

Original Article

ASSESSING THE FEASIBILITY OF POOL MECHANISM FOR MITIGATING RISKS FOR SMES IN PANDEMIC SCENARIO

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ABSTRACT

The pandemic COVID-19 was the worst catastrophic event which mankind had in last 100 years. It well started as health crisis, but the spread of the disease led to mass lockdown making it even an economic crisis of worst kind. The worst hit were the people from the informal and Small and Medium Enterprises (SMEs). Because of poor financial standing & dependence in industry & global supply chain, they experienced substantial setbacks in terms of business and revenue, leading to unemployment and financial hardship. The standard risk mitigation techniques such as insurance failed because of definition of scope but it also raised a valid question about the financing mechanism of such mega risk, even if a suitable product is designed for. This research aims to investigate the feasibility of having a pandemic pool to arrange finance for such coverage.

The methodology used is basically qualitative in nature. A detailed literature review helped in understanding emerging risks in pandemic situation & the working of a "pool" mechanism. The research finding suggests that there is a theoretical potential however the practicality and effectiveness of implementing this concept in real-world scenarios remains a subject of concern and debate. It is evident that further evaluation, research, and exploration are necessary to address the lingering doubts and questions surrounding its feasibility in practical applications.

This research provides a way out for insurance industry to think of getting a pandemic specific solution for SMEs seeking effective strategies to mitigate risks related with pandemic & pandemic kind situation. The research work contributes valuable insights into the feasibility and potential benefits of pool mechanisms, potentially aiding the resilience and survival of SMEs in an uncertain business environment.

Keywords: SMES, Emerging Risks, Pool Mechanisms, Risk Mitigation, Post-Pandemic, Resilience, Small Business, Insurance, Risk Sharing

INTRODUCTION

The year 2020 will be remembered for the worst possible human tragedy at global scale through Covid pandemic. It started as a health crisis in Wuhan in China & soon spread through out the world . This insidious virus rapidly evolved into a far-reaching economic catastrophe, and India was no exception to its grip.

As the situation worsened Govt of India took a difficult decision to impose a nationwide 21-day lockdown in mid-May, 2000, which kept getting extension because of evolving crisis. The economic fallout of this harsh but necessary measures manifested in

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multiple distressing forms. Job losses became widespread, as numerous businesses struggled to stay afloat in the face of stringent restrictions. Many who managed to retain their jobs were subjected to salary reductions, adding further strain to households.

One of the most visible and disturbing consequences of the pandemic induced economic onslaught was the mass migration of labours. TV screens were flashing this migration day in day out for months. This journey, often fraught with hardship and uncertainty, revealed the depth of desperation in these challenging times. By the end of the third quarter, India found itself in the throes of a technical recession with GDP contracting in two subsequent quarters. This economic downturn was a grim reflection of the significant challenges faced by the nation.

Amid this economic turmoil, it was the informal sector and the Small and Medium Enterprises (SMEs) that bore the brunt of the crisis. These segments of the economy, which often lack the financial cushion and resources of larger corporations, experienced substantial losses in terms of business revenue. This, in turn, cascaded into unfortunate consequences, including soaring unemployment rates and widespread financial distress among both business owners and employees.

After agriculture which is supposed to support 45-50% of the employment, the Small, and Medium Enterprises (SME) sector stands as the second-largest employer in the country. It plays a pivotal role in India's economic landscape. It contributes approximately 40% to the nation's total exports & part of an indispensable part of supply chain even for bigger industries. Operating predominantly in lower tier towns & rural areas, the MSME sector is the backbone of the socio-economic development of our nation.

While some SME related with essential services could continue in pandemic but majority faced insurmountable hurdles. Traditional insurance policies offered to SME did not work at all because of the technicality, which was right in its scope. Many of these units also did not have group life or medical insurance for their employees which could have helped them in case of death or hospitalisation.

In light of these shortcomings, a need was felt to explore a comprehensive scheme that could show flexibility to address the entire spectrum of now identified emerging risks faced by the SME sector. Given the catastrophic nature of pandemic risk, tackling it required a collaborative effort from all stakeholders involved in the industry. Any such product which is supposed to finance a loss at catastrophic level require two things at a time. One the development of a flexible plan but the most important part is the mechanism of financing it. This research effort is focused more on the later.

