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RESEARCH ARTICLE

CORRELATION ANALYSIS BETWEEN THE LAW AND LIFE INSURANCE SECTOR DURING COVID 19 PANDEMIC

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ABSTRACT:

Insurance is the valuable tool for managing catastrophic risks. It serves as a means of influencing the insured party's behavior in addition to providing compensation. Moreover, a multilayered strategy that includes the government acting as a reinsurer of last resort in addition to providing insurance and reinsurance may be able to address the capacity issue. In the private governance of insurance, it matters whether purchasing insurance is required by law or by common sense. Numerous studies show that technical tools can improve safety and lower losses in workers' compensation insurance. There is evidence that auto insurers' risk-based pricing and deductible policies encourage safer driving. Certain minimum requirements for both auto insurance and workers' compensation are usually imposed by law in these prosperous times. If the insured cannot just stop or cut back on coverage if they incur large rate hikes as a result of prior losses. As a result, insurers who provide coverage in practically mandated areas like workers' compensation, homeowners' insurance, and driver liability have a compelling case for a reduction in aggregate risk, at least over the short and medium terms. Some insurance firms' refusal to pay claims connected to pandemics, particularly when it comes to business interruption insurance, has damaged trust in the insurance industry.

KEYWORDS: Correlation, Law, Life Insurance, Covid 19 pandemic.

INTRODUCTION:

Insurance for life is a business. However, it is only a business for those firms that can continue to make money even as they settle claims. The law of large numbers benefits insurance firms by making the claims they will make predictable, with a reasonable degree of accuracy, year after year. Insurance helps you manage risk by shielding you from events that could have a substantial influence on your financial future if they happen. [1] The rule of large numbers is a statistical and probability theory notion that suggests that the more samples taken from an event, the more likely it is that the monitoring findings will resemble the population as a whole. In the realm of insurance, the likelihood of losses will, in general, be closer to the projected loss the more people join the insurance. [2] Insurers frequently reject coverage for pandemic losses on the grounds that they are uninsurable. In contrast to other natural disasters like hurricanes, earthquakes, and terrorist attacks, private insurers typically cover a significant portion of the losses incurred (at least in developed nations). However, because of COVID-19, coverage for pandemic losses—particularly those related to business interruption—is severely limited or nonexistent. This raises questions regarding insurability and casts doubt on pandemic insurance. [3]

RESEARCH METHODOLOGY:

Correlation analysis is a statistical technique in research that calculates the association and quantifies the strength of a linear relationship between two variables. To put it simply, correlation analysis determines how much a change in one variable affects a change in another. Use correlation analysis to examine relationships between categorical or quantitative variables. Although secondary data might originate from outside sources, it can also come from within an organization. To put it another way, secondary data is simply another company's primary data. Because secondary data sources are so plentiful, they are becoming more and more important in analytics and research. Secondary data sources can address a wide range of issues and are easier to obtain than primary data. Secondary data are typically quite dependable and well-structured, even though they might not be as pertinent for a certain task as primary data. In this research, correlation analysis and secondary data has been used.

CORRELATION ANALYSIS, RESULTS AND DISCUSSION:

The growth of private insurance as a form of government has been observed. Insurance can function as a type of ex ante private governance in addition to paying out benefits following a covered incident or accident. When insurers assume risk, their motivation is to reduce the risk and potential losses by convincing policyholders to reduce their payouts, thereby mitigating the risk and losses. Insurance could increase social wellbeing by lowering individual risks over time.

The facts do not always support the rationale for private insurance governance. Certain insurance practice lines cast doubt on the idea and impact of private governance, demonstrating that the extent to which insurance governance might replace public governance is greater than we might anticipate.

Liability insurance is a developing area. In-depth interviews with corporate officers and directors have strengthened the case against insurance as a governance theory. Rather than deterring unethical behavior on the part of officers and directors, [directors and officers liability insurance] 'ensures' that corporate misconduct will happen, jeopardizing the effect of securities laws and the deterrent effect of shareholder litigation. Professional liability insurance for civil rights lawsuits against autonomous public school districts exemplifies another type of dysfunctional governance. Qualitative empirical evidence suggests that school district liability insurers attempt minor regulation through standard professional liability underwriting and loss avoidance. The absence of private governance is due to the intensity of local control desires in districts, political concerns about membership stability in the interlocal risk pool, and insurers' faith in market competition. Issues pertaining to food safety offer yet another striking illustration of the concept of insurance governance. [4]

