the coverage
 - Payroll vs. net income, for example
- ▣ Overall goals of the program should be clear



Questions?

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