Testimony
of
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Subcommittee on Securities Insurance and Investment
Senate Committee on Banking, Housing and Urban Affairs

Examining Frameworks to Address Future Pandemic Risk

Thursday, July 22, 2021

Chairman Menendez, Ranking Member Scott, and members of the Subcommittee, I am Robert Gordon, Senior Vice President for Policy, Research, and International at the American Property Casualty Insurance Association (APCIA). APCIA is the primary trade association for home, auto, and business insurers. For 150 years, we have promoted the viability of private competition for the benefit of consumers and insurers. APCIA members represent all sizes, structures, and regions – protecting families, communities, and businesses in the U.S. and across the globe.

APCIA appreciates the members of the Subcommittee's willingness to begin to fully examine, analyze, understand, identify, and articulate the economic threats posed by COVID-19. APCIA conducted an extensive analysis of the economic impact of COVID-19 to help policymakers understand and identify the problems that need to be addressed and to support our consumers and policyholders. APCIA identified at least fourteen different layers of important economic losses that resulted from COVID-19, including record unemployment, cash flow needs for transitioning businesses, solvency threats from plunging demand for in-person services, impacts from government restrictions, supply chain losses, and various health and mortality losses.

APCIA also identified several initial uncertainties about the impact of COVID, and theories that experts (including us in some cases) got wrong initially, where ground-breaking scientific and economic research have since provided a clearer understanding. The most notable discovery from this research is that COVID-19 related economic losses were concentrated in the leisure and hospitality sectors (comprised disproportionately of low-wage women and minority workers), primarily as a result of a plunge in macroeconomic consumer demand for in-person services, rather than directly a result of government closure mandates or property damage.

Pandemic mass market business continuity risks are inherently uninsurable and do not meet essential criteria for insurance.[1] Accordingly, coverage for most business continuity losses due to pandemics are not included in general commercial property insurance. Business interruption insurance is a property coverage designed to help businesses remain viable while physically damaged property is repaired. COVID-19 has not been found to cause physical damage - as federal courts have repeatedly affirmed – and COVID-19 losses have not been covered under most business interruption policies.

[1] See APCIA, "Uninsurability of Mass Market Business Continuity Risks from Viral Pandemics", Hartwig and Gordon (2020).

There are many critical COVID-19 problems for policymakers to solve, and APCIA has helped develop proposals to address some of those concerns. But ultimately, COVID-19 losses are both multi-layered and concentrated in specific sectors, suggesting the need for a series of flexible government solutions that can be specifically tailored and adjusted as the next pandemic evolves, rather than trying to force a broad-brushed, one-size-fits-all solution.

We commend the Subcommittee for its interest in finding solutions that protect the nation's economy from the next pandemic crisis. But we hope the Subcommittee will start by creating the right predicate foundation, fully investigating the problems to be solved, and evaluating the lessons learned over the last year and a half. No consensus has developed in any country on prospective pandemic protections, in large part because markets and governments jumped forward with proposals before achieving a common consensus understanding of the vulnerabilities that most need to be addressed.

Overview of the Economic Impact of COVID-19

The COVID-19 pandemic is fundamentally different from any other catastrophe the world has suffered. More than four million people have died from COVID-19.[2] More than 190 million people have become ill[3], and 175 million became impoverished or undernourished.[4] An equivalent of 255 million full-time jobs were lost,[5] with the United States unemployment in March of 2020 exploding to 14.7%, the worst employment period since the 1930's Great Depression and the most severe of any major OECD country.[6] Global GDP in 2020 plunged 7% below expected levels, with governments providing a record $16 trillion of relief,[7] business revenue losses exceeding $1.7 trillion a month,[8] and expected lost economic output over five years estimated to be $28 trillion.[9] In 2020, the highest share of economies around the world contracted simultaneously since 1870.[10] And while our domestic economy has partly recovered, domestic and worldwide COVID-19 infections are currently increasing,[11] meaning that this pandemic crisis has had a continuing duration of at least 16 months and counting since it was first announced by the World Health Organization (WHO) and the U.S. Centers for Disease Control and Prevention (CDC).[12] To put these numbers in perspective vis-à-vis the insurance industry, monthly premiums for business interruption insurance across the entire world are only $2.5 billion, or 0.00147 of the monthly lost business revenues and 0.000156 of the needed COVID-19 government relief provided to date.[13] The

[2] Congressional Research Service (CRS), *Global Economic Effects of COVID-19*, July 9, 2021, p. 1.
[3] Worldometer, https://www.worldometers.info/coronavirus/.
[4] CRS, Summary and p. 13.
[5] CRS, p. 7.
[6] CRS, pp. 10-11, and p. 33.
[7] Brookings Global Working paper #158, *Social and economic impact of COVID-19*, June 2021, pp. 1-2.
[8] OECD estimates for one month of strict confinement measures, OECD (2021), *Addressing the Protection Gap for Pandemic Risk: Setting the Scene*, www.oecd.org/finance/insurance/addressing-protection-gap-pandemic-risk.htm.
[9] International Monetary Fund (IMF), https://blogs.imf.org/2020/10/13/a-long-uneven-and-uncertain-ascent/.
[10] The World Bank Group, https://blogs.worldbank.org/opendata/understanding-depth-2020-global-recession-5-charts.
[11] BBC, https://www.bbc.com/news/world-51235105.
[12] U.S. Department of Health & Human Services, Centers for Disease Control and Prevention, https://www.cdc.gov/media/releases/2020/p0117-coronavirus-screening.html#:~:text=Starting%20January%2017%2C%202020%2C%20travelers,Los%20Angeles%20(LAX)%20airports.
[13] APCIA calculations based on Geneva Association estimates of global BI premiums, OECD estimates of monthly losses, and Brookings estimates of government support provided.

tragic 9-11 attacks combined caused $27.58 billion of insured losses in 2021 dollars, or 0.000985 of the expected economic losses for COVID-19.[14]

The long-term economic impact of COVID-19 could ultimately be much worse than currently expected. The WHO just last week warned that:

> *[D]espite national, regional, and global efforts, the pandemic is nowhere near finished. The pandemic continues to evolve with four variants of concern dominating global epidemiology. The Committee recognised the strong likelihood for the emergence and global spread of new and possibly more dangerous variants of concern that may be even more challenging to control.*[15]

The long-term health costs of COVID-19 are also unknown, with even 1 in 10 COVID-19 patients with mild symptoms still suffering at least one moderate to severe symptom eight months later.[16] Thousands of COVID-19 lawsuits have already been filed that could further increase losses, with the number of lawsuits more than doubling in the first half of 2021 compared to all of 2020.[17] Estimates for COVID-related insurance payments in just the home, auto, and business sector range from at least $30-60 billion[18] making COVID-19 likely to be the first or second worst insured loss in history.