The governance function in the catastrophic insurance industry relies on the specific legal, political, and economic framework that surrounds insurance plans. A comprehensive empirical study reveals that the flood insurance programs in the United Kingdom and Germany. It lead to a negative perception of insurance's ability to manage such catastrophic risks due to its poor track record of reducing risk and recovering money. Certain nations—most notably Germany and Italy—frequently offer substantial government compensation to victims of natural disasters, which

could lessen the need to get insurance. According to Epstein, the government's compensation is a catastrophic response to catastrophic risks. But this insurance-based governance frequently fails due to a number of regulatory missteps. Compared to the U.K., there is a significantly higher moral hazard associated with the National Flood Insurance Program (NFIP) governance in the U.S. system, as it weakens the private insurance market and tacitly promotes living in flood-prone areas. It appears that the projected incentivization impact of providing cheaper rates to communities with a specialized risk prevention plan is absent, even in France, which has received accolades for establishing comprehensive catastrophe insurance. [5]

Insurance's use as a governance tool is only possible if a suitable legal and regulatory framework ensures smooth market operations. Several technical means regulate the insured's behavior through customized policy terms, which are among the most crucial requirements. Insurance functions covertly as a private regulator by lowering moral hazards through the use of technological instruments. Almost all insurers employ these technological instruments, which come in various forms and include risk-based pricing, contract design (limits, deductibles, co-payments, and exclusions, for example), loss prevention, claims administration, and refusal to insure. However, because insurers have major challenges in implementing technical tools, pandemic insurance is unable to advance governance objectives.

Pricing based on risk is thought to be the simplest method of providing incentives to lower risk. Feature ratings and experience ratings are frequently used by insurers to indicate premium loss prevention. There are practical challenges in implementing risk-based pricing to mitigate moral hazards. First, the risks associated with pandemics are still too complex to fully comprehend, and rating factors are based on correlation rather than causation; second, the availability of pandemic insurance is quite limited; and third, policyholders frequently lack the meaningful ability to modify features because the cost of insurance products for pandemics often prevents small businesses from purchasing them; fourth, experience rating is rare in low-frequency, high-impact coverage lines, like pandemic risk; and fifth, risk-based pricing may have dubious consequences in situations where demand for pandemic insurance is limited due to affordability concerns and government bans. The aforesaid limitations are further supported by the fact that no one purchased the novel pandemic insurance policy Pathogen RX, which was introduced in May 2018. [6]

Because mandatory coverage may keep lower-risk groups from leaving the pool, it helps control adverse selection. Enforcing insurance laws can also improve damage mitigation. Requiring catastrophe risk insurance primarily aims to compel industry participants to align with the profit-driven insurance sector. People who wish to reduce their insurance premiums with mandated private insurance are likely to implement mitigation strategies.

Moreover, behavioral research demonstrates that people do not purchase insurance against high-loss, low-probability occurrences like pandemics, even when doing so would boost their value. Behavior issues include constrained rationality, which leads people to adopt an "it won't happen to me" mentality and forego getting insurance. Many people advocate for mandatory insurance as a way to remove demand-side obstacles. Comprehensive coverage has also been recommended for different types of calamities in order to address the low demand brought on by informational and cognitive issues. A number of nations, such as France, Belgium, Norway, and Spain, have recently instituted compulsory compensation schemes for specific natural disasters. [7]

In the meantime, mandating coverage for pandemic losses also raises a number of questions. First, given that many businesses would undoubtedly not have any need for insurance, is it really necessary to implement mandatory business interruption insurance for all businesses? Insurance for business interruption would simply result in an ex ante cost increase without any added benefit for giant multinational corporations, whose balance sheets are even greater than those of insurance companies. Theoretically, risks for which insurance would clearly add value and where there would be a case for market failure (small and medium-sized businesses refusing to take up insurance due to ignorance, for example) should also be covered by mandated coverage. Furthermore, we should only implement business interruption insurance requirements once we have sufficiently resolved the moral hazard issue. It is debatable whether requiring insurance for business interruptions generally would be a wise course of action, given that it may be challenging to separate business interruptions brought on by a pandemic from business interruptions brought on by other causes. It is believed that there will be strong political opposition to this, particularly since it may result in substantial ex ante expenditures for small and medium-sized businesses as well. Therefore, the introduction of this policy is unlikely to be effective. [8]