SME SECTOR AND IT'S ROLE IN INDIAN ECONOMY

Globally, SMEs are the driving force behind the economic growth and a balancing factor in fair socio-economic development. With the low capital requirements, operational flexibility and the ability to develop & use local tools & techniques, SMEs become the driving force in economy, and India is no exception. Small businesses and retail enterprises in tier-II and tier-III provides local employment & empowers aspiring entrepreneurs to go on their own & add value to the society and fuel economic expansion. The Indian MSME sector serves as the backbone of the national economic structure, providing a buffer against global economic shocks and challenges.

The MSMEs sector in India comprising 6.3 crore MSMEs (source: India Brand Equity Foundation), out of which almost 90% are of micro in nature, has made a substantial contribution to socio-economic development. This sector employs a significant portion of India's working population, second only to agriculture. Moreover, it has gained prominence due to its contributions to the Gross Domestic Product (GDP) and its role in nurturing entrepreneurship. The sector accounts for up to 40% of total exports and provides jobs for approximately 110 million people across the country (source: Mint, August 20, 2020). These enterprises play a vital role in the export supply chain, and as they are predominantly located in rural India, they ensure that rural communities benefit from the resources they utilize.

IMPACT OF COVID ON INDIAN SMES

The prolonged lockdown for all the business enterprises barring those dealing with identified essential services brought economy to halt. Production either came to a complete stop or significantly decreased, causing a decline in revenue for this sector. Some businesses temporarily shifted their focus to essential goods, but due to a lack of funds and lower earnings, they had to reduce employee salaries and cut jobs. This, in turn, prompted a substantial migration of labours, and also reported cases of death & hospitalizations bringing financial nightmare to families. All of these factors had a detrimental impact on the sector's overall functioning, creating a vicious cycle.

In India, 90% of the workforce is engaged in the informal sector, with 75% being migrants (Source: The Wire, May 12, 2021). The situation was most dire for employees in businesses that had to close down. They lost their jobs, had minimal savings, and no assurance of employment being reinstated. Due to strict lockdown measures, many labourers were compelled to make their way home on foot, resulting in a mass exodus in March-April 2020, which presented a human tragedy in itself.

The MSME sector suffered an estimated loss of 25-30 million jobs from March to June in the year 2000 (Source: Business Standard, July 28, 2020). Micro and Small enterprises also faced financial difficulties, experiencing a 20-50% reduction in their earnings (Source: The Times of India, September 23, 2020). Although there was hope for a gradual recovery, the second wave of the

pandemic and the ensuing restrictions caused an estimated 40% decrease in monthly earnings for micro retailers (Source: Financial Express, April 19, 2021).

REASON FOR THE FAILURE OF TRADITIONAL INSURANCE

The most frequently sold fire and property insurance policy to SMEs provides insurance coverage for losses stemming from physical damage of property by 13 named perils / reason. Fire / Flood / Inundation etc are the listed causes. However, pandemic was different. It did not damage any item be it plant or machinery at work environment. The business loss was primarily on account of lockdown declared by Government, there by closing the business.

These government-mandated lock-downs are classified as a "non-insured cause" under any standard fire & property insurance policies. To put it differently, insurance companies typically do not extend coverage to losses arising from events like pandemics and government-issued lock-downs.

This problem gained particular prominence during the COVID-19 pandemic when many businesses were compelled to shut down or operate at reduced capacity due to government restrictions. Even in highly developed countries, businesses and policyholders often encountered difficulties with their insurance claims under these policies, frequently due to technical and legal grounds as insurance companies contended that the losses incurred during a pandemic were outside the scope of standard policy coverage, and rightly so.

This was a case of "Business Interruption" due to the lockdown arising out of pandemic. In insurance we do have business interruption policies but again they are linked to machinery break-down etc. So this pandemic situation prompted discussions and deliberations regarding the necessity for specialized insurance policies tailored to cover business interruptions and financial losses which are not linked to damage i.e. "**Non-Damage Business Interruption**" (NDBI) policy. Such policy is needed not only for SMEs, the subject matter of our research but even to the bigger business organizations.

During the onset of pandemic itself, some Governments, global business associations and leading insurance organizations particularly the reinsurance companies started exploring the development of insurance solutions designed specifically for pandemics. Government did announce relief packages but a comprehensive insurance solution remained a distant dream.

