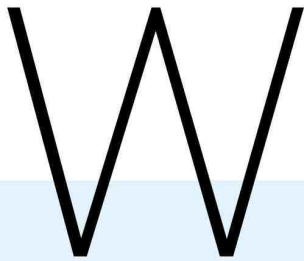


THE VIRUS COVER



When the nervous global reinsurers pulled out from offering terrorism insurance cover after the 9/11 terror attack in the US, the general insurance industry in India came together with an innovative idea of creating a 'Terrorism Risk Insurance Pool' in the early years of the 2000 decade. Individual insurers started offering terrorism cover as one of the add-ons to existing property insurance policies. Over the years, India has built a capacity of ₹2,000 crore under the pool to cover terrorist attack on business establishments like 26/11 when the iconic Taj Mahal Palace Hotel and the Trident suffered heavy losses to property and business in Mumbai.



More recently, the industry created yet another pool - Nuclear Insurance Pool - for nuclear operators and suppliers to cover corporate liability or losses arising from a nuclear accident at plants. This five-year-old nuclear pool has already built a capacity of ₹1,500 crore, which gives domestic insurance companies comfort when global reinsurance is not easily available. The Bhopal gas tragedy of December 1984 still sends shivers down the spine. These kinds of events may happen once in a decade or century, but they create havoc with life and busi-

The coronavirus pandemic has created the need for a 'Virus Insurance Pool' on the lines of terrorism and nuclear pools

BY ANAND ADHIKARI

ILLUSTRATION BY RAJ VERMA

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ness. The current coronavirus crisis is a new addition to the insurance lexicon.

Pandemic Cover for Businesses

Can something like the terrorism or nuclear pool be made for pandemics in India? The outbreak of coronavirus and the subsequent lockdown has created a need for insuring a business against an epidemic or a pandemic. For instance, ever since virus outbreaks like SARS and Ebola, the Wimbledon Grand Slam sports event is always insured for any disruption or cancellation due to an epidemic or pandemic.

"The virus outbreaks are no longer once in a century kind anymore. In the last decade, we have seen each virus being more dangerous than the previous one. They have taken the shape of global pandemic," says Tapan Singhel, MD and CEO of Bajaj Allianz General Insurance, and who is a supporter of creating a pandemic pool to cover business losses.

A trade body recently wrote to the finance ministry requesting that general insurance companies be mandated to introduce "disruption due to coronavirus" as an additional cover to existing 'Fire and Material Damage' policies. But without support from global reinsurance companies, no individual insurance company has the capacity to offer such a cover.

The reinsurance support is just not there. And there is a reason for it.

Global reinsurers became very cautious post the SARS outbreak and the losses they incurred in some of the cases. A Hong Kong-based hospitality chain, Mandarin Oriental, walked away with a \$16 million (@₹75 about ₹120 crore) claim for business interruption losses from the SARS outbreak in 2003. Since then, virus and bacterial infection exclusions have become a norm in insurance policies globally.

This is why many domestic insurers say that the pool approach is the only way out as no global reinsurer is ready to provide reinsurance against a pandemic. (Reinsurance is a cover or protection that an operating insurance company purchases from a reinsurer to derisk its liability in case of a major claim.) Creating a pool will almost be like reinsurance. "We can create capacity under a pandemic pool with government support for future by starting with a limited cover initially," suggests Sanjay Datta, Head-Underwriting and Claims, ICICI Lombard General Insurance. He says premiums could be collected each year and a reserve set aside for a crisis during which insurers would pay up to a limited amount and the state taking over the rest.

Some say that the government should make the pandemic cover mandatory for businesses. Not only that, the government should also pitch in with ₹5,000-10,000 crore to a pool every year just the way it supports crop insurance and medical health insurance under Ayushman Bharat.

A pool for epidemics or pandemics would be in the interest of the government. Currently, globally, governments are pumping in trillions of dollars to save their economies and economy. The coronavirus pandemic is expected to push many economies into recession. Back home, the government has announced a ₹1.7 lakh crore-fiscal stimulus with RBI extending a liquidity support of over ₹3.74 lakh crore.

