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Subcommittee on Securities, Insurance, and Investment
"Examining Frameworks to Address Future Pandemic Risk"

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I. About Chubb

Good morning Chairman Menendez, Ranking Member Scott, and members of the Subcommittee. I am Evan Greenberg, the Chairman and Chief Executive Officer of Chubb. Thank you for inviting me to speak to you today regarding pandemic risk and our perspective on ways to create a public-private partnership that leverages the insurance industry's existing infrastructure and includes risk sharing by the industry.

We are all deeply saddened by the devastating and deadly effect of COVID-19; the toll in lives and the harm to the global economy has been catastrophic. Thankfully, the vaccines are extraordinarily effective and are the key to ultimately ending the pandemic, or better said, controlling what is now an endemic. To continue the progress against COVID-19, more must be done to rapidly increase global vaccine distribution and overcome vaccine reluctance. Even as this battle continues, we must take the lessons learned from this pandemic and act now to protect people and their livelihoods from future pandemics. There is much that we can do to protect lives, including stockpiling PPE, implementing mask protocols and social distancing early on, requiring widespread testing and tracing, and developing new treatment protocols and medicines. There is also much that we can do to lessen the economic blow by building the financial backstops now that can be immediately triggered when economic activity is suddenly disrupted. To this purpose, we believe that the insurance industry can play an important role in partnership with the federal government to blunt the economic impact of future pandemics by keeping businesses solvent and people employed.

Chubb is the world's largest publicly traded property and casualty insurer and the largest commercial insurer in the United States. With operations in 54 countries and territories, Chubb provides commercial and personal property and casualty insurance, personal accident and supplemental health insurance, and reinsurance to a diverse group of clients. Chubb has more than $192 billion in assets and wrote $41 billion of premiums in 2020. The U.S. accounts for approximately 60% of Chubb's premium. Chubb employs 31,000 people worldwide, with approximately 15,000 of those employees in the 44 branches around the United States. Chubb's core operating insurance companies maintain financial strength ratings of AA from Standard & Poor's and A++ from A.M. Best. Chubb Limited, the parent company of Chubb, is listed on the New York Stock Exchange (NYSE: CB) and is a component of the S&P 500 index.

Before addressing how pandemic risk should be handled going forward, I would like to take a moment to talk about Chubb's response to the current pandemic. Throughout this challenging and heartbreaking time, we at Chubb have worked diligently to address the needs and concerns of our employees, customers, and community.

At the very beginning of the crisis, we instituted a no-layoff policy to provide all our employees with peace of mind knowing their jobs and benefits are secure during this time of uncertainty, and we immediately established work-from-home protocols to keep our colleagues – and our communities – safe. We are pleased to report that all Chubb offices in the U.S. are now re-opened on a flexible schedule to accommodate each employee's individual circumstances, and with appropriate practices in place to ensure health safety and comply with applicable federal, state, and local rules. Throughout the crisis, we also have offered a series of programs to help employees with their emotional well-being.

I am proud of the way our Chubb family has come through the crisis, and proud of the way we have been able to continue to serve our customers despite the challenges that we have all faced. We know many of our policyholders are suffering and we are doing all we can to support their needs. In addition to incurring $1.4 billion in COVID-19 claims-related charges, we have:

- extended payment terms to commercial customers recognizing cash flow pressures;
- provided a premium credit for auto policyholders in the U.S., recognizing their reduced driving exposures;
- supported our U.S. small business clients with premium reductions for their reduced exposures, i.e., payroll; and
- supported our small commercial customers by providing healthcare workers and first responders with gift cards redeemable at our customers' businesses.

More broadly, Chubb continues to be a dedicated global citizen. At the outset of the crisis, we committed $10 million to pandemic relief efforts globally, including providing emergency medical equipment and supplies to healthcare facilities in the very early days of the pandemic, and helping the hungry and vulnerable through community food banks. As the recovery phase continues, the Chubb Foundation has committed an additional $2 million in funds to help those affected in the U.S. and around the world, including $500,000 to provide emergency medical equipment and supplies through the American India Foundation (AIF). Chubb has also worked to facilitate global vaccine distribution through a collaboration with the World Health Organization (WHO) and Gavi, the Vaccine Alliance, to ensure that insurance coverage is secured for a no-fault vaccine injury compensation program. Through this support, the program offers eligible individuals in 92 lower-income countries a fast, fair, and transparent process to receive compensation for rare but serious adverse events associated with COVID-19 vaccines distributed through COVAX, the global mechanism for procurement and distribution of COVID-19 vaccines.