Multiple Layers of COVID-19 Economic Impacts / Problems to Solve

At the onset of the pandemic, the macroeconomic focus was primarily on government shutdowns.[19] However, as the pandemic evolved, economic losses in many sectors continued long past required closures and morphed into multiple layers of national vulnerabilities that created significant socio-economic concern for policymakers. APCIA has identified at least fourteen different manifestations of economic losses caused by the pandemic:

- Employment losses and dislocation
- Financial market declines
- Fiscal budget deficits
- Transitional expenses to remote or socially-distanced workplace
- Macroeconomic demand shifts
- Direct losses from government closures
- Supply chain losses
- Trade losses
- Mortality losses
- Healthcare costs
- Worker healthcare payments
- Private debt payment relief
- Liability losses
- Event cancellation/production stoppage

Government solutions to these evolving loss vulnerabilities have taken several different forms. For example, the United States provided trillions of dollars in fiscal relief, including the CARES Act (tax rebates to families, expanded unemployment benefits, loan guarantees through the Federal Reserve,

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[14] APCIA calculations based on the Insurance Information Institute estimates of 9-11 insured losses, the U.S. Bureau of Labor Statistics CPI Inflation Calculator, and the IMF estimates of global economic losses.

[15] World Health Organization, https://www.who.int/news/item/15-07-2021-statement-on-the-eighth-meeting-of-the-international-health-regulations-(2005)-emergency-committee-regarding-the-coronavirus-disease-(covid-19)-pandemic.

[16] https://directorsblog.nih.gov/tag/long-haulers/.

[17] JD Supra LLC, https://www.jdsupra.com/legalnews/coronavirus-lawsuits-more-than-double-3975643/

[18] Swiss Re Institute, sigma, *World insurance: the recovery gains pace*, No. 3/2021.

[19] See The Brookings Institution, https://www.brookings.edu/blog/up-front/2020/03/23/covid-19-and-the-u-s-economy-faq-on-the-economic-impact-policy-response/ ("The core problem the economy faces is not a lack of liquidity, but a temporary halt of activity due to health restrictions"); and CRS, *COVID-19: State and Local Shut-Down Orders and Exemptions for Critical Infrastructure*, https://crsreports.congress.gov/product/pdf/IN/IN11284.

forgivable loans to small businesses, and transfers to state and local governments), the Paycheck Protection Program (loans for small businesses), executive orders (providing student loan payment relief and deferring taxes), and the American Rescue Plan (providing additional unemployment benefits, direct stimulus payments, and aid to state and local governments).[20] The Federal Reserve provided additional trillions of dollars in various forms of liquidity and quantitative easing as well as a Main Street Lending Program.[21] Total federal legislative economic appropriated relief to date is approximately $5.5 trillion.

Role of Insurance

Insurers are in the business of managing risk, so we always seek to provide protection solutions for consumers when feasible. Insurers in the pandemic have provided over $14 billion in auto insurance refunds,[22] flexible payment solutions, waivers of late fees, paused certain cancellation of coverage, and suspended personal auto exclusions for restaurant employees who transitioned to meal delivery services and used their personal auto policy as coverage.[23] But insurers can only commit capital responsibly if we can accurately model the frequency and severity of a risk and adequately diversify potential solvency exposures – which is not feasible with respect to the widespread economic consequences of a global pandemic.

When the first COVID-19 pandemic wave peaked in March 2020, the previous Administration reached out to several of the financial sectors, including the insurance industry and APCIA, to explore potential mechanisms for providing relief. Congress and the Administration ultimately decided to provide commercial relief in part through the banks and other approved lending institutions in the form of potentially forgivable loans.[24] Most businesses have ready access to bank accounts and equivalent products and can conduct transactions on an expedited basis. In contrast, many small businesses do not have insurance[25] and commercial insurance claims can take several months to reach final settlement. Many countries ultimately followed the same approach as the United States in utilizing the banking sector to distribute expedited financial pandemic relief.[26] For example, the United Kingdom created the Coronavirus Business Interruption Loan Scheme. Japan provided low interest loans and guarantees through both government and private lenders.[27] APCIA is unaware of any major government providing

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[20] International Monetary Fund, https://www.imf.org/en/Topics/imf-and-covid19/Policy-Responses-to-COVID-19#U.

[21] CRS, pp. 68-70.

[22] Insurance Information Institute, https://www.iii.org/insuranceindustryblog/insurers-respond-to-covid-19-6-05-2020/.

[23] APCIA, https://www.apci.org/media/news-releases/release/60055/.

[24] Federal Register, Small Business Administration, 85 FR 20811, 13 CFR Part 120, [Docket No. SBA–2020–0015], RIN 3245–AH34, https://www.federalregister.gov/documents/2020/04/15/2020-07672/business-loan-program-temporary-changes-paycheck-protection-program.

[25] See Next Insurance, Inc., https://www.nextinsurance.com/blog/small-business-insurance-report/ ("44% of Small Businesses Have Never Had Insurance"); Key Media, Insurance Business America, https://www.insurancebusinessmag.com/us/news/breaking-news/why-dont-small-businesses-buy-insurance-90123.aspx ("Only 28% of respondents have a business owner's policy (bundle of general liability insurance commercial property insurance), and even fewer respondents reported carrying several other common small business insurance policies"); Wells Media Group, Inc., Insurance Journal, https://www.insurancejournal.com/news/national/2015/09/02/380367.htm ("66% of Small Businesses Lack Business Interruption Coverage").

[26] See International Monetary Fund, https://www.imf.org/en/Topics/imf-and-covid19/Policy-Responses-to-COVID-19 (summarizing countries' COVID-19 policy responses).

[27] See Financial Services Agency, https://www.fsa.go.jp/en/ordinary/coronavirus202001/press.html, and KPMG International, https://home.kpmg/xx/en/home/insights/2020/04/japan-government-and-institution-measures-in-response-to-covid.html.

federal relief through the private insurance industry, with specific pandemic insurance proposals rejected in Switzerland, France, and in several U.S. states.

The National Association of Insurance Commissioners (NAIC), which represents insurance regulators in the United States, issued a statement to Congress at the beginning of the March 2020 peak stating that,

> *Insurance works well and remains affordable when a relatively small number of claims are spread across a broader group, and therefore it is not typically well suited for a global pandemic where virtually every policyholder suffers significant losses at the same time for an extended period. While the U.S. insurance sector remains strong, if insurance companies are required to cover such claims, such an action would create substantial solvency risks for the sector, significantly undermine the ability of insurers to pay other types of claims, and potentially exacerbate the negative financial and economic impacts the country is currently experiencing.*[28]

APCIA and my fellow witness on today's panel, Dr. Robert Hartwig, coauthored a paper analyzing the insurability, or lack thereof, for pandemics affirming the NAIC's assessment, and concluding that,

> *Business continuity losses arising from widespread viral risks represent an uninsurable risk for the private property casualty insurance industry. The magnitude of potential losses exceeds the claims paying resources of the industry while a lack of historical data impairs the ability of insurers to precisely model the frequency and severity of losses and determine premiums. This problem is exacerbated by the fact that the majority of business continuity losses are driven not by random events, but by the unprecedented and deliberate actions of thousands of public policymakers. The consequences of these actions are not insurable and potentially pose a systemic risk to the industry as a whole and the economy broadly.*[29]

Understanding Pandemic Losses – What Many Experts Got Wrong

APCIA spent the last seven months analyzing the economic impact of COVID-19, including reviewing many of our initial assumptions and those of other pandemic analysts. APCIA hopes that policymakers will thoroughly review which assumptions have changed and how our understanding of this pandemic has evolved as part of understanding the underlying problems to be solved.

COVID-19 Infections Result from Human Transmission Not Surface Contact and COVID-19 Infected Surfaces Can Be Easily Cleaned

In March 2020, an initial study cited by the National Institutes of Health (NIH) found that COVID-19 can

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[28] National Association of Insurance Commissioners, *NAIC Statement on Congressional Action Relating to COVID-19*, https://content.naic.org/article/statement_naic_statement_congressional_action_relating_covid19.htm.