Post Covid, there were serious deliberations on the after effect of the pandemic & different impact models were curated. One of the challenge associated with pandemic was that it impacted both the lines of insurance business that is business loss (a part of P&C domain) and also Life & health. This was a unique challenge & discussion were also on the line of getting a composite insurance product.

Regrettably, the insurance landscape in India is characterized by a clear divide between the life insurance and general insurance sectors. This division forces policyholders to engage with separate insurance companies to meet their various insurance requirements. Small and medium-sized enterprise (SME) units, in particular, face a formidable challenge when it comes to procuring multiple policies to address various risks. Given their limited resources and size, SME units often grapple with the complexity and cost of purchasing distinct policies for different perils they may encounter.

PROGRESS ON PANDEMIC INSURANCE SOLUTION

The global insurance eco-system started exploring the possibility of developing a solution for such non-damage business interruption (NDBI) scenario during the currency of pandemic itself. However the ongoing challenges were so huge for the insurance industry that they were not in a position to do anything. Insurance industry works on data & there were no analyzed data to create a suitable model for a risk of this catastrophic event.

World Health Organization studies & models suggest the possibility of such infectious disease making come back at much regular basis. Post Covid in 2019-21 period, the world has witness spread of such diseases in recent past. Thanks fully they were restricted to a region & remained at endemic level. The latest case is of Ebola in few African nation.

The global reinsurance companies have started coming up with pandemic induced NDBI policies now. Munich Re, the world largest re-insurance companies could offer such product to the Industry Association of Hotels in Mauritius and also a leading Mall in India. The structure of the plan & the proposed scheme of claim pay-out have different variations. The insurance solution of Munich Re is based on parametric model where there is a graded pay-out provision depending on the severity / longevity of lock-down kind of situation. The most crucial aspect of such risk product is the financing mechanism that is the source of money, should there be a situation of claim payment. Here also there are different alternatives starting from traditional set-up of reinsurance / retro-cession to issuance of Pandemic bond in capital market to even establishing a pandemic pool preferably in association with the multinational development agencies at global level or at least with Government / Government backed agencies in big country like India. The insurance solution offered by Munich Re is developed around the traditional reinsurance set-up as of now.

RESEARCH OBJECTIVES AND RESEARCH METHODOLOGY

Insurance is a contractual arrangement in which a company or the state agrees to provide financial compensation for specific losses, such as damage, illness, or death, in exchange for the payment of a specified amount known as a premium. It serves as a crucial risk management tool, primarily designed to offer financial assistance and support during uncertain and challenging circumstances.

The traditional insurance runs on the premise that many contribute as premium to a common corpus managed by either a mutual or commercial insurance company & compensation are paid to very few members who suffer the losses. Higher the incidence of loss, more is the premium. This basis premise gets violated in situation like pandemic that too in a business set up as almost all the insured units are expected to bear loss & the traditional insurance set-up is bound to fail funding. This is why a different approach of funding, managing & devising a mechanism to pay out is needed & pool mechanism is one such option.

A descriptive and qualitative research approach was used to study this gap. It involved a comprehensive analysis of publicly available literature to understand the extent of impact of Covid on MSMEs and the associated risks. The study also aimed to gain an understanding of the existing risk pooling mechanisms in place. Furthermore, it sought to gather insights from senior insurance officials regarding the feasibility of establishing a dedicated pandemic pool for future losses.

The research encompassed two key components:

- 1) An exploration of the current risk pool mechanisms to comprehend how they operate and their effectiveness.
- 2) Engaging in discussions with senior insurance professionals to evaluate the viability of the concept of a pandemic pool and its potential to address the unique challenges posed by future pandemics.

The industry professional having experience of commercial insurance, reinsurance & product development were approached through an open ended questionnaire to give their views. They were selected through industry network & it was a purposive sampling approach.

The responses received were analysed based on thematic analysis proposed by Braun & Clark having done first / second order coding using the available AI tools.

INSURANCE POOL MECHANISM AND NECESSITY OF PANDEMIC POOL

Insurance companies operate on the fundamental principle of 'pooling of risks,' which means that the losses incurred by a few individuals are collectively borne by a larger group of policyholders. This concept generally functions effectively in usual, everyday situations. However, when we face an extraordinary circumstance like a pandemic, this principle encounters substantial challenges. In such an event, both the likelihood and the magnitude of losses become exceptionally high.

