# The Essential Components of a Successful Pandemic Business Interruption Program

Developed by Chubb
July 8, 2020

Today, global pandemic risk, and the massive economic impact including business interruption ("BI") losses that result from such an event, are not insurable by the private sector without significant government involvement. Unlike other catastrophes, such as hurricanes or wildfires, a global pandemic is not limited to a specific geography, time period or risk class.

Given the enormous possible loss caused by a pandemic, any insurance solution will require substantial involvement of the federal government: neither private sector investors nor the insurance industry has the financial capacity to underwrite a shutdown of the U.S. economy. In partnership with the federal government, the insurance industry can play a meaningful role in providing future pandemic risk coverage that would protect local and national economies and businesses small to large.



## Attributes of a Successful Private-Public Partnership

On July 8, Chubb released its Pandemic Business Interruption Program. The structure of this program was designed with the following attributes, which Chubb believes are essential for a successful program:

**A structure that meets the different needs of small, medium-sized and large business.**

A pandemic does not impact all businesses equally. Many small businesses – particularly those in the service sector – suffer economic loss because they are unable to operate remotely. For small businesses, the most urgent need in a pandemic is often cash flow. An effective BI insurance solution must be affordable and prioritize the need for quick liquidity; it cannot rely on a traditional, time-consuming claims-handling process or wait for an ad hoc government support program to be implemented after the crisis has shut down their business. Larger businesses typically have both more complex needs as well as more resources and options, including access to credit lines and their own captive insurance programs. The BI pandemic insurance available to larger companies should reflect this reality.

**A meaningful role for the insurance industry to share pandemic risk with the government.**

The magnitude of risk inherent in a pandemic makes this risk uninsurable without the government providing a significant financial backstop. A solution in which the government takes on the tail risk enables the industry to take a meaningful share of the risk. The merit of this approach is that it facilitates the insurance industry developing valuable risk management and mitigation knowledge and experience to encourage better preparation and societal behaviors related to pandemic risk. A private-public partnership also enables the industry to deploy its operational expertise, specifically policy issuance and claims-handling, to administer business interruption benefits to businesses.

CHUBB

**Clarity and transparency for small businesses about business interruption coverage and the claims process.**

Small businesses should know in advance of a pandemic crisis what financial protection they have in place and be able to take steps to mitigate their financial risk. An effective solution must have in place a structured and pre-arranged mechanism to ensure that certain and timely funding is received by small businesses, helping them survive, keeping people employed and preventing deeper damage to the U.S. economy. This will also put all businesses on an equal footing regarding the receipt of emergency liquidity funding.

**The ability to get payments to small businesses shut down by a pandemic quickly, efficiently and accurately.**

The traditional process for business interruption claims requires the business to demonstrate its expenses and loss of revenue. Claims are adjusted one at a time. This system, which works effectively in a normal environment, is not set up to meet the urgent liquidity needs of small businesses in a pandemic. The parametric approach used in the Chubb program provides quick and efficient payouts.

**Affordability for small businesses with strong incentives to purchase BI coverage while maintaining choice.**

The premium for the pandemic business interruption insurance policy must be affordable for small businesses, while also providing insurers with a fair and risk appropriate return for exposing their risk capital to loss. Given the size of the risk, and the need for affordability, the program requires a government subsidy for small businesses. This balance between affordability and choice is reflected in the Chubb program.

**Participation by larger businesses, which have more resources and options, should be voluntary, and they should pay a risk-adjusted price to both the government and insurers for pandemic cover.**

Any business interruption pandemic program should be structured using free-market principles and not be a handout by the government to U.S. corporations. The government, along with the insurance industry, should be paid an adequate risk-adjusted price for the risk it takes. In partnership with the government, the private insurance sector can take pandemic business risk up to a limit but the government has a necessary role in reinsuring the enormous tail risk, again up to a limit. In the Chubb program for medium and large businesses, participation by businesses and insurers is voluntary. 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.

**Effective incentives for broad participation by the insurance industry.**

The property and casualty insurance industry is highly fragmented and comprised of regional, national companies and global corporations. The industry is both highly competitive and highly regulated. A pandemic business interruption program should be structured to attract broad participation by insurers with different profiles and risk appetites.

**Fiscally responsible.**

A program with clearly defined mechanisms, triggers and benefits will be less costly, more efficient and more equitable than a government relief program created in the midst of a crisis, particularly as to large businesses where the government receives premium for its share of the risk. Such a program administered by the private sector will also be less likely to suffer from fraud and abuse.