II. The Nature of Pandemic Risk

Some risks, like fender benders or a tree falling on a garage, happen frequently but do not cause significant damage. Other risks are relatively infrequent – like hurricanes – but can cause greater damage. By grouping many policyholders together, based on the likelihood and severity of different types of risks, insurers can offer protection at affordable and fair premiums. In this way, insurers pool risk on the assumption that only a comparatively small number of policy holders will suffer a loss in a given period. If insurers anticipated much greater losses, then the premiums would be unaffordable either because the frequency of events causing loss to many increased or because the severity of loss increased. If you expected every house to burn down in a given period, then the cost of insurance for each policyholder must be at least the price of replacing their house.

Some risks are like every house burning down at the same time and are simply too great to be insurable – the potential losses would greatly exceed the financial wherewithal of individual insurers and the entire industry given the industry's finite amount of capital. This is what we face with pandemic risk – virtually unlimited risk on steroids. Pandemics, unlike other catastrophes such as earthquakes, hurricanes, floods and even terrorism are not limited to a specific geography, time period, or risk class, but instead can affect entire economies, almost every business, and most of the population at the same time, resulting in losses so great that the event is uninsurable by the insurance sector alone. The industry has not and could not charge an adequate premium to cover such a risk, and more important, the industry does not have the balance sheet capacity to do so. Our balance sheets are finite and the risk, for all intents and purposes, is infinite. Insurance regulators and the industry have recognized this fact and that is why business interruption coverage against a pandemic has not been broadly available.

While the industry could not take on the risk of a national or global economic shutdown caused by a pandemic, there are a variety of coverages that have responded to certain COVID-19 related claims where such risk was contemplated under the policy and where insurers were paid an appropriate risk adjusted premium. These claims cover losses affecting individual lives such as workers compensation claims, accident and health claims, and travel claims. They also include certain specifically identified business interruption claims like claims from the entertainment industry for event cancellation, such as Broadway shows and film production. In addition, there are liability claims for medical malpractice related to COVID-19 treatment, and claims against directors and officers.

III. Insuring Future Pandemics Through a Public-Private Partnership

The COVID-19 pandemic has brought to the surface once again a protection gap: massive economic losses that are not covered by any existing government program and that are not insurable in the private market. Congress sought to fill the gap by enacting assistance programs totaling trillions of dollars, including hundreds of billions of dollars for small businesses. While these programs have been largely successful, with businesses of all sizes securing loans and grants to stay afloat, the ad hoc nature of these well-intended relief efforts is not a formula for future success. It is not difficult to see how quickly-assembled government programs could lead to inefficiencies, delays, and uncertainty, as well as real and perceived unfairness in distribution. One unfortunate result of the uncertainty of relief is that small businesses cannot wait for help – they immediately lay off workers, creating huge unemployment spikes. That is a critical distinction between an ad-hoc government response and the certainty of an insurance program with known payouts and existing claims processes.

If the government and society agree that we need to support businesses, workers and the economy to stay afloat during future pandemics, Chubb believes there may be a better way forward: (1) take action now to reduce the scope of pandemic loss in the future and (2) build a public-private partnership between the insurance industry and the federal government to provide economic protection for this reduced loss. In insurance parlance, we need to reduce the size of the tail risk first and then provide an efficient mechanism for the government to backstop that risk, which is too big for the industry to assume on its own. This encourages a private market to develop for pandemic relief and business interruption insurance.

On reducing loss, we have learned much over the last 18 months about how to prepare for and respond to pandemics. This knowledge has been hard won – in hospital wards, in laboratories, in the trial and error of government and private efforts to battle the pandemic. We need to take this knowledge and develop plans and resources to lessen the health and economic costs of future pandemics. We can save lives and we can limit the extended, widespread social and economic shutdowns we are continuing to see in this pandemic by implementing the proven measures that reduce contagion and improve health outcomes. Some of the measures are now obvious – require masks at the first sign of pandemic threat; institute testing and tracing to isolate carriers; stockpile sufficient quantities of PPE and essential medical equipment so that our health care providers can more efficiently and safely treat patients. Some measures require ongoing private and government support including the development of more effective anti-viral drugs and other therapeutics.

With effective leadership and resource commitment, we can be better prepared for the next pandemic so that the limits on social and economic activity will not be as extensive as they have been for COVID-19. If we are successful in this way, then the economic loss may be substantially lessened and the burden on governments to provide economic relief may be reduced.

Of course, even if we can substantially improve our pandemic preparation and response, future pandemics will likely cause economic losses far beyond the capacity of the insurance industry. However, the industry can assume some exposure to pandemic risk and make coverage more widely available if the government limits our liability by assuming the tail risk. Indeed, private-sector risk-taking brings an added measure of discipline to pricing and claims management. Pandemic risk can be priced, using the industry's insight, to determine a fair premium for the exposure. The premium charge associated with the risk incentivizes businesses and insurers to create better risk management tools and strategies. In addition, insurance expertise can bring fraud detection and additional mitigation. In short, Chubb strongly believes that the insurance industry can play a more meaningful role in providing future pandemic risk coverage that would protect U.S. businesses small to large. We should not merely act as administrators of a government program as some have suggested – that diminishes us as an industry and our role in risk mitigation.