[29] See APCIA, *Uninsurability of Mass Market Business Continuity Risks from Viral Pandemics,* p. 5, https://www.ncsl.org/documents/econ/APCIA_Hartwig_Gordon_White_Paper.pdf; and Geneva Association, *Public-Private Solutions to Pandemic Risk Opportunities, challenges and trade-offs*, https://www.genevaassociation.org/sites/default/files/research-topics-document-type/pdf_public/pandemic_solutions-report_final.pdf ("Pandemic business continuity risk was, in general, never possible nor intended to be covered by the private sector."); and National Bureau of Economic Research, *EVALUATING THE ROLE OF INSURANCE IN MANAGING RISK OF FUTURE PANDEMICS*, Kunreuther and Schupp, https://www.nber.org/system/files/working_papers/w28968/w28968.pdf ("The scale, correlations, and complexity of pandemic risk, as evidenced by ongoing COVID-19 losses, far exceed traditional parameters that define the concept of insurability for private insurers and reinsurers.").

be detected on certain surfaces for up to three days. The NIH stated that "[t]he findings emphasize the importance of hand washing and disinfecting frequently touched surfaces to protect against infection."[30] Later that month, the WHO echoed that "Coronavirus disease… also spreads when a person touches a surface or object that has the virus on it, then touches their eyes, nose, or mouth."[31] Fast forward a year to the announcement by the Centers for Disease Control (CDC) and Prevention that,

> *Quantitative microbial risk assessment (QMRA) studies have been conducted to understand and characterize the relative risk of SARS-CoV-2 fomite transmission and evaluate the need for and effectiveness of prevention measures to reduce risk. Findings of these studies suggest that the risk of SARS-CoV-2 infection via the fomite transmission route is low, and generally less than 1 in 10,000, which means that each contact with a contaminated surface has less than a 1 in 10,000 chance of causing an infection.*[32]

Numerous subsequent studies have confirmed the CDC's findings. For example, a recent study by the Department of Aviation Medicine found that "fomite spread may not be a significant means of transmission for severe acute respiratory syndrome coronavirus 2 in real-world operational scenarios."[33] A review of COVID-19 studies by Professor Emanuel Goldman of Rutgers University found that "the chance of transmission through inanimate surfaces is very small, and only in instances where an infected person coughs or sneezes on the surface, and someone else touches that surface soon after the cough or sneeze (within 1–2 hours)."[34]

The updated scientific facts that COVID-19 damages result from human transmission rather than surface contact (fomites) have significant implications for insurance. Most of the efforts to force insurance to morph into a macroeconomic stabilizer for lost commercial revenues have focused on business interruption insurance. But business interruption insurance is a property coverage that only provides potential coverage where there is a "direct physical loss" or damage to property, such as the destruction of property by fire or tornado. This coverage is intended to tide businesses over while they repair the

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[30] National Institutes of Health, *Study suggests new coronavirus may remain on surfaces for days*, https://www.nih.gov/news-events/nih-research-matters/study-suggests-new-coronavirus-may-remain-surfaces-days.

[31] World Health Organization, *How it spreads*, Coronavirus Update 20, https://www.who.int/docs/default-source/coronaviruse/risk-comms-updates/update-20-epi-win-covid-19.pdf?sfvrsn=5e0b2d74_2.

[32] Centers for Disease Control and Prevention, *Science Brief: SARS-CoV-2 and Surface (Fomite) Transmission for Indoor Community Environments*, https://www.cdc.gov/coronavirus/2019-ncov/more/science-and-research/surface-transmission.html.

[33] Oxford University Press, Military Medicine, Volume 186, Issue 7-8, July-August 2021, Pages e832–e835, https://academic.oup.com/milmed/article/186/7-8/e832/6040078.

[34] National Center for Biotechnology Information, U.S. National Library of Medicine, Goldman, *Exaggerated risk of transmission of COVID-19 by fomites*, The Lancet. Infectious diseases vol. 20,8 (2020): 892-893. doi:10.1016/S1473-3099(20)30561-2, https://www.ncbi.nlm.nih.gov/pmc/articles/PMC7333993/; see also Centers for Disease Control and Prevention, https://www.cdc.gov/coronavirus/2019-ncov/videos/partner-calls/when-to-clean/when-to-clean-transcript.docx (The CDC suggests that "hygiene theater or putting on a show of cleaning and disinfecting… to give people a [false] sense of security" could be harmful.).

damage.[35] It does not cover, and was never intended to cover, business interruption losses unrelated to physical property damage.

The CDC's findings underscore that COVID-19 does not cause physical damage to property -- a recognition repeatedly upheld in federal courts. Furthermore, the CDC found that "cleaning with soap or detergent should be enough to further reduce the relatively low transmission risk" of surface transmission and that "the risk of infection from entering a space where a person with COVID-19 has been is low after 24 hours".[36] These findings suggest that any physical contamination can be easily cleaned or will quickly dissipate over time (before the end of the waiting period for coverage on most business interruption insurance policies). Many business interruption policies also include a separate "belt and suspenders" viral exclusion further walling off coverage for pandemics.[37]

Government Shutdowns Were Not the Primary Driver of the Economic Impact of the Pandemic

Between March 17 and April 3, 2020, governors of 34 states mandated statewide closures of non-essential businesses. The Wall Street Journal subsequently argued:

> *In response to the novel and deadly coronavirus, many governments deployed draconian tactics never used in modern times: severe and broad restrictions on daily activity that helped send the world into its deepest peacetime slump since the Great Depression…. Despite this steep price, few policy makers felt they had a choice, seeing the economic crisis as a side effect of the health crisis. They ordered nonessential businesses closed and told people to stay home, all without the extensive analysis of benefits and risks that usually precedes a new medical treatment.*[38]

Other publications similarly argued that "Lockdowns Had Largest Impact in Destroying Economic Activity".[39]

However, APCIA's research and analysis demonstrates that while government closures did have a negative economic impact, they were not the primary driver of economic losses from COVID-19. APCIA compared both foreign countries with varying degrees of lockdown severity and U.S. states with different lockdown approaches and found that COVID-related economic losses were primarily a result of a plunge in macroeconomic consumer demand for in-person services. The economic impacts of COVID-19 had a similar pattern in states or countries with severe and lengthy shutdown orders and in those

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[35] See Marsh LLC, https://www.marsh.com/us/insights/research/business-insurance.html ("Business interruption coverage protects against an actual loss sustained by an insured as a result of direct physical loss or damage to the insured's property by a peril not otherwise excluded from the policy.").

[36] Centers for Disease Control and Prevention, https://www.cdc.gov/coronavirus/2019-ncov/more/science-and-research/surface-transmission.html.

