Chubb Pandemic Business Interruption Program

John Fielding
SVP and General Counsel,
Global Government & Industry Affairs
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

<table>
<thead>
<tr>
<th>Part I - BIP</th>
<th>Part II - Pan Re</th>
</tr>
</thead>
<tbody>
<tr>
<td><strong>Policyholder</strong></td>
<td>Small businesses = 500 or fewer employees</td>
</tr>
<tr>
<td><strong>Purchase</strong></td>
<td>Mandatory (strong opt out, ~90% take up expected)</td>
</tr>
<tr>
<td><strong>Premium</strong></td>
<td>Risk appropriate premium for insurers’ share; no Government premium</td>
</tr>
<tr>
<td><strong>Claim Adjustment</strong></td>
<td>Parametric =&gt; processing</td>
</tr>
<tr>
<td><strong>Policy Limit</strong></td>
<td>3 months payroll (plus operating costs for certain classes)</td>
</tr>
<tr>
<td><strong>Fraud</strong></td>
<td>Policyholder certification and Federal tax return filing process</td>
</tr>
<tr>
<td><strong>Risk Mitigation</strong></td>
<td>Waiting period (14 days)</td>
</tr>
<tr>
<td><strong>Program Limit</strong></td>
<td>$750B limit (Layer 1 = $250B, Layer 2 = up to $500B)</td>
</tr>
<tr>
<td><strong>Government Share</strong></td>
<td>$735B limit (Layer 1 = $235B, Layer 2 = up to $500B)</td>
</tr>
<tr>
<td><strong>Industry Share</strong></td>
<td></td>
</tr>
<tr>
<td><strong>Year 1</strong></td>
<td>$15B limit</td>
</tr>
<tr>
<td><strong>Industry Share Growth</strong></td>
<td>Industry share rises $0.75B annually, stops at $30B in year 20</td>
</tr>
<tr>
<td><strong>Company Share</strong></td>
<td>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.</td>
</tr>
<tr>
<td><strong>Qualifying Triggers</strong></td>
<td>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</td>
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<tr>
<td><strong>Loss Payments</strong></td>
<td></td>
</tr>
<tr>
<td><strong>LOC Facility Issuer</strong></td>
<td>Money Center Bank Syndicate or NY Federal Reserve Bank</td>
</tr>
<tr>
<td><strong>LOC Guarantor</strong></td>
<td>US Treasury</td>
</tr>
<tr>
<td><strong>Program Inception and Expiry Date</strong></td>
<td>Incepts Jan 1, 2021 and annually thereafter; expires Dec 31, 2040</td>
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Chubb. Insured.