The policy exclusion clause is considered an indirect means of controlling policyholders, as it excludes specific risks or claims from coverage. This information-gathering technique requires less information from insurers than risk-based pricing does. Nevertheless, the net result of such an exclusion clause is to transfer the risk of loss onto the insured without lowering that risk, provided the insured does not recognize it. One example is business interruption insurance. Insurance contract interpretation guidelines and policy language are the primary reasons why insurers reject pandemic claims. Insurers speak of a virus exclusion provision that prevents policy holders from pleading for pandemic-related compensation and expressly excludes viruses as a cause of loss. The insured argue that insurers merely transfer liability instead of reducing societal risks, which is why they oppose this exclusion clause. It is necessary to reevaluate the "myth of risk reduction" or "moral hazard control wisdom" in relation to coverage restrictions and exclusion clauses. According to governance theory, the move from loss reduction to loss shifting will put private insurance in jeopardy since insurers may jeopardize incentives to prevent accidents by preventing insured's' moral hazard, which could have unfavorable social effects. The last technical tool insurers use to control their insured's is the refusal to insure, which has similar effects to the exclusion clause but sparks more debate. Since insurers began public relations efforts and used the media to spread the word that there is no coverage for pandemic losses, insured's in the United States have claimed that their insurers' unwillingness to insure turned into a refusal to pay from the very beginning of the epidemic. This appears to be a practical strategy for potential plaintiffs and has an effect on the legal system. However, as it magnifies insurers' risk-leaning mindset to shift their own risk rather than lessen dangers to society, such a public relations effort may scare away policyholders. [9]

CONCLUSION:

In the insurance industry, each person's risks are passed to the life insurance provider, who then agrees to pay out the sum stated in the policy contract. The insurer determines the premium that the insured person must pay in order to make up for this loss. A few factors need to be considered when setting a premium: potential losses, the extent of any loss, administrative expenses, the necessities of operating a business, including gathering premiums from each member, calculating losses, making claim payments, potential threshold errors in loss prediction, and additional elements like financial, health, and social factors. Errors in calculating these variables may result

in losses for life insurance providers, such as underestimating premiums [10]. The effectiveness of life insurance as a risk-spreading instrument depends on the ability of the insurance company to assume a sizable portion of the risk. Use the so-called "law of large numbers" in this situation [11]. If the law of large numbers is applied to insurance, the insurer will be able to ascertain the insured person's mortality rate as well as their degree of morbidity, or the degree of illness, damage, and occurrence of health failure. The insurance company's premium rate for various types of supplied insurance products is calculated using the mortality rate and morbidity [12]. The extent to which insurance could possibly contribute to victim compensation was a concern raised during the most recent pandemic. While there are many different types of losses that could result from a pandemic, business interruption losses were the most significant ones that were discussed in relation to insurability. Though it could be challenging to include pandemics in the traditional definition of insurability, we investigated if some of the regulatory remedies used for other kinds of disasters might also apply to pandemics. We contended that this is only partially true. Mandatory coverage is one classic approach, especially in the case of natural disasters. However, we contended that this would be counterproductive in the event of business interruption losses since it would compel businesses to get insurance for a purpose for which the coverage is unnecessary. A multi-layered strategy that includes the government acting as a reinsurer of last resort in addition to reinsurance could be used to address the capacity issue. That would also have the significant benefit of encouraging market remedies, which, in a scenario in which the government merely saves operators, manifestly fail (and perhaps even create incentives for the mitigation of harms). In conclusion, a crucial regulatory measure would be to provide insurers with greater information than they had during the previous pandemic regarding the precise categories of risks that are covered and those that are not. The issue seemed to have arisen from the fact that many businesses with insurance against business interruption losses assumed that their pandemic-related losses would also be covered, even though some policy language seemed to indicate otherwise. These kinds of inconsistencies should be prevented by providing policyholders with clear information about the extent of coverage. We examined the insurability of pandemics in this paper, focusing more on the theoretical aspects of pandemic risk insurability than on the practical aspects. In summary, while we continue to be cautious and contend that there are significant obstacles to overcome before utilizing insurance as a pandemic governance mechanism (primarily due to

potentially irreversible moral hazard), insurance may still have a function as long as the risks are sufficiently differentiated and the scope of coverage is well-defined.

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