



PAYROLL AND RENT EXPENSE PROTECTION (PREP™)

INSURANCE OVERVIEW // SEPTEMBER 2020

Be prepared with PREP™

 **VANBRIDGE**
an EPIC company

PAYROLL AND RENT EXPENSE PROTECTION

SUMMARY

The Payroll and Rent Expense Protection (“PREP™”) insurance coverage was designed to help American businesses maintain their most valuable assets - their employees and places of business - during periods of pandemic-induced economic distress.

In simple terms, when the next wave of COVID-19, or similar pandemic, strikes and if a government-mandated statewide “shelter in place” order is issued which impacts an employer’s monthly operating income, PREP™ can be used by an insured employer to recoup up to 50% of up to two months of its payroll and rent expenses.

TYPICAL TERMS

Insured

Companies which are located in a Covered State, and employ staff and maintain business operations in one or more of the Covered States

Covered States

Alabama, Alaska, Arizona, Arkansas, Florida, Georgia, Idaho, Iowa, Maryland, Mississippi, Missouri, Nebraska, Nevada, New Hampshire, North Carolina, North Dakota, Ohio, Oklahoma, South Carolina, South Dakota, Tennessee, Texas, West Virginia, Wisconsin, Wyoming

Rating

A+ Egan-Jones Ratings Company

Policy Type

Surplus Lines Insurance Policy

Inception Date

Coverage is available immediately

Policy Term

Six months following the Inception Date

Limit of Liability

Up to \$1,500,000

Premium*

\$109,091 for \$1,500,000 of coverage

\$101,515 for \$1,250,000 of coverage

\$92,121 for \$1,000,000 of coverage

\$78,182 for \$750,000 of coverage

\$56,364 for \$500,000 of coverage

*Premium is not inclusive of applicable taxes and fees

PAYROLL AND RENT EXPENSE PROTECTION

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Loss Event

A Loss Event will be deemed to have occurred if, during the Policy Term, prongs a), b) and c) below are satisfied:

- a) A "pandemic notice" or similar is declared by the US Centers for Disease Control and Prevention ("CDC"), the US Department of Homeland Security or the Executive Office of the President.
- b) As a result of the declared pandemic, a legal and binding statewide "shelter in place" order is issued by a competent governmental authority (i.e. the office of the Governor) of the Covered State in which the Insured's business is conducted
- c) The "shelter in place" order results in a Cessation of Business Activities

Note: The Insured must promptly notify the Insurer upon the occurrence of Loss Event prongs a) and b)

Cessation of Business Activities

For purposes of this PREP™ product, Cessation of Business Activities means that the monthly operating income achieved company-wide by the Insured has fallen by more than 50% of its Seasonally Adjusted Average Monthly Operating Income

Seasonally Adjusted Average Monthly Operating Income

The lesser of (a) the average monthly operating income achieved company-wide (i.e. in Covered and non-Covered States) by the Insured during the 24 months prior to its application for PREP™ coverage, and (b) the average operating income achieved company-wide by the Insured in the 12th month and 24th month prior to the calendar month during which (i) the occurrence of a Loss Event is being determined or (ii) a Loss Amount is being calculated

Average Monthly Payroll and Rent

- (I) The average monthly payroll obligations paid by the Insured to its employees across all Covered States, plus (II) the average monthly rent / lease / mortgage obligations paid in connection with the Insured's place(s) of business across all Covered State(s), during the 24 months prior to its application for PREP™ coverage

Average Monthly Payroll and Rent Per Full Time Employee Equivalence Per State

For each Covered State, the quotient of (I) the average monthly payroll obligations paid by the Insured to its employees in such Covered State during the 24 months prior to its application for PREP™ coverage, and (II) the average number of full time employee equivalents ("FTE") employed in such Covered State during the 24 months prior to its application for PREP™ coverage

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Average Monthly Rent Per State

For each Covered State, the average monthly rent / lease / mortgage obligations paid in connection with the Insured's place(s) of business in such Covered State during the 24 months prior to its application for PREP™ coverage

Loss Amount

For purposes of this PREP™ product, the Loss Amount relating to a Loss Event shall equal the actual payments made by the Insured during the full calendar month following the occurrence of Loss Event prongs a) and b) to meet:

1. payroll obligations to the Insured's W-2 employees employed in the Covered State(s) where Loss Event prong b) has occurred; and
2. rent / lease / mortgage obligations relating to the Insured's place(s) of business located in the Covered State(s) where Loss Event prong b) has occurred

Note: For purposes of this PREP™ product, the portion of the Loss Amount related to payroll shall be capped at the lesser of (i) actual payroll paid (per item 1. above), and (ii) the product of (a) 110%, (b) the Average Monthly Payroll Per FTE Per State, and (c) the number of full-time employee equivalents employed by the Insured during the relevant calculation period

Note: For purposes of this PREP™ product, the portion of the Loss Amount related to rent / lease / mortgage obligation shall be capped at the lesser of (i) actual rent / lease / mortgage payments made (per item 2. above), and (ii) the product of (a) 110% and (b) the Average Monthly Rent Per State

Operating Income Impact Adjustment Factor

The Operating Income Impact Adjustment Factor is equal to the positive difference between (A) and (B), where:

