Hotel Deductible Buydown Coverage

CHUBB®

When a catastrophe strikes, commercial property owners often find they're facing extremely high deductibles – sometimes into the tens of millions of dollars. Chubb's Hotel Deductible Buydown policy is designed to address this exposure. Available as either standalone or follow form coverage, the Hotel Deductible Buydown policy covers a large portion of an Insured's deductible, with the potential to reduce it to a minimum of $100,000.

How It Works

A policyholder insures a property valued at $200 million, agreeing to a standard market deductible of 5 percent. A large hurricane hits the area and the Insured is facing a $10 million deductible, a significant impact to any organization's bottom line. With Chubb's Hotel Deductible Buydown coverage, the deductible could be reduced to $100,000 – saving the organization $9.9 million in losses.

Benefits & Coverage

- Available as standalone named storm, flood or earthquake coverage or can follow the form of the primary Property, Captive or Builders' Risk policy
- Multiple occurrences within a single policy period with an annual aggregate cap
- Policies can be annual or multi-year with single or multiple aggregate limits per policy period
- Simple policy language to follow the core program wording
- Suitable for managing high per occurrence deductibles
- Available for long term construction projects spanning multiple years
- Admitted policy
- Not subject to surplus lines taxes/ surcharges
- Customizable for a wide range of industries and clients, from multinationals to large U.S. companies and small businesses

Minimums & Limits

- Minimum deductible of $100,000
- Minimum premium of $100,000
- Limit up to $30 million

The Problem

Locations with coverage through the master all-risk policy in heavy Named Windstorm or Earth Movement exposed areas have percentage deductibles that are applied against their total insurable value. It's difficult for a risk manager to definitively discern to their board what the net exposure to their company will be in the event of a natural catastrophe. In addition, based on the size of the asset, deductible amounts can vary tremendously, adding potential unexpected exposure to the company's bottom line and unwanted volatility to quarterly earnings.

The Solution

Purchase a deductible buy-down for the dollar amount difference between the applicable deductible percentage and the flat dollar amount deductible. In the event of a natural catastrophe, risk managers can easily know and report their company's exact net exposure to their board. This product also protects each Insured from the unpredictable exposure associated with percentage deductibles.

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The Case Study

A case study of one of Chubb's deductible buy down successes from 2016:

- The risk profile is made up of a large international portfolio of owned hotels.
- Several hotels are situated in very heavy Named Windstorm exposed areas including Florida and Coastal states in the Gulf of Mexico
- Each hotel's deductible on the master all-risk policy is a percentage deductible subject to a deductible minimum.
- By applying the percentages, deductible amounts vary widely depending on the size of each hotel impacted by the specific event.
- Chubb offered a deductible buy down policy to this client that effectively lowered the deductible to a flat dollar amount of $1,000,000 in the event of a Named Windstorm to remove. uncertainty around loss potential
- Prior to Hurricane Matthew making landfall in the U.S., there was a high degree of uncertainty around the storm track and the intensity of the storm with several scenarios predicting a category 4 landfall potential.
- The potential severity and uncertainty of the landfall made it difficult for risk managers to communicate their potential ultimate loss amount to senior management.
- During Hurricane Matthew, several of the hotels were affected.
- Since the Insured purchased the deductible buy down policy, the Insured was easily able to report with 100% certainty that the most exposure the company would be responsible for is $1,000,000 regardless of the properties being impacted by Hurricane Matthew.
- This allowed the Insured's financial decision-makers to communicate internally and externally with certainty of the companies loss exposure.
- Additionally, purchasing this cover on an annual basis provides certainty over a 3-year period if there are multiple loss occurrences within the deductible over a multi-year period.

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