‘Pandemic insurance must be a real act of solidarity’

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The Swiss government is currently working on a ‘pool solution’ to cushion the economic impact of future pandemics. As project leader on the insurance industry side, Ivo Menzinger has worked on the possible structures for the solution. He knows the overall conditions required in order to turn the project into a success.

Interview: Daniel Schriber

Mr Menzinger, COVID-19 has presented a large number of companies with a major challenge. How do things stand at Swiss Re?

Fortunately, the situation has not presented us with any particular challenges from an operational perspective. We have already made considerable progress on the digitalisation front and contingency planning is a matter of routine for us as well, which meant that we were well prepared to handle this exceptional situation. Even during the first wave, our business was able to continue uninterrupted, as most of our employees across the globe were working from home. We are also in the fortunate position that there is still demand for our services and that we are allowed to offer them.

You were well prepared. Is that also because the pandemic did not come as a complete surprise to you?

The job we do means that we are constantly seeking to anticipate potential risks. Our specialists around the world are busy every day identifying risks that could arise in the future – known as emerging risks. With the Spanish flu at the beginning of the 20th century and then the SARS pandemic at the beginning of the millennium, our experts knew that a similar event would hit us again sooner or later.

COVID-19 took many by surprise nevertheless. Why is that?

Our CEO Christian Mumenthaler put it this way: “the human brain has trouble getting interested in things that haven’t happened yet.” The fact is that the Federal Office for Civil Protection identified a pandemic as a potential major risk years back. A pandemic plan was in place and many of the arrangements proved effective – but not all. This is because certain preparations were not considered relevant or urgent enough.

‘Hardly anyone expected the pandemic to disrupt so many economic activities.’

Is COVID-19 the worst-case scenario?

While it is certainly a human tragedy, the truth is that it could have been much worse in terms of the death rate and excess mortality. Nevertheless, the crisis has huge implications. Hardly anyone expected the pandemic to disrupt so many
In recent months, there have been increasing calls for an insurance solution to cushion the economic blow dealt by pandemics. Why have we never had this sort of solution before – unlike with collective cover for terrorism and natural catastrophes?

One of the main reasons is that the economic effects of a pandemic are generally not insurable in the private sector alone. Such an event actually breaches all the principles of insurability. After all, by definition, a pandemic occurs at the same time across the world, making diversification impossible. Since the economic damage is ultimately caused by mandatory closures imposed by the authorities, the ability to estimate its scale is also severely restricted.

You led a project team within the Swiss Insurance Association (SIA) that investigated the feasibility of a solution for future pandemics, with the findings going to the federal government’s project organisation. How far did you get with your work?

We submitted a report setting out possible solutions to the Federal Department of Finance at the end of September as part of a working group comprising representatives from the Federal Administration. The Federal Department of Finance will decide about next steps. Projects like these normally take much longer – but we had to move very fast this time.

What role do policymakers play in the project?

An important one. A project like this can only be a success if policymakers put the necessary overall conditions in place. We believe that the existing Epidemics Act provides a solid foundation for establishing a potential public-private partnership. The aim is to ensure that society is better prepared for the next pandemic. Financial preparations are a key element. It is crucial for the project to be able to rely on financial backing from the federal government and the public sector.

‘The natural perils pool shows just how effective solidarity between policyholders and insurers in Switzerland can be.’

Is that realistic?

The Swiss natural perils insurance is an excellent example. The natural perils pool shows just how effective solidarity between policyholders and insurers in Switzerland can be. This insurance charges everyone the same premium – irrespective of how risky the situation is for the individual. Pandemic insurance must also be a real act of solidarity, involving the federal government.

Do you mean it would have to be mandatory?

For the solution to work, a very high insurance penetration rate would be needed, although this does not necessarily mean that the solution has to be mandatory. This sort of model will only be a success if a large proportion of companies
participate and contribute to the pre-financing. In my view, a voluntary scheme will not work.

**Why not?**

Some companies might pin their hopes on the public sector stepping in again in an emergency, meaning that they wouldn't take any insurance out. I can't imagine that our policymakers will tell the SMEs affected in an emergency: you deliberately opted against pre-financing, so you won't receive any support now.

**What might the roles of the various stakeholders be?**

Policyholders must be prepared to assume part of the risk via the deductible and a certain waiting period. What is more, there should still be an incentive for people to make their own provisions in the future, and this pillar should ideally be strengthened further. Insurers are also prepared to assume a small part of the financial risk if the premium charged is appropriate. But it is at least equally important that they are in contact with hundreds of thousands of companies throughout the country and have the necessary expertise to be able to automatically quantify and process the damage incurred as a result of the pandemic. This allows for the targeted and efficient use of private and public funds. The public sector, as the ultimate guarantor, must also bear some of the risk.

**Why is automation necessary?**

The damage potential associated with a pandemic is immense. In April alone, around 130,000 directly affected companies in Switzerland applied for short-time work schemes. A large number of claims like this can only be handled using highly automated solutions.

**Speaking of short-time work, would pandemic insurance cover this area, too?**

No, we believe that the instrument should work alongside existing support tools. Cover to ensure companies' survival should be based on the uncovered fixed costs incurred during a lockdown.

**Do we need a national pandemic pool or would a solution involving several countries be an option, too?**

Although the same questions often arise in different countries, the solutions depend on the system involved. This is because the overall conditions are different everywhere. Bearing that in mind, I think that a solution involving several countries is probably too difficult.

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**Let us finish with a look into the future: what lessons should the insurance industry learn from the coronavirus crisis?**
As far as our day-to-day business is concerned, the crisis has shown us the importance of clear contractual wording. We don’t want gaps in coverage – but the insurance industry cannot pay for losses for which it has never received premiums. Looking at the big picture, this crisis has highlighted the importance of resilience in society. That is our mission. The insurance industry is doing everything in its power to make the economy, and as a result society, more resilient.

What do you mean by that specifically?

The pandemic is at the very top of the Swiss risk landscape. Although we knew in theory the implications of this sort of incident, society took only limited precautions. This is something that we will have to reconsider in the future. First, a new pandemic will emerge at some point – and second, there are many other systemic risks that could also cause us major problems.

For example?

I’m thinking of incidents such as a large-scale power outage or a global cyber attack. Events like these could cause major problems. So as a society, we would be well advised to ensure we are prepared. The coronavirus crisis has certainly been a revelation to many. We have learned that events such as these are not confined to theory – they actually happen in practice. We should make the most of this window of opportunity.

About the interviewee

Ivo Menzinger is Head of Europe/Middle East/Africa & Product Management for Public Sector Solutions at reinsurer Swiss Re. He was also head of the ‘Pandemic Pool’ project, in which private insurers, represented by the Swiss Insurance Association (SIA), were looking into how to better cushion the economic blow of another pandemic. The insurance industry is striving to find an insurance solution that makes use of existing infrastructure, expertise and customer relationships, and distributes the financial risk involved between policyholders, the insurance industry and the state. One option would be to establish a pandemic pool, an approach that a number of other countries are also considering.

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