

Commentary

Sports Insurance: A Growing Business Line for Insurers and a Recent Predictor of FIFA World Cup Winners

DBRS Morningstar

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Key Highlights

- Sports insurance includes coverages for business interruption and event cancellation, disability and accidents, physical damage, general liability, and directors and officers liability.
- Disability and accident insurance is a key risk management tool for professional athletes and teams that can face considerable earning losses in case of injuries.
- Lloyd's has successfully used insurable values of players to predict the outcome of the 2014 and 2018 FIFA World Cups, pointing to the accuracy of insurance models to assess potential earnings.

Overview

The practice of any sport creates risks. Some of these risks can be covered by regular insurance policies, particularly for amateur players. However, insurance needs of professional players and teams are highly sophisticated and require specialized coverages that are mostly provided by the Lloyd's of London market (Lloyd's) as well as by a limited number of property and casualty insurance companies. Professional athletes are mostly exposed to third-party liability and accident risks, which can be transferred to the insurance market. Sport venues, professional leagues, event organizers, and clubs are exposed to additional risks, including physical damage to infrastructure and equipment, general liability, directors and officers liability, business interruption, and event cancellation.

A key consideration for professional athletes and clubs is to obtain disability and accident insurance as it can mitigate the financial impact of injuries on players and their teams. For instance, professional teams can get disability insurance on key players to protect themselves financially as they may be obligated to continue paying an injured player's salary under a guaranteed contract. Third parties, such as major sponsors, can also buy disability insurance on certain athletes given their insurable interest, while players can obtain additional disability insurance to protect themselves against a career-ending injury. These varying types of insurance needs, combined with a dramatic increase in players salaries and sport venue revenues, has resulted in a market that has grown exponentially in the past few years with Lloyd's currently underwriting over GBP 150 million in premiums just for sport-related accident and health insurance policies. Thanks to its expertise in this market, Lloyd's has successfully predicted the outcome of the last two FIFA World Cups and has recently announced its forecast for Qatar 2022, with England expected to win the tournament (see Exhibit 1).

Exhibit 1 Top Three National Teams' Total Insurable Values (TIV) in FIFA World Cups

Qatar 2022		Russia 2018		Brazil 2014	
TIV (GBP Millions)	TIV (GBP Millions)	World Cup Outcome	TIV (GBP Millions)	World Cup Outcome	
 3,170	 1,430	Winner	 641	Winner	
 2,660	 1,170	Semi Final	 590	Group Stage	
 2,560	 1,100	Quarter Final	 590	Group Stage	

Source: Lloyd's of London and Centre for Economics and Business Research

Business Interruption Insurance: A Key Protection for Professional Sport Events

Event cancellation insurance is a type of business interruption insurance that protects the insured party against the loss of income that a business suffers as a result of a covered peril that triggers a suspension of its activity. Generally, this coverage is intended to restore the financial position of the insured. In the

case of sports events, business interruption insurance can protect the financial health of organizers, who can face significant monetary and reputational losses if a major competition or tournament does not take place.

A prime example of the use of event cancellation insurance during the Coronavirus Disease (COVID-19) pandemic was the case of the Wimbledon tennis grand slam, which was cancelled in 2020. The All-England Lawn Tennis and Croquet Club, the organizer of the Wimbledon tournament, was able to recover USD 141 million through its insurance policy. The club took the precaution of buying event cancellation insurance as part of its business interruption coverage after the SARS outbreak in 2003. Although Wimbledon's lost revenues in 2020 exceeded USD 300 million, the insurance payout was important to maintain the financial health of the club. The Wimbledon grand slam's event cancellation policy was written by some of the largest commercial risk underwriters in the world: Lloyd's, AIG, Argo, Chubb, Hannover Re, Tokio Marine HCC, Munich Re, and Swiss Re.