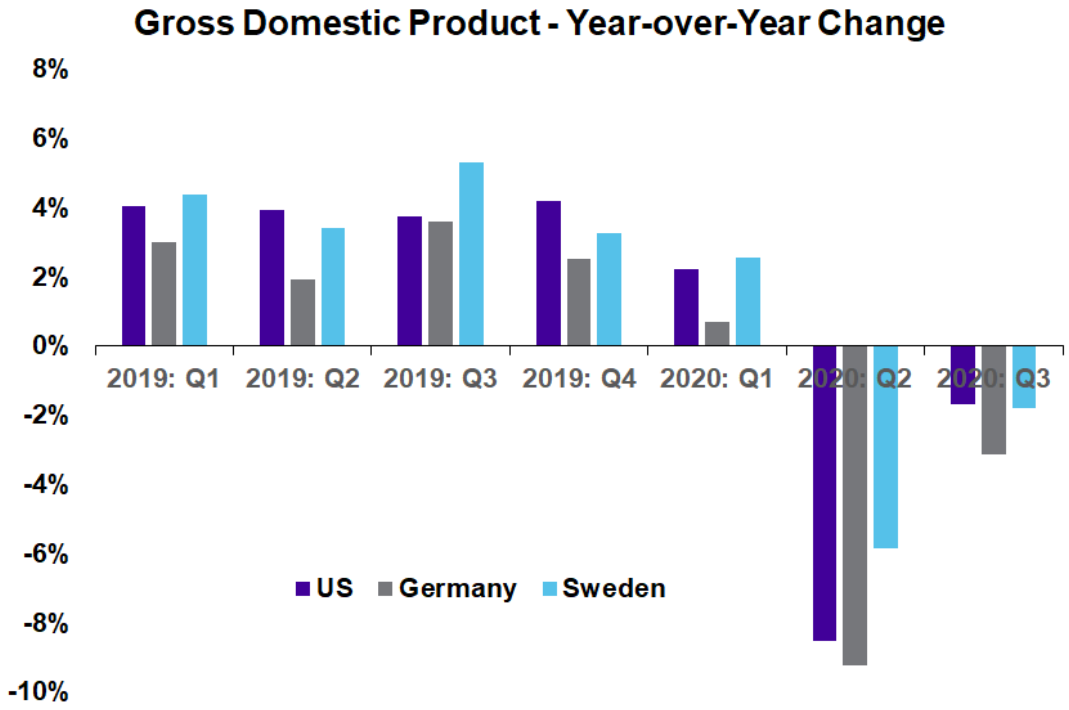
[37] See National Association of Insurance Commissioners, *COVID-19 PROPERTY & CASUALTY INSURANCE BUSINESS INTERRUPTION DATA CALL - PART 1 | PREMIUMS AND POLICY INFORMATION - JUNE 2020*, https://content.naic.org/sites/default/files/inline-files/COVID-19%20BI%20Nat%27l%20Aggregates.pdf (98% of small business interruption policies have a physical loss requirement while another 83% additionally have a specific viral exclusion).

[38] The Wall Street Journal, *New Thinking on Covid Lockdowns: They're Overly Blunt and Costly*, Ip, August, 24, 2020, https://www.wsj.com/articles/covid-lockdowns-economy-pandemic-recession-business-shutdown-sweden-coronavirus-11598281419.

[39] Foundation for Economic Education, *Study: Lockdowns Had Largest Impact in Destroying Economic Activity*, https://fee.org/articles/study-lockdowns-had-largest-impact-in-destroying-economic-activity/.

where shutdown orders were much more limited and were not spread evenly across various commercial sectors but concentrated in sectors generally involving retail close human contact.

For example, APCIA analyzed the year-over-year changes in GDP and consumption expenditures in the U.S., Germany, and Sweden during the COVID-19 pandemic. Unlike the rest of Europe, Sweden resisted going into lockdown. In contrast, Germany imposed extensive strict shutdown orders. In the United States, there was a mixed response, with many states issuing stay-at-home orders, while others did not. The chart below shows that following the government lockdowns, Germany suffered the worst initial economic drop while Sweden suffered the least. But the overall losses and declines between Q1 and Q2 were very similar, and by the third quarter the U.S. had slightly less economic decline than Sweden, despite ongoing lockdowns in several U.S. states and counties.

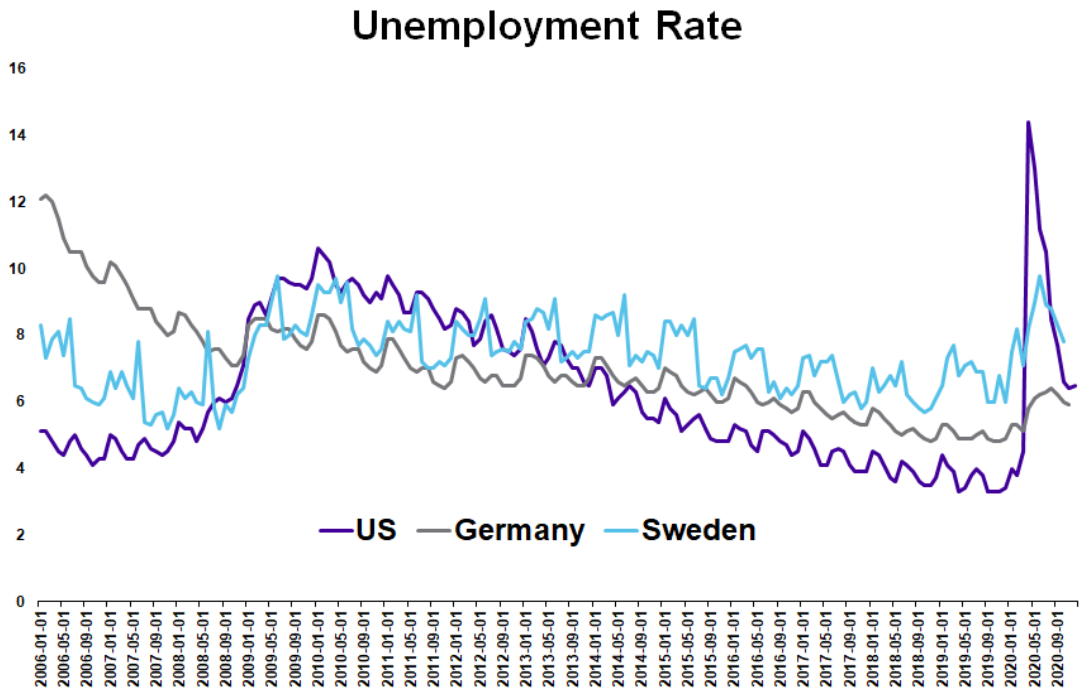


Source: *St. Louis Federal Reserve*.

The example of Sweden illustrates that even though the government did not order non-essential businesses to close, the economy experienced a significant economic downturn similar to the ones in the US and Germany where much or all of the non-essential economy was closed because of government orders and restrictions. While some small differences may be attributable to differences in shutdown policies, government orders alone were not responsible for the decline in both consumer spending and GDP. Consumer consumption patterns in the three countries demonstrated a similar synchronicity.

