CHUBB

Chubb Pandemic Business Interruption Program

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Chubb Pandemic Business Interruption Program

Why is Chubb engaged to find a solution?

- COVID-19 exposed a protection gap
- Business Interruption generally does not cover pandemic risk
- Widely accepted that pandemic risk is uninsurable due to severity /correlation / systemic nature of the risk
- Government must play large role, but role for insurers, too
- With carefully constructed federal government program, insurers can bear risk
- Industry skin in the game can provide mitigation and other benefits
- Chubb proposal intended to be a constructive framework to advance the debate

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Key Questions

- Does the plan require insurers to assume risk? How much?
- Who is covered: Small/Medium/Large Businesses?
- Are insurers **required to offer** the coverage?
- Are business **required to purchase** coverage?
- Is premium charged? Subsidized?

- Are there policy limits?
- What is the program limit?
- How is the program triggered?
- How are claims adjusted?
- How are reinsurance and excess coverage addressed?

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Key Attributes of a Successful Program

- A meaningful role for the insurance industry to share pandemic risk with the government
- A structure that meets the different needs of small, medium, and large businesses
- Affordability for small businesses, with strong incentives to purchase BI coverage while maintaining choice
- Effective incentives for broad participation by the insurance industry
- Fiscally responsible

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- **The purpose of the Chubb Proposal is to assist businesses and mitigate economic disruption during future pandemics through a private-public partnership that combines:**
  - The ability of the insurance industry to assess and absorb risk onto its balance sheet, while also using its administrative infrastructure for policy issuance, premium collection & claim settlement.
  - The backing of the Government (and subsidization of premium) because the magnitude of potential loss makes pandemic broadly uninsurable.

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Part I - Small Business – BIP

- Provides immediate infusion of cash based on pre-set multiples of payroll at time of policy purchase, paid promptly upon declaration of pandemic. Simple, parametric structure eliminates complexity of adjusting individual claims.
- Businesses know in advance they have cash to cover payroll and other expenses to maintain businesses in event of shut-down. Purchase is mandatory with a strong opt-out; those that do not are not eligible for Program benefits.
- The total Program capacity floats (set each year by government) but is estimated at $750B. The industry share in Year 1 is maximum of $15B, rising to $30B over the life of Program. The timing risk for industry on government payments is eliminated by pari passu reinsurance structure and LoC facility.
- The government role is to provide funding capacity, creating affordability and broad participation.

Part II - Medium and Large Business – Pan Re

- Creates a market-oriented program for indemnity-based business interruption insurance, triggered by pandemic, under which the insurance industry and the government are paid a proper risk adjusted price.
- Participation by businesses and insurers is voluntary. Participating insurers retain a portion of each risk and reinsure the rest to Pandemic Re, a government reinsurance facility.
- The total Program Capacity is $400B of aggregate limit. The industry share in Year 1 is maximum of $15B, rising to $30B over the Program.
- The government role is to provide funding capacity to stimulate the development of a market for pandemic coverage.

Pandemic Business Interruption Program – Term Sheet

	Part I - BIP	Part II - Pan Re
Policyholder	Small businesses = 500 or fewer employees	Large and medium businesses = more than 500 employees
Purchase	Mandatory (strong opt out, ~90% take up expected)	Open market (~30% take up expected)
Premium	Risk appropriate premium for insurers' share; no Government premium	Risk appropriate premium for insurers' and Governments' share
Claim Adjustment	Parametric => processing	Indemnity => claims handling
Policy Limit	3 months payroll (plus operating costs for certain classes)	Up to 3 months of expense, with a max of $50M
Fraud	Policyholder certification and Federal tax return filing process	Insurers' claims adjudication process
Risk Mitigation	Waiting period (14 days)	Waiting period (30 days, or longer as desired). Insured risk management program, helped by underwriting assessment
Program Limit	$750B limit (Layer 1 = $250B, Layer 2 = up to $500B)	$400B limit (30% take up rate => $300B)
Government Share	$735B limit (Layer 1 = $235B, Layer 2 = up to $500B)	$385B limit (30% take up rate => $285B)
Industry Share Year 1	$15B limit	$15B limit
Industry Share Growth	Industry share rises $0.75B annually, stops at $30B in year 20	Industry share rises $1.5B annually, stops at $30B in year 10
Company Share	Company funds 6% of first dollar claims up to company market share of industry limit ($15B in year 1). Government funds 94% from first dollar; 100% above company share.	Company funds 5% of first dollar claims until industry limit is reached ($15B expected through year 5). Government funds 95% from first dollar; 100% above company share.
Qualifying Triggers	1) US CDC medical criteria 2) Declaration of Emergency by HHS or President 3) Federal, State, or Local lockdown in force 4) Excluding Covid-19	
Loss Payments	Insurer drawdown on LoC facility for Government share of payments	
LOC Facility Issuer	Money Center Bank Syndicate or NY Federal Reserve Bank	
LOC Guarantor	US Treasury	
Program Inception and Expiry Date	Incepts Jan 1, 2021 and annually thereafter; expires Dec 31, 2040	

Chubb. Insured.