# Pandemic Business Interruption Program

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## Program Summary

Some risks can create losses so great that they are not insurable in the private insurance market without substantial government support, including catastrophic terrorism, nuclear accidents and pandemics. These catastrophic events can cause massive economic disruption as governments struggle, as they have in response to COVID-19, to provide effective and timely assistance through programs cobbled together after the disaster has struck. Not surprisingly, these ad hoc programs can lead to inefficiencies, substantial delay and uncertainty, as well as real and perceived unfairness in aid distribution.

There is a better way. Chubb believes that a public-private partnership program can be implemented before the next pandemic that recognizes the differing needs of small and large businesses and will provide:

- Affordability and certainty for small businesses about the amount of financial support available if a pandemic shuts down the economy.
- Quick and efficient payment of a pre-determined sum to small businesses without the need to adjudicate individual claims.
- An incentive to keep people employed, rather than relying on unemployment relief.
- A market-oriented program for larger businesses intended to support and stimulate the private market for pandemic coverage.
- Insurance industry risk-sharing with the federal government, together with a better understanding of pandemic risk, risk mitigation and preparedness, increasing over time.

These are key components of Chubb's Pandemic Business Interruption Program. The Program has two elements: a program for small businesses that provides an immediate cash infusion when a pandemic is declared and a separate voluntary program for medium and large businesses with losses paid through the existing industry claims adjudication process. Both depend on the federal government assuming a substantial percentage of the risk, through direct U.S. Treasury funding to insurers for the small business program, and through a newly created government-run reinsurance entity for medium and large business losses.

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## For Small Businesses – Business Expense Insurance Program (BIP)

The objective is to provide immediate cash to small businesses so that they can continue to pay employees and ongoing business expenses, thereby limiting economic disruption.

- In the event of a government-declared pandemic and ensuing lockdown, insured businesses with 500 or fewer employees will receive a pre-determined payment based on a multiple of monthly payroll expenses. This simple (parametric) structure provides for an accelerated claims payment process.
- Following the declaration, payments will be made promptly and efficiently leveraging the industry's existing claims expertise and infrastructure and after a waiting period.
- All P&C insurers currently writing business insurance must offer the program to small businesses. Businesses that decline the coverage must acknowledge they will not be covered for pandemic business losses or be eligible for federal program benefits. This opt-out is intended to encourage broad participation.
- The total program capacity floats as determined by the government. As an example of how this might work, using a 14-day waiting period and a multiple of three-month payroll expenses, we estimate an aggregate limit of $750 billion in two layers:
    - The first layer is $250 billion with the industry's share of $15 billion in year one, rising to $30 billion over the course of 20 years. Insurers handle payment of the insured amount, absorbing 6% of first-dollar claims up to a carrier's market share of the $250 billion industry limit, rising to 12% over time. The government funds the balance up to the industry limit of $250 billion.
    - The second layer is up to $500 billion excess of the $250 billion layer, which is 100% funded by the government.
- The U.S. Treasury establishes a line of credit facility with participating insurers as beneficiaries. This guarantee facilitates prompt payment by insurers with the certainty that the government share will be funded.
- The program will be affordable for small businesses because the premium is only for the risk assumed by the insurer [and will represent a small percentage of their typical annual insurance expense]. This reflects the reality that only the federal government has sufficient resources to meet the full extent of pandemic loss, which is not insurable in the private sector.

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## For Medium and Large Businesses – Pandemic Re

The objective is to promote market-based pandemic risk mitigation for medium and large businesses with government support provided through Pandemic Re, a government reinsurance entity created for this purpose.

- Available to businesses with more than 500 employees, Pandemic Re is an indemnity-based program in which both the insurance industry and the government are paid an appropriate risk-adjusted price for pandemic cover.
- Participation by businesses and insurers is voluntary. Participating insurers retain a portion of each risk and reinsure the rest to Pandemic Re.
- The business interruption coverage would be written on modified standard industry forms, providing payment for business expenses with a maximum payout of $50 million per policy.
- The total program capacity is $400 billion of aggregate limit. The industry share in year one is a maximum of $15 billion, rising to $30 billion in year 10 of the program.
- Insurers collect 100% of the premium, retain their proportional share and cede the balance to Pandemic Re for government share. Insurers pay claims, which are drawn down on Pandemic Re's letter of credit for government share of loss.
- Government support through Pandemic Re is expected to stimulate development of additional private sector capacity above the current program.

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## Key Advantages of the Chubb Plan

- Recognizes and responds to different circumstances in a pandemic for small businesses, many facing immediate shut-down and limited financial resources versus medium and large businesses, which may be more capable of operating during a pandemic and have deeper financial resources.
- Commits insurance industry capital and provides opportunity for increased risk-sharing over time as direct and secondary markets develop, ultimately lessening government pandemic burden. The industry develops valuable risk management and risk mitigation knowledge and experience to encourage better societal behaviors related to pandemic risk.
- Leverages insurance industry claims expertise and existing payment capabilities to provide prompt payment to mitigate economic distress without requiring creation of complex government claims adjudication and payment process.
- Provides transparency, certainty of relief and a level playing field for businesses faced with pandemic loss, reducing economic disruption as businesses will have sufficient resources to maintain private sector payrolls and pay expenses.
- Encourages fiscal responsibility as a program with clearly defined mechanisms, triggers and benefits defined before a pandemic strikes, which will be more efficient and more equitable than ad hoc government relief programs created during a crisis.
- Pandemic Re provides opportunity for the government to participate in a reinsurance program at private market terms.

| | Part I – Business Expense Insurance Program (BIP) | Part II – Pandemic Re |
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| **Policyholder** | Small businesses with 500 or fewer employees | Large and medium businesses with more than 500 employees |
| **Purchase** | 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 government's share |
| **Claim Adjustment** | Simple parametric structure provides for an accelerated claims payment process | Indemnity-based program with traditional claims handling |
| **Policy Limit** | Three months payroll (plus operating costs for certain classes) | Up to three months of expense, with a maximum of $50 million |
| **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** | $750 billion limit (Layer 1 = $250 billion; Layer 2 = up to $500 billion) | $400 billion limit (30% take up rate => $300 billion) |
| **Government Share** | $735 billion limit (Layer 1 = $235 billion; Layer 2 = up to $500 billion) | $385 billion limit (30% take up rate => $285 billion) |
| **Industry Share Year 1** | $15 billion limit | $15 billion limit |
| **Industry Share Growth** | Industry share rises $0.75 billion annually, stops at $30 billion in year 20 | Industry share grades up after year five to $30 billion in year 10 |
| **Carrier Share** | Carrier pays 6% of first-dollar claims up to carrier's market share of industry limit, growing to 12% by year 20. Government pays remaining share of first-dollar claims | Carrier pays 5% of first-dollar claims until industry limit is reached, growing to 10% by year 10. Government pays remaining share of first-dollar claims |

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| **Qualifying Triggers** | 1) U.S. Centers for Disease Control and Prevention medical criteria<br>2) Declaration of Emergency by U.S. Department of Health and Human Services or President<br>3) Federal, state, or local lockdown in force<br>4) Excluding COVID-19 |
| **Loss Payments** | Insurer drawdown on line of credit facility for government share of payments |
| **Line of Credit Facility Issuer** | Money Center Bank Syndicate or Federal Reserve Bank of New York |
| **Line of Credit Guarantor** | U.S. Treasury |
| **Program Inception and Expiration Date** | Program inception date is January 1, 2021 and the expiration is December 31, 2040; policies renew annually |