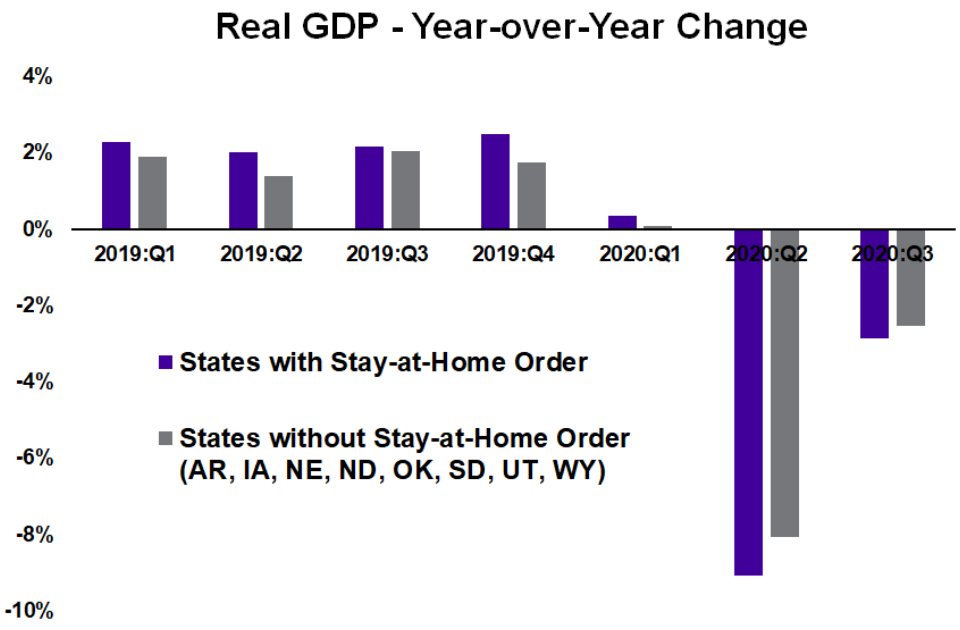
Unemployment patterns for the three economies followed a similar pattern, spiking in all three countries and remaining well above pre-pandemic levels. Notably, unemployment in the US spiked significantly more than the other countries, while German unemployment increased the least, despite

the stricter lockdown. While many of these differences may be attributable to the differences in unemployment systems, employment protection measures, and fiscal stimulus, government orders alone were clearly not the driving force behind global decreases in GDP and employment during the pandemic.



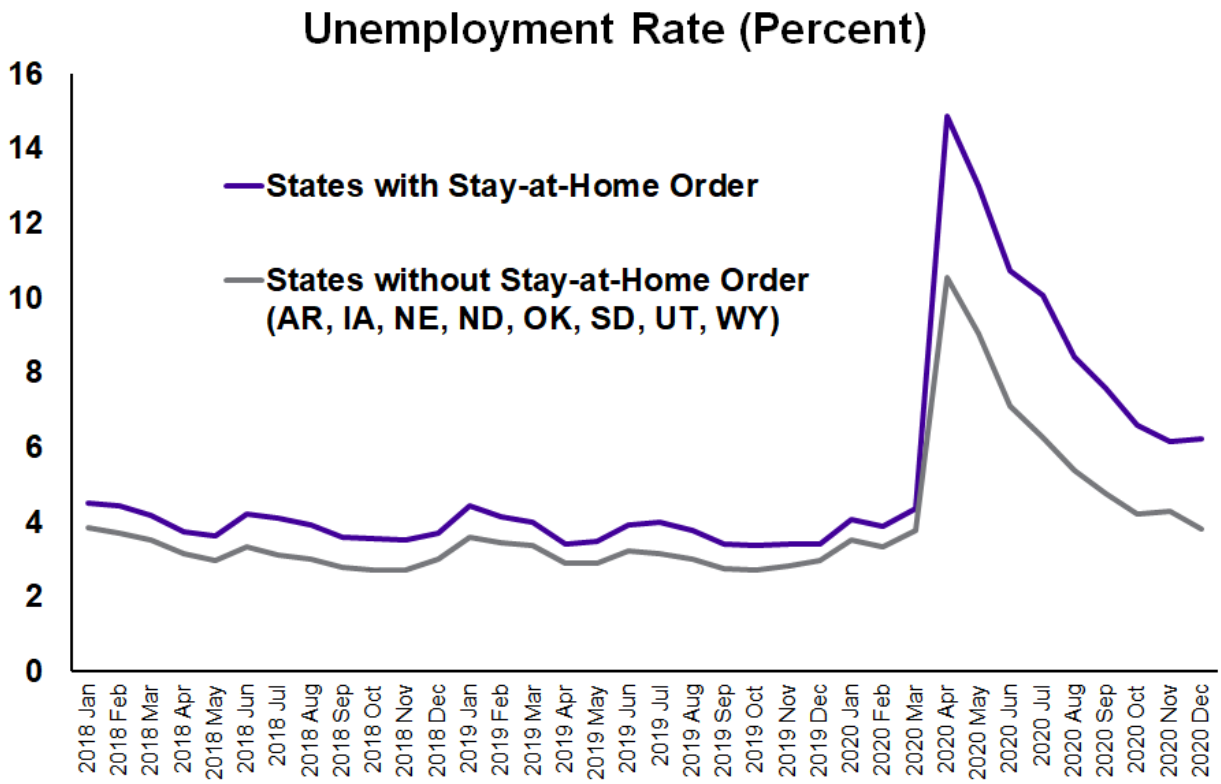
Source: *St. Louis Federal Reserve*.

The same overall pattern is found for GDP and unemployment shifts among the states despite contrasting decisions regarding government closures to protect from the transmission of COVID-19. As the following chart shows, the loss in GDP in the eight states that did not issue stay-at-home orders was only slightly less than for the states that required business closures.



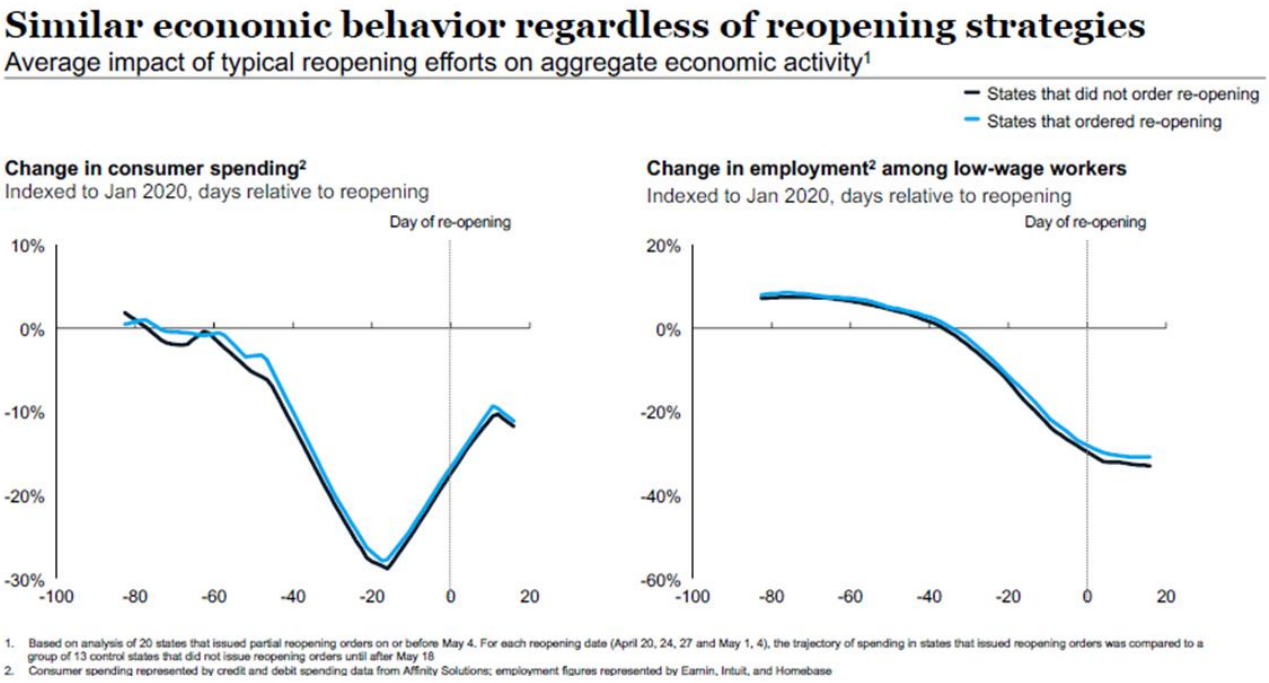
Source: *St. Louis Federal Reserve; USA Today.*

Unemployment spiked both in states with and without stay-at-home orders at the height of the pandemic. Notably, unemployment was on average 0.7 percentage points higher before the pandemic in states that later issued stay-at-home orders. All stay-at-home orders have since been lifted, but in states in which initial stay-at-home orders were issued, unemployment was 3.1 percentage points higher as of December 2020.