- A. equals 100%, and
- B. equals the quotient of (i) and (ii), where:
 - i. equals actual company-wide operating income achieved in the calendar month during which the Loss Amount is calculated, and
 - ii. equals the Seasonally Adjusted Average Monthly Operating Income



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Insured Percentage

The lesser of (A) and (B), where:

- A. equals 50%, and
- B. equals the quotient of (i) and (ii), where:
 - i. equals the Limit of Liability less any Covered Amounts previously paid by the Insurer under the policy, and
 - ii. equals the greater of (x) the Average Monthly Payroll & Rent and (y) the Loss Amount

Covered Amount

Following a Loss Event and the timely submission of a proof of loss, the Insurer shall pay to the Insured a Covered Amount equal to the product of (a) the Loss Amount, (b) the Operating Income Impact Adjustment Factor, and (c) the Insured Percentage

Note: To the extent that Loss Amounts are incurred in connection with Loss Events that occur during two consecutive calendar months during the Policy Term, Covered Amounts relating to both such Loss Amounts may be payable under the PREP™ policy. If, however, a Loss Event occurs in one calendar month, but not in the subsequent calendar month, a Covered Amount will only be paid under the PREP™ policy in connection with the Loss Amount relating to the first Loss Event

Note: The Covered Amounts payable under the PREP™ policy will be capped, in the aggregate, at the Limit of Liability

Covered Amount Payment

Subject to the Insured having provided timely notice to the Insurer regarding the occurrence of Loss Event prongs a) and b), any Covered Amounts due under the PREP™ policy will be paid within five (5) business days of the Insurer's receipt and acceptance of a completed proof of loss (which must include verified proof of payroll and rent payments by the Insured)



A professional meeting in a modern office. Three people (two men and one woman) are standing by a large window, engaged in conversation. The room features a long white conference table with chairs, a potted plant, and several green bottles on the table. The scene is brightly lit by natural light from the window.

APPENDIX // A SIMPLE PREP™ EXAMPLE

APPENDIX

A SIMPLE PREP™ EXAMPLE

Insured	Company ABC
Seasonally Adjusted Average Monthly Operating Income	\$2,000,000 (= \$24MM annualized)
Average Monthly Payroll and Rent	Payroll \$1,200,000
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	Rent \$ 300,000
	\$1,500,000
Limit of Liability	\$1,500,000
Premium	\$ 109,091



APPENDIX

A SIMPLE PREP™ EXAMPLE

SEPTEMBER // Loss Event #1

A COVID-19 related government mandated statewide “shelter in place” order is enacted on September 15, 2020. As a result, the Insured actual September 2020 operating income, company-wide, comes to just \$900,000 (i.e. a 55% drop from its Seasonally Adjusted Average Monthly Operating Income). This would qualify as a Loss Event

The Insured notifies the Insurer that Loss Event prongs a) and b) have occurred in September

OCTOBER // Loss Amount Calculation #1, Covered Amount Payment #1 and Loss Event #2

Loss Amount (October)

In October 2020, the Insured payroll and rent expense equals \$1,500,000

Op. Income Impact Adj. Factor

The Insured’s company-wide operating income is severely impacted by the mandated shut-down of its business. Actual operating income for the month comes in at just \$300,000 (i.e. 15% of its Seasonally Adjusted Average Monthly Operating Income), meaning the Operating Income Impact Adjustment Factor equals 85%

Insured Percentage 50%

Covered Amount Payment

Within 5 business days of the acceptance of the proof of loss information for October, the Insurer will pay a Covered Amount under the PREP™ policy equal \$637,500 (= the Loss Amount of \$1,500,000 x the Operating Income Impact Adjustment Factor of 85% x Insured Percentage of 50%)

Loss Event #2

Because the government mandated shut-down persisted into October, which resulted in the Insured’s actual October operating incomes coming in at less than 50% of its Seasonally Adjusted Average Monthly Operating Income, a second Loss Event will be deemed to have occurred in October, meaning a second Covered Amount may be payable to the Insured in November



APPENDIX

A SIMPLE PREP™ EXAMPLE

NOVEMBER // Loss Amount Calculation #2, Covered Amount Payment #2

Loss Amount (November)

In November 2020, the Insured payroll and rent expense still equals \$1,500,000

Operating Income Impact Adjusted Factor

The Insured's monthly operating income remains severely impacted by the mandated shut-down of its business. Actual operating income equals just \$100,000 (i.e. 5% of its Average Monthly Operating Income), meaning the Operating Income Impact Adjustment Factor equals 95%

Insured Percentage 50%

Covered Amount Payment

Within 5 business days of it submitting the appropriate proof of loss information for November, the Insurer will pay a Covered Amount under the PREP™ policy equal \$712,500 (= the Loss Amount of \$1,500,000 x the Operating Income Impact Adjustment Factor of 95% x Insured Percentage of 50%)



BENEFITS SUMMARY

In the example above, the Insured paid \$109,091 of PREP™ premium (plus taxes where applicable) and receives \$1,350,000 of claim payment benefits, which covers 45% of its payroll and rent expense for the months of October and November 2020. With PREP™ in place, the Insured is prepared to stay current on its lease, and more importantly, retain key staff throughout the shut-down.

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