



COMPANY PLANS TO ROLL OUT PARAMETRIC PANDEMIC COVER

BY TIMOTHY DARRAGH, ASSOCIATE EDITOR, BESTWEEK

Machine Cover, a Boston-based insurtech, is developing a pandemic insurance product based on parametric triggers that could help businesses recover or stay alive in the next outbreak.

The company said the COVID-19 crisis exposed a critical gap in insurance cover as insurers all over the United States denied claims for business interruption coverage because they were not insured.

“Currently available insurance products are not fit for purpose because they do not cover companies for unforeseen consequences such as unexpected shortfalls in revenues, the inability to trade, and the cost of letting go of members of staff,” said Machine Cover Founder and Chief Executive Officer Inder-Jeet Gujral in a statement. “The inadequacy of BI policies has resulted in large numbers of businesses issuing lawsuits against their insurers to try to recover cash to which they believe they were entitled. In many cases, businesses have been unable to continue trading because the pandemic has resulted in shortfalls few could have foreseen.”

Parametric insurance is a type of insurance contract that insures a policyholder against the occurrence of a specific event by paying a set amount based on the magnitude of the event, as opposed to the magnitude of the losses in a traditional indemnity policy, according to the National Association of Insurance Commissioners.

It would not be the first such effort – Marsh, Munich Re and Metabiota in 2018 created a product called PathogenRX – but the Machine Cover product would potentially be a solution in a pandemic.

The parametric product would be available as an add-on to a company's existing commercial policy, Machine Cover said. If the policy is triggered as a result of the agreed parametric measure, businesses will receive a prompt and automatic payment without the need to make a claim.

“Our product uses parametric triggers to determine when there is a significant drop in economic activity in a given area – it could be caused by a pandemic, a large factory closing or major road-building activity, we don't mind – and the policyholder will be automatically paid an agreed amount,” Gujral said.



"This is exactly the type of coverage which countless thousands of businesses thought they had paid for when they bought their current BI policies before the coronavirus pandemic."

Machine Cover is hoping to take the pandemic product to market in the first quarter of 2021, it said.

Gujral said he was open to distributing the product through a single carrier or through multiple insurers who could offer it as an add-on product when selling commercial insurance to their clients.

Neil Alldredge, senior vice president of corporate affairs for the National Association of Mutual Insurance Companies, said the experience of recent months has proved that pandemics are uninsurable.

"There will be market forces that seek to solve the issue of providing insurance coverage for pandemics, and we wish them well," Alldredge said. "NAMIC is supporting the Business Continuity Protection Program as we believe that pandemics are fundamentally uninsurable and only the federal government has the financial wherewithal to establish a system that provides a solution."

That program, if enacted, would allow businesses to receive up to 80% of payroll, benefits and operating expenses for three months from the Federal Emergency Management Agency ([Best's News Service, May 21, 2020](#)).

But Tim Gosnear and Daniel Brettler, managing directors at Conner Strong & Buckelew, said they are encouraged to see insurtechs using technology and analytics creatively to support new product development.

"The parametric insurance concept is not new but may be a very good solution for pandemic-related business interruption/economic loss risks in the future," they said in an email. "Munich Re has been developing a parametric-based cover for pandemic risks as well, and we do expect other carriers and reinsurers, and perhaps other nontraditional sources of capital, to fill the gap that exists today for non-physical damage triggered losses."

The parametric approach, they said, provides a simple and objective response to determining when a loss is triggered.

"It is event-driven coverage that requires agreed-upon third-party source validation of the loss trigger, and loss payments to the insured are made very quickly," they said.

Marsh's experience may show whether the product has a chance in the marketplace.

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She said Marsh had many conversations with clients in the hospitality, entertainment and restaurant sectors about the solution. Interest, however, was modest in protecting against a risk most companies had never experienced, she said.

That has changed. "Since the onset of COVID-19, interest in PathogenRX is tremendous," Roberts said, "and we are actively working with Munich Re in seeking additional capacity to keep up with demand."

To view AM Best analysis and commentary on the COVID-19 outbreak visit: <http://www.ambest.com/about/coronavirus.html>

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The logo for Conner Strong & Buckelew is a blue square with white text. The background of the entire page features a 3D rendering of red and orange virus particles on a grey, textured surface.