Ironing Out the Details

Should a pandemic insurance pool be formed, the big question is what all it will cover. "The cover should be for a

THE PANDEMIC POOL

In future, an insurance pool can be formed to offer cover for pandemics

- **Government** takes initiative, puts in **initial capital**
- All **general insurance companies** come together
- **GIC Re** becomes the nodal agency
- A **uniform premium rate** is offered for pandemic cover
- Pandemic pool **offered as an add-on** to property insurance (optional for businesses)
- GIC Re can **select another** global reinsurer
- **Claim settlement** through the pool

MEETING THE DEMAND

Steps that will help bridge the insurance gap caused by the coronavirus pandemic

Make a pandemic insurance pool to provide cover for business disruption

Longer-term health cover needed. Short-term cover is available, but is temporary in nature

Existing health insurance covers coronavirus hospitalisation, but widespread cases can increase losses

Insurers need regulatory forbearance on the lines of RBI's relief to banks. These should include:

- Relaxation in solvency ratio
- Relief from mark to market losses
- Postponing rural obligations for a year

worldwide pandemic and not for a local epidemic in some geographies,” suggest Datta of ICICI Lombard. The policy should cover loss of profits for a certain fixed period. It cannot be for a long period, says another.

A critical component would be the demand for such a policy. “It will be priced differently from the regular premium. Will people be ready to pay a higher premium for an add-on pandemic cover?” asks Shreeraj Deshpande, Chief Operating Officer at Future Generali India Insurance. At present, premium collection under property insurance, which covers physical damage by way of fire, natural calamities and act of terror, is roughly ₹12,000 crore. People tend to miscalculate probability. Lack of awareness or cognizance of the risk is why only a few people buy home insurance.

Individual Cover Against Virus Attacks

General insurance doesn't work on the principle of offering fire insurance when a building is already on fire or a pandemic cover when the outbreak has reached the country's shore. Insurance had to be bought for a future emergency or risk. However, insurers have come forward and offered a limited coronavirus cover. “These are small-ticket income protection products to help those who don't have a health insurance policy,” says Deshpande of Future Generali. For instance, Star Health and Allied Insurance has piloted a coronavirus policy with sum assured options of ₹21,000 and ₹42,000 for premiums as low as ₹459 and ₹918, respectively. So unlike a comprehensive health insurance policy which compensates for actual hospitalisation expenses, these policies offer a fixed sum assured. The sum assured may seem insignificant but to be fair to insurers, it is very difficult to assess the number of coronavirus cases when the pandemic is spreading in India and globally.

There is also a lingering risk to insurance companies from the liability in comprehensive health insurance policies. There is no reinsurance cover for coronavirus cover while domestic insurance companies are paying for related hospitalisation claims. In some cases, the claims are in lakhs. There will be a huge liability on general insurance companies if coronavirus outbreak blows out of proportion in India, warn experts. The size of the current premium collection in health policies is over ₹50,000 crore annually, up from almost ₹42,000 crore in FY18.

According to rating agency ICRA, if health insurance claims increase by 30-40 per cent, the total claim amount could be ₹6,000-8,000 crore higher than last year. In addition to the threat of claims increasing due to coronavirus-related hospitalisation, the value of insurers' investment portfolio has declined because of equity markets crash and fall in the prices of government securities. The way banks got regulatory forbearance from the banking regulator, the general insurance industry is looking up to the insurance regulator for some relief. This could be in terms of solvency requirement, mark to market losses and reporting delays. The focus, however, is on new opportunities to cover risk and create awareness about insuring businesses. **BT**



“IN THE LAST DECADE, EACH VIRUS HAS BEEN MORE DANGEROUS THAN THE PREVIOUS. THEY HAVE TAKEN THE SHAPE OF GLOBAL PANDEMIC”

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MD & CEO, Bajaj Allianz General Insurance

“WILL PEOPLE BE READY TO PAY HIGHER PREMIUM FOR AN ADD-ON PANDEMIC COVER? IT WILL BE PRICED DIFFERENTLY”

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