



Leibniz Institute for Financial Research SAFE
Sustainable Architecture for Finance in Europe (<https://safe-frankfurt.de/>)

SAFE Finance Blog

"After the game is before the game" – A Pandemic Insurance through Pandemic Partnership Bonds

06/05/2020

A fully funded insurance solution in a public private partnership to be prepared for the next pandemic



We are presently in the middle of the Corona virus-caused economic crisis in which financing and transferring hundreds of billions of euros to mitigate the economic consequences of the "Corona lockdown" are at the center of the political discussion. Nevertheless, it is necessary to already **look beyond the current pandemic crisis and be better prepared – also in financial terms – for the next pandemic outbreak.**

The consequences of an ex-post financing of the crisis are increased indebtedness on the private and/or the public side, and waiving necessary (infrastructure) investments, combined with possible intergenerational unfairness as to bearing the burdens in the long run. In contrast, insurance solutions cover

losses without leading to future burdens, neither for the beneficiaries as it would be the case through providing loans, nor for the tax payers who have to finance crisis-related government spending.

A pandemic insurance solution

Unfortunately, high insurance prices – needed to cover the specifically high risks of a pandemic insurance coverage – combined with the hope for government support will probably keep the demand for pandemic insurance at a low level. Therefore, it is doubtful whether we will see a large private pandemic insurance market in the future.

However, a **pandemic insurance solution**, which means an ex-ante pandemic risk financing, is still feasible through a **Public Private Partnership**. We propose to issue a **Pandemic Partnership Bond** which is set up in the sense of a "**Catastrophe Bond**". More specifically, in 2017 the World Bank issued a Pandemic Bond that can, to a large extent, serve as a blueprint for the suggested solution:

EU member states as the "sponsors" or "originators" issue a **Pandemic Partnership Bond** with a given principal amount and maturity, e.g. 3 - 5 years. The principal amount should be high enough to cover significant costs related to a pandemic outbreak; in a first step it could possibly lie in a range between 20 to 50 billion euros. The bonds' issuance proceeds are transferred into a trust fund. At the same time, the originators of the bond also pay their "insurance premium" into the trust fund. Thus, the Pandemic Partnership Bond solution is fully funded from the beginning, and, before a pandemic crisis occurs, the originator governments have no access to the capital raised.

The trust fund invests the capital under a **specified investment strategy**. It should target a minimum safety level in terms of liquidity and guaranteed payoffs. To prevent possible pressure for investing in government bonds, they should be excluded from the investment universe.

Principal-at-risk-bonds

The Pandemic Partnership Bond would be a "**principal-at-risk**" bond. This means that if a specified pandemic risk materializes, the principal (and, possibly, outstanding interest payments) is not paid back to the investors. The retained funds are then made available to the originator government(s).

The fact whether or not the principal has to be paid back should depend on **multiple triggers**. Potential triggers can be the official declaration of a major disease outbreak by the World Health Organization (WHO) and the number of disease cases within a given time period (e.g. two weeks) across a given geographic area (e.g. EU member states). For a Pandemic Partnership Bond that is going to be issued in the near future, one would probably **exclude COVID-19 diseases** as triggering event.

After their issuance, the bonds can be traded on a **secondary market**, which makes them liquid investments. As long as the pandemic risk does not materialize, the **investors receive a risk-adequate return**, and when the bond expires the principal is paid back.

Pandemic Partnership Bonds – an interesting investment

The Pandemic Partnership Bond can be an **interesting investment for institutional investors** who search for yield in the present low interest rate environment. The bond can also be interesting for **private investors** who may invest relatively small amounts of money (for example €1,000 – €10,000). From their point of view, the investment can be interpreted as a "bet" with a relatively high return on the one hand, combined with the risk of a complete loss on the other. Such loss is bearable for a small investment volume, and at the same time, the lost money is used for compensating pandemic-related costs. Thus, even the lost money can, to some extent, return to the investors.

From the originator governments' point of view, the Pandemic Partnership Bond is an opportunity to **utilize people's wealth** instead of income (via income taxes) for funding pandemic costs. Yet, it is not a compulsory funding scheme via a wealth tax. Instead, **funding is provided on a voluntary basis** in

exchange for a risk-adequate return.

In summary, we consider a Pandemic Partnership Bond to be an efficient and fair mechanism to cover negative financial consequences of pandemic risks. The Pandemic Partnership Bond may therefore prove to be an important measure to provide financial security for future pandemic outbreaks.

Helmut Gründl (<https://safe-frankfurt.de/research/researchers/researchers-details/showauthor/107-gruendl.html>) is SAFE Research Fellow and Managing Director of the International Center for Insurance Regulation of the Goethe University Frankfurt.

Fabian Regele (<http://www.icir.de/about/people/team/doctoral-students/fabian-regele/>) is Research Assistant at the International Center for Insurance Regulation of the Goethe University Frankfurt.

For a longer version, see SAFE Policy Letter No. 86 (<https://safe-frankfurt.de/policy-center/policy-publications/policy-publ-detailsview/publicationname/pandemic-insurance-through-pandemic-partnership-bonds-a-fully-funded-insurance-solution-in-a-public.html>).