The pandemic represents a non-diversifiable or catastrophic risk. Non-diversifiable risks are those that cannot be effectively spread across a wide pool of insured cohort because they affect nearly everyone simultaneously. In this context, traditional insurance plans alone are incapable of providing sufficient coverage or support.

To address the unique challenges posed by a pandemic, it becomes imperative for the government to play a central role in collaboration with insurance companies and reinsurance firms. Such national-level collaborations are essential to ensure the financial stability and resilience of the insurance industry and, by extension, the overall economy.

The government's involvement in pandemic risk management is crucial because it can provide the necessary resources and regulatory framework to handle such large-scale crises. By creating and implementing comprehensive strategies for managing pandemic-related risks, the government can help insurance companies and reinsurers better prepare for and respond to such events.

Reinsurance companies, which specialize in taking on a portion of an insurer's risk in exchange for a premium, also play a pivotal role in managing catastrophic risks. They provide an additional layer of financial support, making it possible for insurance companies to handle exceptionally high claims resulting from a pandemic. These reinsurance arrangements are usually established on a commercial basis, where insurers pay premiums to reinsurers to help cover the losses incurred during such extraordinary events.

In summary, the traditional model of insurance, based on the pooling of risks, is insufficient to address the unique challenges posed by catastrophic events like pandemics. To effectively manage these non-diversifiable risks, collaboration at the national level, backed by the government and reinsurance companies, becomes essential. This approach ensures that the financial burden of such crises is more evenly distributed and that the insurance industry can continue to provide critical support to policyholders during extraordinary circumstances.

An **insurance pool** is a risk-sharing arrangement in which multiple insurers, policyholders, or organizations combine their resources to collectively cover a particular type of risk. The primary objective of an insurance pool is to spread losses across a larger group, making it possible to insure risks that may be too large, uncertain, or catastrophic for a single insurer to handle alone.

The working of an insurance pool is based on the fundamental insurance principle of **risk sharing**. Members contribute premiums or funds into a common pool. These contributions are determined based on factors such as the nature of the risk, exposure

level, and expected losses. When a covered loss occurs, compensation is paid from the pooled funds rather than by an individual member alone.

Insurance pools are particularly useful for managing low-frequency but high-severity risks such as natural disasters, terrorism, nuclear accidents, crop failures, or pandemics. By aggregating a large number of participants, the pool reduces the financial burden on any single entity and improves the predictability of losses.

For example, in a pandemic insurance pool, insurers, governments, and businesses may contribute to a common fund. When predefined pandemic-related losses occur, affected businesses receive compensation from the pool according to agreed terms. Thus, insurance pools enhance risk-bearing capacity, improve market stability, and facilitate coverage for risks that would otherwise remain uninsured.

In India, we have the example of the existence & operation of three such pooling mechanisms to address different specific risks:

Motor Third Party Liability Pool: Having a third party liability cover is mandatory by the law of the land for all motor vehicles playing on road. Due to the potentially unlimited liability associated with this type of insurance, many insurance companies often find it financially un-viable to offer such coverage & hence try to avoid insuring vehicles. Given the national significance of this insurance, the industry in consultation with Government, decided to establish a common national pool managed by the national reinsurance company, GIC Re in year 2007. As a result, all started companies started collecting premiums and channel them into the common pool. In the event of a third-party claim, the pool itself handles the settlement. With the maturity of the market, a significant change was brought in year 2012, when the pool in its new structure started working only for the “declined risk” cases as insurance companies were willing to take a big part of the TP risk on their own. This mechanism transforms the entire high risk third-party insurance business into a shared national pool, thus better mitigating the risk. This approach ensures that no individual insurance company is exposed to the financial impact of an exceptionally high third-party claim, which could otherwise have adversely affected their profitability.

India Terrorism Pool: The terrorist attack on World Trade Center in year 2001 was a turning point for the insurance industry. It was like a catastrophic event for insurance companies. The scale of the losses incurred was so extensive that several insurance and reinsurance companies, with stakes in the Twin Towers, faced bankruptcy. Recognizing the potential for such attacks in India, non-life insurance companies established the Indian Market Terrorism Risk Insurance Pool (IMTRIP) in 2002. This move was prompted by the inherent difficulties in quantifying the severity and frequency of terrorism-related risks, making a pooled approach the most viable solution. Insurance companies contribute the premiums they collect for terrorism coverage to this pool, which relies entirely on premium contributions. GIC Re administers the pool. Notably, the IMTRIP settled INR 3,769 million in claims following the 2008 Mumbai attacks. Luckily India did not witness any major terrorist event post Mumbai attack & hence the size of the pool has gone up significantly & this has resulted in to lowering of the premium.