Source: *St. Louis Federal Reserve.*

Finally, for states that were closed at some point in the pandemic the following chart shows economic activity measured by consumer spending and employment numbers shows that the timing of any reopening decisions had very little impact on the levels of spending or employment.



Source: *McKinsey & Company.*

Even many businesses that were considered "essential" and allowed to remain open suffered deep drops in consumer demand. For example, hotels were considered essential and, typically, not required by governments to close. And yet 2020 was the worst year on record for the U.S. hotel industry, with only a 44% occupancy rate for the year.[40] Hotel average occupancy for 2020 was even lower in Canada (33.1%), Europe (33.1), and Central/South America (30.0%).[41] Similarly, dry cleaners have generally been designated as an essential business and allowed to remain open during government COVID-19 lockdowns but have suffered severe losses and bankruptcies despite being allowed to remain open.[42]

While government orders and restrictions have had an impact on business continuity losses, drops and shifts in consumer demand are responsible for the primary reduction in spending, GDP, and employment.

A University of Chicago study similarly found only minor aggregate impact from government shutdown orders. Of the 60-percentage point drop measured in retail visits during the pandemic, only 7-8 percentage points arose directly from government lockdowns and sheltering orders.[43] The remaining drop in consumer demand arose from a fear of contracting the virus.

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[40] CoStar Realty Information, Inc., STR, *STR: 2020 officially the worst year on record for U.S. hotels,* https://str.com/press-release/str-2020-officially-worst-year-on-record-for-us-hotels.

[41] https://str.com/data-insights/news/press-releases?field_region=All&coverage[min]=1900-07-18%2019%3A40%3A29&coverage[max]=2100-07-18%2019%3A40%3A29&page=8.

[42] See The Spokesman-Review, *Dry cleaners struggle to recover business lost in pandemic*, July 4, 2021, https://www.spokesman.com/stories/2021/jul/04/dry-cleaners-struggle-to-recover-business-lost-in-/.

[43] Becker Friedman Institute for Economics at the University of Chicago, *Fear, Lockdown, and Diversion: Comparing Drivers of Pandemic Economic Decline 2020*, Austan Goolsbee and Chad Syverson, Working Paper: https://bfi.uchicago.edu/working-paper/2020-80/ and Research Update: https://bfi.uchicago.edu/insight/research-update-drivers-of-economic-decline/.

The implications for prospective pandemic protection programs are significant. Stabilization of macroeconomic shifts in consumer demand is generally a federal government responsibility, often through various monetary and fiscal policy tools. There are no mass market insurance products, however, that provide protection against declines in macroeconomic consumer demand, nor would such protection meet the criteria for insurability. Even when operating losses result from government orders that impair business activities, business interruption insurance does not apply unless the order is the direct result of direct physical loss or damage to property.[44] Government closures have been designed to prevent human transmission of COVID-19. There have been no widespread incidents of property damage, particularly given the extremely low surface contamination risk, the ease of cleaning COVID-19, and the rapid dissipation of COVID-19, which falls well within most business interruption waiting periods.

The Duration of Economic Losses Has Been Much Longer Than Hoped

When the first wave of COVID-19 peaked in the United States in March 2020, no one knew how long the economic losses would continue.[45] Researchers from the Center for Infectious Disease Research and Policy (CIDRAP) presented three scenarios: 1) the first wave of the coronavirus would last through spring followed by a series of repetitive smaller waves; 2) a first wave in the spring followed by a larger wave in the fall or winter of 2020, with smaller waves in 2021; and 3) the spring wave would be followed by a "slow burn" with regional variances.[46] While the second scenario may have been the most accurate, many experts thought that the pandemic economic losses would coincide with stay-at-home orders temporarily shutting down major portions of the economy. According to the US Department of Health and Human Services' Centers for Disease Control and Prevention, the first state stay-at-home order was issued by California on March 19, 2020 (Puerto Rico was the first territory on March 15), with 42 states and territories ultimately locking down, all but eight ending their orders by May 31, 2020.[47]

Some early projections for COVID-19 economic losses focused on the roughly three months of government shut down as the period for which relief needed to be provided. In fact, as discussed in the previous section, because the economic losses from COVID-19 were not primarily caused by the government shutdowns, such losses have continued in several sectors well into 2021. For example, while airlines were deemed an essential business and allowed to remain open, by April 2020 the number of passengers flying dropped by 92%, and by the end of the year domestic traffic was still down 50% while international traffic had fallen by 74% globally.[48]

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[44] Marsh LLC, https://www.marsh.com/us/insights/research/business-insurance.html.

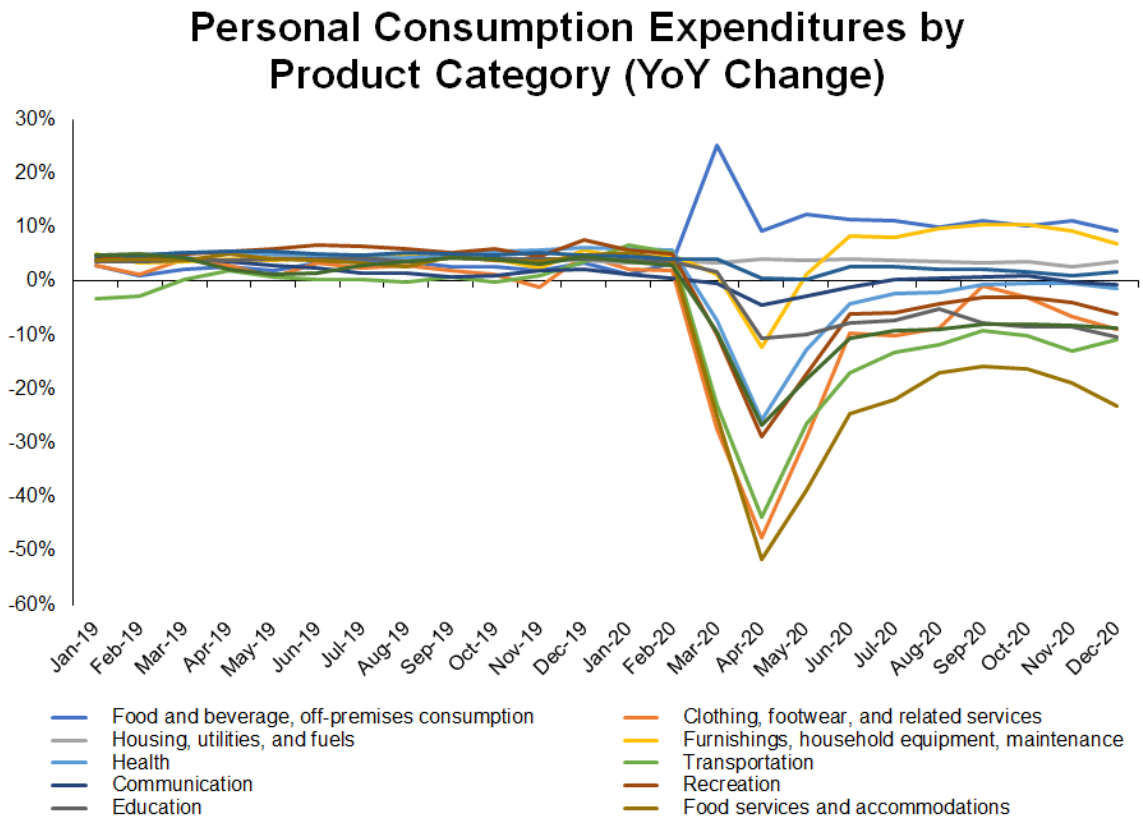
[45] See for example Yale School of Medicine, https://medicine.yale.edu/news-article/covid-19-is-here-now-how-long-will-it-last/ (suggesting COVID-19 might last "months rather than weeks")