A solution that commits insurance industry capital also provides an opportunity for the insurance industry to increase over time the amount of risk we take, as direct and secondary markets develop, thus helping to reduce the government's financial burden.

We note that other types of risk were once thought to be uninsurable, but now, with the government playing a role, private coverage capacity has become available: terrorism, which was considered uninsurable after 9/11, has seen the development of an insurance market thanks to the Terrorism Risk Insurance Program; and even the National Flood Insurance Program, for all its challenges, along with improvements in technology, has helped spawn a small but growing private flood insurance market.

Recognizing the importance of the insurance industry's risk-taking role, Chubb has proposed a framework for a public-private partnership to provide financial support for future pandemics. Our proposal would provide greater certainty to businesses so that they can keep employees on the payroll, pay their bills, and withstand the economic disruptions like those caused by COVID-19. I am not going to go into the details of our proposal today, but I would like to briefly address several elements that we believe are essential for any successful public-private pandemic partnership.

Any pandemic risk insurance program should consider the unique needs of small businesses and how their exposure to a pandemic differs from that of medium and large businesses. The fallout from the COVID-19 pandemic has shown us that pandemics do not impact all businesses equally. When the economy shuts down, small businesses are generally at much greater immediate financial risk than larger businesses and may face immediate closure because they have more limited financial resources, less liquidity, and less access to capital, credit, and risk-management mechanisms than larger businesses.

The cornerstone of our pandemic risk insurance program, therefore, recognizes the need for rapid liquidity for small businesses. The key elements of such a program should include, in the first instance, government subsidization of the premium charged to small businesses to ensure affordability and wide participation. In the event of a pandemic that results in losses to small businesses, insurers would participate in the first wave of losses up to a certain amount and the balance of the insured loss would be paid by the government. To accomplish this, the insurance industry would receive an adequate risk adjusted rate for its portion of the risk and the government would absorb the cost of its portion of the risk. Industry risk sharing provides insurers with an appropriate risk-adjusted priced for exposing their capital, with the government assuming the extensive tail risk. Then when businesses shut down and loss occurs in a pandemic, the insurance industry can provide predictable, efficient and prompt payment of losses.

Although purchase of coverage by small businesses should not be required, businesses that choose not to purchase coverage should not be eligible for future government pandemic assistance. Finally, to facilitate quick claims payments, the coverage should be based on pre-defined and packaged limits and triggers, and payments should be made automatically based upon the triggering event without requiring adjustment of individual claims – this will ensure help gets to small businesses quickly.

For medium and large businesses, we believe that a market-oriented approach is more appropriate and desirable. Medium and large businesses generally have more financial resources and options than smaller businesses; it makes sense for these businesses to pay an appropriate risk adjusted price to insurers for their exposure and to the government for the use of the federal balance sheet and assumption of the tail risk. This program would be voluntary and would provide partial coverage for pandemic losses for the businesses that chose to participate.

This can be effectively and efficiently accomplished with a partnership between the private sector and the government where both parties take risk. The government could establish a reinsurance facility solely to cover pandemic risk for medium and large businesses that would accept risks at commercial terms at a fair, risk-adjusted price. Private insurance companies that choose to sell such coverage could write pandemic business interruption policies at market terms and retain some portion of the risk, subject to their balance sheet wherewithal, reinsuring the rest along with a premium payment to a federal reinsurance facility. The government gets paid for the use of its balance sheet.

Our proposed framework builds on these ideas, and addresses the details, including program limits, policy limits, industry share, claims payment, and distribution. It is a robust plan, fiscally responsible and I would welcome the opportunity to discuss it with you in more detail at the appropriate time.

IV. Conclusion

In conclusion, we can be better prepared for the next pandemic by acting now to limit the health and economic consequences of such a catastrophe. We know what needs to be done to prevent the widespread shutdowns that have had such devastating economic consequences. We also know what can be done to provide prompt financial support to keep businesses solvent and employees off the unemployment rolls. The insurance industry cannot provide that support on its own, but as outlined above, a public-private pandemic insurance program can do so. Combining the insurance industry's risk insight and experience with the government's balance sheet capability to take on pandemic tail risk provides the foundation for an affordable, efficient liquidity backstop for small businesses and a market-based program for larger businesses.

There are a number of proposals that have been suggested by policymakers, policyholder groups, and industry players – including Chubb – to address the pandemic protection gap. The proposals differ in important ways, but several of them include the essential elements of a public-private partnership, industry risk-taking, and the needs of small businesses. We hope these proposals encourage dialog and provide ideas for addressing the devastating effects that future pandemics could have on the lives and livelihoods of so many. I appreciate your interest in our views, and I look forward to working with you and the other stakeholders as your work on this critical issue continues.

Thank you.