India Nuclear Pool: The India Nuclear insurance Pool was created in 2015 to provide insurance coverage for nuclear liabilities under civil liability for nuclear damage act 2010. It was started with a fund of Rs 1500 Crores. The very purpose was to overcome international supplier's due to india's unique liability regime which allows operators recourse over supplier. This pool has remained dormant as nothing substantial moved on nuclear energy front. However with the opening of the nuclear sector to private sector in recent past, this pool will see the movement.

Bharat Maritime Insurance Pool : It is the latest entrant to the pooling mechanism in Indian insurance space. Established with a corpus of Rs. 12980 Crores, this would ensure uninterrupted & affordable maritime insurance cover for the Indian vessels amid geopolitical disturbance that many a time lead to withdrawal of such cover from global insurance players.

Such pooling mechanisms serve as effective solutions for managing specific, high-risk scenarios, and they help distribute the financial burden and minimize the impact on individual insurance companies.

The Covid pandemic caused business interruption losses of a substantial magnitude that traditional insurance systems could not have managed. Therefore, the establishment of a pandemic pool appears to be the only viable solution. A pandemic pool is a cooperative effort involving insurance and reinsurance companies, as well as government support, to address specific perils where the financial risk is too significant for a single insurance company to handle alone. This collaborative approach utilizes shared resources to mitigate the risk.

In the peak Covid time itself, when Govt machinery was in panic mode, the Insurance Regulatory and Development Authority of India (IRDAI) formed a committee to explore the feasibility of a pandemic pool, with the goal of protecting the interests of the uninsured. The committee's draft report suggested an initial pool fund of Rs 75,000 crore, with contributions from the government and participating insurance and reinsurance companies. This committee report also gave thrust prioritizing the interest of MSMEs & they suggested a parametric mechanism for claim payment.

LITERATURE REVIEW

One can find good number of research papers on the alternate financing mechanism for covering such pandemic losses. Majority of them talk about formation of pandemic pool in public-private partnership mechanism. Few also have opined of taking / floating

pandemic bonds on the lines of Cat Bonds which are there in financing eco-system for some years now as an alternate risk financing mechanism.

Chatterjee and Wehrhahn (2017) examined the critical concept of establishing a specialized fund designed to address the financial challenges associated with uninsurable risks. In their research, they delved into the necessity of such a fund to facilitate recovery from losses incurred due to various perils that fall outside the realm of conventional insurance coverage. Their work represents a significant contribution to the field of risk management and financial security by proposing a novel approach to handle these perilous situations.

Gründl et al. (2021) calibrated the loss distribution of a hypothetical insurance program to mitigate the impact of the pandemic on small businesses in USA. Through their experimental intertemporal risk-sharing scheme they could reduce the expected shortfall of the loss distribution by 50%. Hartwig et al. (2020) talked of pooling mechanism reducing significantly the capital requirement & the cost of insurance over time making it possible for insurance companies to cover more clients.

Jarzabkowski et al. (2021) talked of Govt backed premium pool to reinsure pandemic-specific non-damage business interruption (NDBI) for the business units. Robert et al. (2020) concluded that a thorough and careful consideration is required before creating govt backed pandemic pool as it has a trade-off with public interest and increase social welfare. The political consideration would influence design of any such solution raising question about equitability .

Jerry (2023) discussed of the feasibility / usability of parametric concept as a tool to transfer and distribute pandemic risk. Kraut and de Kuiper (2021) talked of public-private partnership in developing a market platform / capacity . Such arrangement and backing can address the challenge of affordability for insureds that may eliminate the possibility of premium subsidies.

Many of the researchers have also talked about floating of pandemic bonds as an alternate risk transfer mechanism. Spaeter (2023) proposed a coverage strategy of the pandemic business interruption risk that combines self-insurance, standard – capped – (re)insurance and then the entry of a double triggered pandemic business interruption bonds.