[46] Center for Infectious Disease Research and Policy (CIDRAP), *COVID-19: The CIDRAP Viewpoint,* p.6, https://www.cidrap.umn.edu/sites/default/files/public/downloads/cidrap-covid19-viewpoint-part1_0.pdf.

[47] Centers for Disease Control and Prevention, https://www.cdc.gov/mmwr/volumes/69/wr/mm6935a2.htm; Most jurisdictions issued multiple orders during the early months of the pandemic. Alaska was the first state to end its stay-at-home order on April 24. Six jurisdictions did not issue a stay-at-home order or advisory. "Timing of State and Territorial Stay-at-Home Orders and Changes in Population Movement - United States, March 1-May 31, 2020, Center for Disease Control website. School closings also followed these orders and were considered short term. For example, California schools were initially shuttered for a period of two to four weeks. "Schools shut down in massive numbers across California amid coronavirus concerns," Richard Cano and Jocelyn Wiener, March 13, 2020, California Matters website.

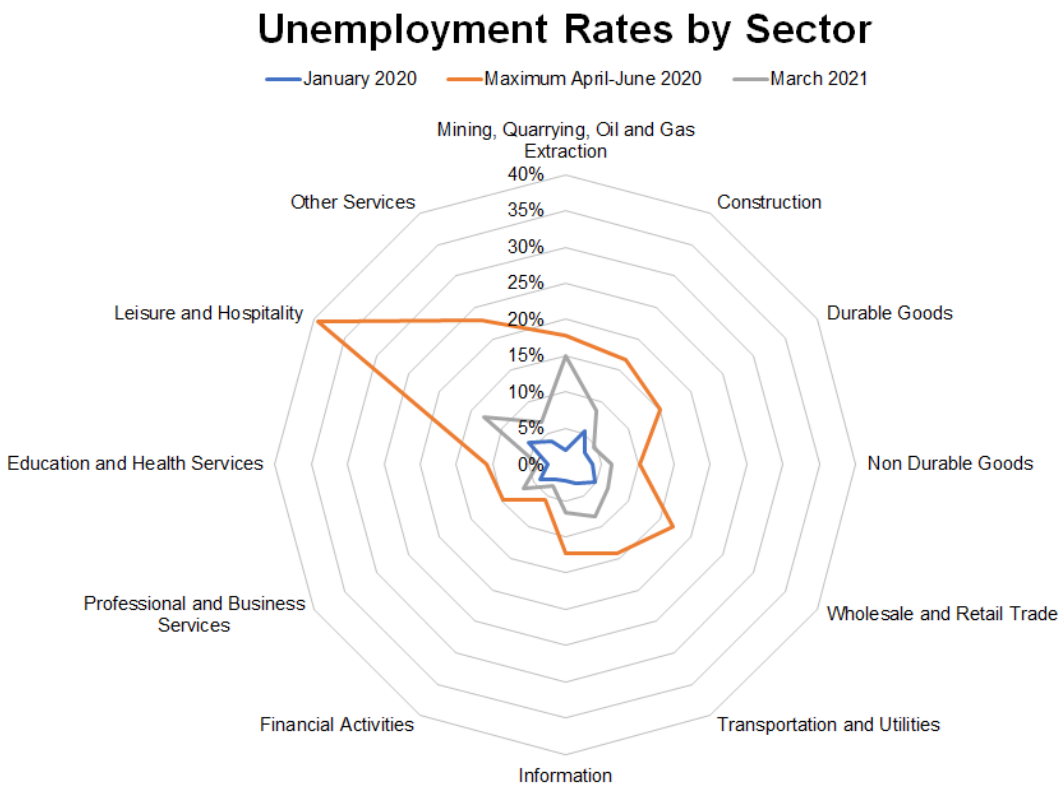
[48] United Nations, *Air travel down 60%, as airline industry losses top $370 billion: ICAO,* https://news.un.org/en/story/2021/01/1082302.

Pandemic Losses Were Concentrated in Specific Sectors with Greater Harmful Impact to Minorities
Many of the initial past and prospective pandemic relief program proposals were extremely broad brush, applying to all economic sectors, in part to expedite relief and in part because it was unclear how the pandemic would evolve and which business sectors would be able to adapt. As COVID-19 losses have unfolded, it is now clear that the primary losses have been borne by businesses providing in-person services. The hospitality industry (food services and accommodations) has arguably been impacted most by the pandemic, even as economies are increasingly reopening.



Source: *Bureau of Economic Analysis.*

For most other sectors of the economy, there was an initial effect of the pandemic, but these sectors have been recovering rapidly and have either caught up to pre-pandemic activity levels or already surpassed them. The leisure and hospitality sector also suffered the greatest unemployment, peaking at roughly 40%. The following illustration shows unemployment rates by sector before the pandemic, at the height of the pandemic between March and June, and as of March 2021. While unemployment spiked in all sectors at the height of the pandemic, leisure and hospitality, as well as retail were affected disproportionally. In contrast, unemployment has almost returned to its pre-pandemic level in sectors such as education and health services, and financial services.



Source: *Bureau of Labor Statistics*.

COVID-19 also had disproportionate impacts on racial minorities. While the number of active business owners in the United States dropped by 22% between February and April 2020, African-American owned active businesses dropped 41%, Latinx by 32%, and Asian business owner activity by 26%.[49] Women and People of Color are disproportionately represented in the leisure and hospitality sector (that suffered the greatest losses and unemployment).[50] Within the worst-hit sectors, workers in the lowest average wage and lowest average hour occupations (such as leisure and hospitality) were hit the worst.[51]

The implication for prospective pandemic solutions is that policymakers may wish to consider whether proposals should be tailored and targeted towards the sectors most impacted by pandemics -- those

[49] National Center for Biotechnology Information, U.S. National Library of Medicine, Fairlie R., *The impact of COVID-19 on small business owners: Evidence from the first 3 months after widespread social-distancing restrictions*, Journal of economics & management strategy, 10.1111/jems.12400. 27 Aug. 2020, doi:10.1111/jems.12400, https://www.ncbi.nlm.nih.gov/pmc/articles/PMC7461311/.