The Wimbledon case provides a valuable insight for sports organization looking to mitigate losses resulting from event cancellations, not only because of pandemics, but for other risks as well, including physical damage to sport infrastructure. The insurance industry has the expertise and capital required to provide sizeable coverages for professional stadiums and arenas, as well as to large events such as the Olympics and FIFA World Cups. DBRS Morningstar expects that business interruption and event cancellation insurance will attract increasing interest from professional sports organizations given the recent pandemic and their large financial exposure to a concentrated number of venues.

Using Insurable Values of National Teams to Predict the Outcome of FIFA World Cups

Through its extensive and profitable underwriting of disability and accident insurance for professional players around the world, Lloyd's syndicates have developed detailed models to calculate their insurable values. More specifically, the calculation of a football player's insurable value comprises a variety of metrics such as current and future wages, sponsorships, age, and on-field position. With the support of the Centre for Economics and Business Research, Lloyd's successfully predicted the outcome of the 2014 and 2018 FIFA World Cups based on estimated collective insurable values of the national teams participating in the tournament. The core logic supporting Lloyd's predictions is that national teams with higher collective insurable values have a better chance to win the World Cup. The recent success of the model illustrates the potential insurance companies to evaluate player performance through financial value.

With the highest estimated insurable value (GBP 3.17 billion), Lloyd's model predicts that England will win the 2022 FIFA World Cup after defeating Brazil in the final match. The second and third national teams with the highest insurance values in the tournament are France (GBP 2.66 billion) and Brazil (GBP 2.56 billion), respectively. Previously, Lloyd's accurately predicted France's win in 2018 and Germany's in 2014. Lloyd's research also concluded that Group B (England, the U.S., Wales, and Iran) is the group in the 2022 FIFA World Cup with the highest combined insurable value at GBP 3.9 billion, mostly driven by the record insurable value of the English team. At the same time, Lloyd's estimated that players in the 18

to 24 age range have an average insurable value of GBP 32 million, compared with GBP 12 million for players over 31, an expected result given the potential longer revenue stream of younger players.

Notably, the total insurable values of all 32 national teams participating in a World Cup has ballooned from GBP 6.2 billion in 2014 to GBP 22 billion in 2022 because of the substantial growth in the salaries and endorsements of professional football players. DBRS Morningstar notes that Lloyd's estimation of a player's insurable value used for the World Cup prediction is not necessarily linked to the current insured value of that particular player, but it is just an estimate of their potential income until retirement based on current salary, earnings growth potential and endorsement income. According to Lloyd's, this is a good proxy of the performance of players and national teams in the World Cup.

DBRS Morningstar Outlook

For professional sports teams and clubs, disability and accident insurance for players is a key tool to manage the risk of injuries while meeting contractual obligations. Additionally, for professional players, disability insurance provides a crucial protection in the event of serious injuries and the consequent potential loss of income. Similarly, event cancellation insurance is also a powerful protection for sporting event organizers and teams whose revenues might be materially affected by unplanned interruptions, such as a pandemic or a terrorist attack.

In DBRS Morningstar's view, the sport insurance business will continue to grow in line with the global expansion of the professional sport industry, which is expected to reach USD 600 billion in revenues by 2025 at a cumulative annual growth rate of 8%¹, increasing total insurable values and exposure to business interruption losses. We expect that the market for professional sport insurance will remain concentrated in a limited number of key participants in the medium term that can still benefit from their extensive underwriting experience in this business line.

Related Research

- *DBRS Morningstar Assigns Ratings to Futbol Club Barcelona at BBB with Stable Trends*, August 10, 2022
- *DBRS Morningstar's Takeaways From Its 2022 Credit Outlook Series: A Play-by-Play on Ratings Sport Franchises and Stadiums*, March 3, 2022.
- *The Gentrification of European Football? How COVID-19, an Evolving Fanbase, and Stadium Renovations Influence Matchday Revenue*, July 12, 2021
- *P&C Insurance: The Conundrum of Business Interruption Coverage during the Coronavirus Pandemic*, April 8, 2020.

Note: All figures are in British pounds unless otherwise noted.

1. <https://www.reportlinker.com/p06018836/Sports-Global-Market-Report-COVID-19-Impact-and-Recovery-to.html>

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