Haffar et al. (2023) talked about the securitization of insurance risk as an alternative process to the traditional mechanism. classic risk transfer techniques such as co-insurance and reinsurance. However they also concluded that a reinsurance pool dedicated for a pandemic risk is crucial for insurance securitization. Schmitt and Spaeter (2023) also suggested use of double trigger pandemic insurance bond to provide the ultimate layer for business interruption losses arising out of pandemic.

As the thrust of this paper was to get the opinion of the insurance professional only a limited number of research papers were studied.

ANALYSIS OF THE INSURANCE PROFESSIONAL'S OPINION

A brief open ended questionnaire were send to over 50 senior insurance professional in risk management , reinsurance , product development profiles. This survey aimed to gather insights on the potential viability of a pandemic pool, focusing on three specific questions. The first question was on the necessity of the pandemic pool and the second was on the respondents' perspective on the practicality and feasibility of such a pandemic pool.

FEASIBILITY OF SUCH SCHEME

The responses from these seasoned insurance professionals revealed a diversity of viewpoints and a lack of unanimous consensus regarding the feasibility of the proposed concept. Although there was a notable degree of consensus, it leaned towards considering a pandemic pool as a theoretical possibility rather than a guaranteed success in real-life scenarios. The majority of respondents expressed a sense of uncertainty or scepticism, often accompanied by a lingering question mark over the practicality of implementing such a concept in the complex world of insurance.

The division in opinions among these senior insurance officials highlights the intricate nature of the issue at hand. While some saw potential in the idea of a pandemic pool, others were more cautious, emphasizing the challenges and complexities involved in making it a workable reality. This diversity of views underscores the need for further exploration, analysis, and discussion to better understand the nuances and potential hurdles associated with introducing a pandemic pool in the insurance industry.

PARTICIPATION OF GOVERNMENT

The professional showing the feasibility of such scheme are of the strong views that a very formal pro-active structure in public-private mode could be more efficient way of handling such disasters. Survival of SMEs is in national interest as it is a life line for economy in terms of jobs, taxes & supply chain management. A scheme well backed by Government always brings a sense of credibility and sustainability, ensuring trust and penetration.

STRUCTURAL DESIGN OPTIONS

Majority of the respondent based on the working of the catastrophic pool, are of the opinion of having a layered model for the effective implementation of the scheme. The most common proposed structure are of the following nature :

Layer 1: The SMEs/ insured to bear some initial losses on its own account. In insurance terminology, it is called deductible. It ensures that petty claims are not lodged to overload the system.

Layer 2: In second layer, it would be the responsibility of the fronting insurance company to pay claims up to their acceptance & capped cover for quick liquidity.

Layer 3: This layer would be of pandemic pool. The insurance company is to take the excess beyond their capped level from this layer. This would ideally come in to picture when the losses were to be of medium to large, aggregated risks.

Layer 4: Here comes the role of Government as the reinsurer of last resort. Some of the respondents also suggested Government / Pool Management exploring ways to take support of capital markets to absorb extreme shocks through alternate finance tools such as pandemic bonds.

BENEFITS OF PPP AND PANDEMIC POOLS

The strong recommendation of PPP model & having a pool mechanism provides the following visible benefits :

For SMEs: It helps in offering affordable premiums, ensures faster pay-outs & hence bring a level of confidence in sustainability of the whole concept.

For Insurers: It helps in limiting the exposure, there by protecting their solvency position should there be a huge claim outgo. The mechanism works through collaborative approach from all stakeholders & thus brings credibility through shared responsibility.

For Government: Having an insurance scheme for such catastrophic event, lower the fiscal shocks for the Govt. It also ensures crucial initial pay out from distributed entities (Insurance Co) at rapid pace thereby ensuring economic continuity & preservation of jobs, which are very crucial for the survival.

ESSENTIALS FOR SUCCESS OF SUCH INITIATIVE

Individuals with a positive outlook on the idea of creating an insurance pool for pandemic perils have several key points to share regarding its feasibility and implementation:

Product Structure and Simplicity: A successful insurance pool would require a well-defined and relatively simple product structure. It's important that the pool covers only one or two specific perils rather than attempting to encompass all possible risks. Perhaps best would be link the coverage ceiling with a certain percentage of the turn over sufficient enough to take care of fixed outgoes as done in a standard business interruption policy. Trying to create a composite product that covers everything would likely be unfeasible and overly complex.

