Gabriel Bernardino
Chairman

Ms Mairead McGuinness
Commissioner for Financial Services
Financial Stability and Capital Markets Union
European Commission
Rue de la Loi / Wetstraat 200
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EIOPA-21/118
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Measures for improving insurability of business interruption risk in light of pandemics

Dear Commissioner,

Following the publication of our Issues Paper on shared resilience solutions for pandemics in July last year[1], EIOPA has continued its analysis related to measures for improving the insurability of business interruption risk in light of pandemics.

The attached paper by EIOPA staff, to be published today, presents areas for further consideration.

Having regard to the insurance protection gap for non-damage business interruption in the context of pandemics, our paper focuses on three areas: (i) risk prevention, (ii) the role of capital markets in risk transfer and (iii) pooling of perils for addressing systemic risk.

A central element of a shared resilience solution is prevention. Insurers can play an important role in promoting prevention measures in order to reduce losses to society. Showing the true cost of the risk, through risk-based pricing of insurance coverage, as well as improving on the clarity of the scope of coverage can contribute to incentivising policyholders to invest in prevention. Regulatory incentives, as well as public-private initiatives for sharing risk analysis and aligning prevention incentives can support these efforts. Based on better modelling and pricing, more targeted incentives for prevention, taking into account expected

[1] https://www.eiopa.europa.eu/content/issues-paper-resilience-solutions-pandemics

vulnerability and behaviour of individuals, businesses and public authorities, could be taken.

Capital markets constitute a potential layer of alternative risk transfer. There are challenges to involving investors in financing business interruption risk in a pandemic crisis, in particular where their risk appetite is limited. Public-private solutions for a pandemic financing facility may be relevant to consider in a shared resilience solution. But further work is also needed to improve legal certainty, predictability and swiftness in the payment of claims, and to incentivise risk prevention through relevant claim triggers.

The current pandemic shows that options for diversifying risk are scarce where risks are interrelated. Today's solutions are focusing on the loss of non-damage business interruption as a result mainly of government containment measures. As the pandemic unfolds, other financial risks develop as a result of increasing insolvencies or vulnerabilities, making society prone to suffer from 'following' events. The option to introduce future-focused multi-peril solutions should be considered going forward, to address systemic risk. The next crisis is unlikely to be the same as today's, so we should improve our tools having in mind future challenges ahead.

I hope this paper proves valuable in contributing to the work of the European Commission in developing solutions to improve European citizens' resilience going forward.

Yours sincerely,

Signed

CC:

Irene Tinagli, Chair of the Committee on European and Monetary Affairs, European Parliament
João Leão, President of the ECOFIN Council, Council of the European Union
John Berrigan, Director General, DG Financial Stability, Financial Services and Capital Markets Union, European Commission
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