Keywords: Financial Markets ([https://safe-frankfurt.de/news-latest/safe-finance-blog/search-result-blog.html?](https://safe-frankfurt.de/news-latest/safe-finance-blog/search-result-blog.html?tx_news_pi1%5BoverwriteDemand%5D%5Bcategories%5D=181&cHash=84faeb163d529c1d1097a1382efc4cf)

[tx_news_pi1%5BoverwriteDemand%5D%5Bcategories%5D=181&cHash=84faeb163d529c1d1097a1382efc4cf coronavirus](https://safe-frankfurt.de/news-latest/safe-finance-blog/tag/coronavirus.html) (<https://safe-frankfurt.de/news-latest/safe-finance-blog/tag/coronavirus.html>), Public Private Partnership (<https://safe-frankfurt.de/news-latest/safe-finance-blog/tag/public-private-partnership.html>), Investments (<https://safe-frankfurt.de/news-latest/safe-finance-blog/tag/investments.html>)



Back (<https://safe-frankfurt.de/news-latest/safe-finance-blog.html>)

Want to get regular updates?

 Subscribe to the Finance Blog RSS feed (<http://safe-frankfurt.de/home/rss-policyblog.xml>)

 Follow us on Twitter (https://twitter.com/SAFE_Frankfurt)

Enter your email address to get regular blog updates.

* Please read our data protection statement (<https://safe-frankfurt.de/about-safe/data-protection.html>)(pdf version (https://safe-frankfurt.de/fileadmin/user_upload/editor_common/Files/Data_Protection_Statement_28Mai2020.pdf))

I agree to the data protection statement.*

Subscribe

RECENT POLICY PUBLICATIONS

Jun 2020

Erkenntnisse aus sechs Wellen des Haushaltsbarometers: Sind "Konsumschecks" das richtige Mittel in der Corona-Krise? (<https://safe-frankfurt.de/policy-center/policy-publications/policy-publ-detailsview/publicationname/erkenntnisse-aus-sechs-wellen-des-haushaltsbarometers-sind-konsumschecks-das-richtige-mittel-in-d.html>)

Calogero Brancatelli, Andreas Hackethal, (<https://safe-frankfurt.de/research/researchers/researchers-details/showauthor/109-hackethal.html>) Roman Inderst, (<https://safe-frankfurt.de/research/researchers/researchers-details/showauthor/695-inderst.html>) Sebastian Schuler

May 2020

Pandemic Insurance through Pandemic Partnership Bonds: A Fully Funded Insurance Solution in a Public Private Partnership (<https://safe-frankfurt.de/policy-center/policy-publications/policy-publ-detailsview/publicationname/pandemic-insurance-through-pandemic-partnership-bonds-a-fully-funded-insurance-solution-in-a-public.html>)

Helmut Gründl, (<https://safe-frankfurt.de/research/researchers/researchers-details/showauthor/107-gruendl.html>) Fabian Regele (<http://www.icir.de/people/team/research-assistants/fabian-regele/>)

Jun 2020

Encompassing monetary policy strategy review (<https://safe-frankfurt.de/policy-center/policy-publications/policy-publ-detailsview/publicationname/encompassing-monetary-policy-strategy-review.html>)

Otmar Issing (<https://www.ifk-cfs.de/about/organization/president.html>)

All Policy Publications (<https://safe-frankfurt.de/policy-center/policy-publications.html>)

Contact

Leibniz Institute for Financial Research SAFE

Theodor-W.-Adorno-Platz 3
60323 Frankfurt am Main

Phone: +49 69 798 30080

Fax: +49 69 798 30077

Email: info@safe-frankfurt.de

Find the right contact person (<https://safe-frankfurt.de/about-safe/contact.html>)

 Follow us on Twitter (https://twitter.com/SAFE_Frankfurt)

SAFE →

- [About SAFE \(<https://safe-frankfurt.de/about-safe.html>\)](https://safe-frankfurt.de/about-safe.html)
- [Job Offers \(<https://safe-frankfurt.de/about-safe/career/job-offers.html>\)](https://safe-frankfurt.de/about-safe/career/job-offers.html)
- [How to find us \(<https://safe-frankfurt.de/about-safe/how-to-find-us.html>\)](https://safe-frankfurt.de/about-safe/how-to-find-us.html)

Policy Center →

- [SAFE Senior Policy Fellows \(<https://safe-frankfurt.de/policy-center/safe-senior-policy-fellows.html>\)](https://safe-frankfurt.de/policy-center/safe-senior-policy-fellows.html)
- [Policy Publications \(<https://safe-frankfurt.de/policy-center/policy-publications.html>\)](https://safe-frankfurt.de/policy-center/policy-publications.html)
- [SAFE Finance Blog \(<https://safe-frankfurt.de/news-latest/safe-finance-blog.html>\)](https://safe-frankfurt.de/news-latest/safe-finance-blog.html)
- [Policy Center Team \(<https://safe-frankfurt.de/policy-center/policy-center-team.html>\)](https://safe-frankfurt.de/policy-center/policy-center-team.html)

Research →

- [Research Departments \(<https://safe-frankfurt.de/research/research-departments.html>\)](https://safe-frankfurt.de/research/research-departments.html)
- [Researchers \(<https://safe-frankfurt.de/research/researchers.html>\)](https://safe-frankfurt.de/research/researchers.html)
- [Data Center \(<https://safe-frankfurt.de/data-center.html>\)](https://safe-frankfurt.de/data-center.html)

News & Events →

- [All News \(<https://safe-frankfurt.de/news-latest/all-news.html>\)](https://safe-frankfurt.de/news-latest/all-news.html)
- [Newsletter \(<https://safe-frankfurt.de/news-latest/newsletter.html>\)](https://safe-frankfurt.de/news-latest/newsletter.html)
- [Expert List \(<https://safe-frankfurt.de/press/expert-list.html>\)](https://safe-frankfurt.de/press/expert-list.html)



Home (<https://safe-frankfurt.de/footer-menu/home.html>) →

About this site (<https://safe-frankfurt.de/footer-menu/about-this-site.html>) →

Data Protection (<https://safe-frankfurt.de/footer-menu/data-protection.html>) →

© 2020 SAFE