Threshold and Trigger Mechanism: To avoid negative consequences on the traditional insurance industry, the pool's mechanism should only come into effect after a high threshold has been reached. For instance, it might be activated only after a prolonged lockdown say 30 days or so. This approach ensures that the pool doesn't compete directly with traditional insurance in all situations.

Government Involvement and Compulsion: The pool should serve as a kind of social security net for a well-defined group, and initial funding should come from the government. To make the pool viable, it's important that participation in certain types of insurance, like fire and property insurance, is made compulsory for all businesses, similar to the requirement for motor insurance. Mandatory participation is a prerequisite for the success of any pool mechanism.

Standardization of Policies: To make the pool work efficiently, it's crucial that the policy coverage scope and wording are consistent among all participants. In other words, the insurance product offered through the pool should be standardized across geographical areas. This standardization simplifies the administration of the pool and ensures that all participants have a clear understanding of the coverage they receive.

CHALLENGES AND CRITIQUES

It is not that the proposition of Government support & Pandemic pools are without any apprehension & challenges. The very first apprehension is all about the need of such cover by target audience. Pandemics are rare event & hence there is a risk of the target group MSMEs not appreciating it, unless made compulsory or bundled with normal insurance policies. There is a risk of idle capital sitting unused for decades.

The pandemic is a serious & wide spread event testing the will of society, set-up & even the different regulatory authorities. In such a crisis situation even a well established set-up defaults leading to delays, inefficiency, or uneven burden-sharing. The whole

scheme is complex in nature because of the involvement of different stakeholders. There is a possibility of disputes on contributions, pay out criteria & governance.

The apprehension surrounding the establishment of a pandemic insurance pool is rooted in several significant concerns:

High Magnitude of Loss: The potential loss from a severe pandemic is perceived as being of an exceptionally high order. It could entail a substantial percentage of a nation's GDP. This scale of loss as estimated by experts makes it challenging even for a pandemic pool mechanism to handle the financial burden alone.

Government Involvement: To make the concept viable, extensive government participation is essential, typically under a Public-Private Partnership (PPP) model. Governments would need to act as a backstop to ensure the pool's financial stability.

Cross-Border Impact: A pandemic pool's effectiveness depends on cross-border cooperation and support. It cannot be confined to a single country because the affected country's resources would often be insufficient to cover the substantial losses incurred during a pandemic.

Emotional Nature of Pandemic Losses: Pandemic losses are not only financial but also deeply emotional. Besides business losses, there's often a significant loss of lives and substantial healthcare expenses. Response patterns can vary significantly between countries and states, driven by political priorities and preferences rather than solely scientific parameters. The federal nature of governance can create conflicting situations.

Minimizing Political Interference: To mitigate political interference, the payout mechanism needs to be based on well-calibrated parametric criteria, ensuring that decisions are made objectively rather than subject to political influence.

Compulsory Nature: For effective working an element of compulsion is needed. But it is a ground reality that even in having a compulsory motor insurance, around 40% vehicle remains uninsured. Without such high participation the pool might struggle to attain a critical mass in terms of participants.

Addressing these concerns and developing a viable, globally coordinated pandemic insurance solution will require significant collaboration, careful planning, and innovative solutions to balance the interests of governments, insurers, and reinsurers while ensuring financial stability in the face of such catastrophic events.

In summary, a positive outlook on an insurance pool for specific perils acknowledges the need for simplicity, careful triggers, government involvement, integration with traditional insurance mechanisms, and policy standardization to make the concept viable and effective.

CONCLUSION

A pandemic is an exceptionally rare and devastating event, occurring once in a century, and its repercussions are staggering. It affects every aspect of society, encompassing human lives, public health, and the business world, all simultaneously. The economic toll wrought by the ongoing pandemic is of such an enormous magnitude that even thought leaders find themselves divided in their assessment. It necessitates a careful cost-benefit analysis to truly fathom its impact.

The majority of people are inclined to believe that such a catastrophic situation will not arise again for several decades. However, history has shown us a series of endemic cases that have left a profound impact on specific countries or regions. Therefore, it becomes increasingly apparent that a collective effort from the global community is imperative. Establishing a collaborative fund to assist those in need, regardless of their geographical location, is a proactive step that could mitigate the severe consequences of future pandemics. This approach not only supports the affected nations but also bolsters the concept of global solidarity, offering hope and reassurance in a world where unpredictable crises can have far-reaching consequences.

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