[50] U.S. Bureau of Labor Statistics, Labor Force Statistics from the Current Population Survey, HOUSEHOLD DATA, ANNUAL AVERAGES, 18. Employed persons by detailed industry, sex, race, and Hispanic or Latino ethnicity, https://www.bls.gov/cps/cpsaat18.htm.

[51] Economic Policy Institute, *Low-wage, low-hours workers were hit hardest in the COVID-19 recession*, https://www.epi.org/publication/swa-2020-employment-report/; see also Florida State University News, *FSU study finds tourism industry pays lowest wages nationwide*, https://news.fsu.edu/news/business-law-policy/2019/08/08/fsu-study-finds-tourism-industry-pays-lowest-wages-nationwide/ (Leisure and hospitality average weekly wages are $311 vs. the U.S. average of $710).

most vulnerable to a macroeconomic plunge in consumer demand for in-person services – which are also the sectors with the greatest number of low-wage earners (resulting in the greatest impact for each dollar of taxpayer support).

Business Continuity Protection Program (BCPP)

APCIA, the National Association of Mutual Insurance Companies (NAMIC) and the Independent Insurance Agents and Brokers of America ("the Big I"), in May 2020 proposed a new federal program to address prospective pandemic risk entitled the Business Continuity Protection Program (BCPP). The BCPP's goal is to bolster the country's economic resilience by providing timely and efficient financial protection and payroll support to impacted businesses in the event of a future declared public health emergency and a state-ordered business shutdown.

Under the proposal, the program would provide revenue replacement assistance to businesses, which could purchase up to three months of protection for up to 80% of payroll, benefits, and other necessary expenses. With so many Main Street businesses in crisis from the current pandemic, we have heard repeatedly from risk managers and the business community that this product must be affordable to achieve high take-up rates. Therefore, pricing for the product would be heavily subsidized.

There would be a simple, one-page electronic application which would establish eligibility for potential future revenue replacement payments based on historic revenue shown on previous tax returns.

The program would have a "parametric" trigger. Unlike the traditional insurance claims adjustment process, the parametric trigger would provide payments automatically upon the occurrence of certain events. Businesses would be required to establish up front what their likely revenue losses would be but would not have claims adjusted post-event. This greatly speeds the process of getting payments into the hands of businesses to provide immediate viability payments to protect businesses and ensure economic resiliency.

While APCIA still maintains that the basis of the BCPP remains the best of the proposals to establish a prospective pandemic protection program, we accept that our proposal (along with all of the others) will need to be updated in order to account for the lessons that we continue to learn from COVID-19.

For example, it would be impossible for the insurance industry to adjust millions or potentially tens of millions of business interruption insurance claims simultaneously in a future national pandemic – particularly since business interruption adjustment requires highly specialized forensic accountants. The BCPP addressed that limitation by adopting a parametric trigger designed to provide such payments based on a governmental action, i.e. a Presidential viral emergency declaration and a state-mandated closure. However, it is now apparent that significant COVID-19 losses occurred even in states and countries without government closures, suggesting that the trigger perhaps needs to be more related to precipitous declines in consumer demand for particular sectors.

Under the BCPP, revenue replacement assistance would be available to any interested firm in the U.S. All for-profit and not-for-profit entities are eligible without regard to size. The product would be distributed to businesses via state-regulated insurers, agents, and brokers. Businesses electing not to participate would be required to affirmatively opt out in writing and would certify their understanding that opting out bars them from eligibility for any federal assistance in the event of a pandemic-related shutdown. This feature is designed to encourage businesses to buy the product, thus providing greater protection to the economy as a whole and reducing federal disaster relief costs.

A second "excess" program could provide optional government assisted insurance coverage to businesses for losses not covered by the BCPP (i.e., risks other than business interruption). The precise lines of business to be included are still being discussed but would likely include event cancellation coverage. The excess program would also contemplate traditional state-regulated insurance products, with the risk being carried on insurers' books but with a substantial federal backstop. For example: A restaurant with several locations could buy the 80% coverage under the BCPP and then purchase excess coverage through the private market for either a longer period of time beyond the three months contemplated in the program or for the remaining 20% not paid under the BCPP.

The insurance industry would be heavily involved in providing the BCPP product. In addition to playing a role in distributing the product to businesses by leveraging the industry's existing infrastructure, insurers that chose to participate would also bear a portion of the risk for the excess program. Commercial reinsurers could also potentially provide reinsurance protection to the federal government to protect its obligations under the program. The BCPP can be further adjusted over time to incorporate additional private sector participation if capital providers become more open to allocating capital to broader communicable disease risks.

An analysis by the RAND Corporation of the various insurance-centric proposals concluded that the BCPP is the only proposal that would achieve a majority take-up rate and perform best for both small and large businesses "in terms of affordability, efficacy, and efficiency." The Committee on Capital Markets Regulation came to a similar conclusion after comparing the proposals, suggesting that "the best course for policymakers may be to (i) establish a modest BCPP program to be quickly triggered at the onset of a pandemic; and (ii) supply any further government support as necessary through enhanced versions of the PPP and MSLP."

Again, while we acknowledge that some of the lessons learned over the past year may require some reconsideration and amendment to certain aspects of the proposal, APCIA, NAMIC and the Big I continue to support the BCPP and believe that it contains many elements that are worthy of the careful consideration of lawmakers as they debate potential solutions to minimizing the economic impact of future pandemics.

Take-Aways and Conclusions

Global pandemics are uninsurable, and therefore, private insurance is not the answer to protecting against future economic downturns from pandemics. Nor has private insurance ever been used to provide a national employment support system for pandemic economic downturns.

Before considering future pandemic risk solutions, insurers urge policymakers to fully identify, analyze, and understand the specific pandemic problems that need to be solved. The vulnerabilities laid bare by the pandemic are both much broader than business continuity losses, but also much narrower in that pandemic losses have been very concentrated in certain sectors, particularly those reliant on providing in-person services that could exacerbate the risk of human viral transmission. One of the largest economic and social pandemic vulnerabilities is worker protection. Unemployment in the United States (and numerous other countries) during the pandemic spiked to the worst level since the Great Depression and worker payments comprised a very significant percentage of the COVID-related economic losses as many businesses mitigated their pandemic economic exposure by laying off employees. Women and minorities were particularly harmed by these terminations. While employment

levels have significantly recovered since the initial pandemic peak, it is unclear how much lasting residual dislocation will remain.

While the United States has been devastated by the ongoing pandemic, our country has also been able to economically recover much faster than many other regions around the world. Government economic support programs clearly had a positive impact. APCIA, NAMIC, and the Big-I designed the BCPP proposal in part by considering the lessons learned about the Paycheck Protection Program (PPP) and thinking through what improvements could be made to the PPP if the program could be established in advance with the advantage of hindsight. Congress was also able to adjust the relief provided through various government programs as lessons were learned during the current ongoing pandemic. That would not be as possible in a private insurance program where contracts are typically locked in for a year and are constitutionally protected from retroactive changes.

While private insurance is not a functional match to address most of the pandemic vulnerabilities and economic losses triggered by the spread of COVID-19, APCIA appreciates the opportunity to work with members of the Subcommittee to analyze and understand the current crisis and lessons learned, and to help identify and articulate the numerous problems and vulnerabilities that could be addressed. We thank the Subcommittee for holding this important hearing.