

Why insurance cannot solve the problems businesses face..

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There has been quite a lot of commentary in the media from small-business sources suggesting that the government has been reckless in suggesting that pubs, bars, restaurants and other such establishments should all be avoided by the public, but without requiring that they close for business, which means that they cannot claim on their business interruption insurance. I agree that this does appear somewhat unfair to the businesses in question, most especially when bailout packages for the banks have already, in effect been announced, but in practice this claim does not reflect a proper understanding of how the insurance market works.

Insurance works on the basis that everyone faces risk, but who precisely will face difficulty at any point in time is unknown, meaning that the risk can be pooled through collective insurance premiums and those actually suffering misfortune can be compensated when it arises.

What is happening at present is nothing like this: every single pub, club, bar and restaurant is facing the same problem at the same time. They will all want to claim on their business interruption insurance. And the fact is that the market will be utterly unable to pay out as a consequence: no one priced that risk into the policy premium and, as a consequence, if claims were made the insurance companies would be wiped out overnight.

It would, of course, be possible for the government to underwrite insurance companies with regard to this risk. The cost in question is unquantifiable. But doing so would also mean that the survival of many businesses would be dependent upon the business interruption insurance that they took at a time when they could never have imagined the circumstance that has arisen, and which may have, therefore, been entirely inappropriate for their current needs.

In this situation it is probably fair say that the government is right not to have created a scenario where enormous insurance claims could have been made, with one massive proviso being added, and that is that the government must now provide the necessary finance to bail out the businesses in question, and keep as many of them and their

employees either in work, or safely in their homes, for the duration of this crisis.