

PCS Information Bulletin #20: COVID-19 Review

Wednesday, June 10, 2020

As always, please remember that **this report is for informational purposes only** and does not constitute the designation of a PCS event. We have decided to provide this report simply to help the market understand the COVID-19 situation and to provide access to some of the resources our team uses daily for intelligence on this event.

U.S. Riots and COVID-19 in Context

It's still far too early to determine what the industry loss estimate from the riots will be. PCS designated the event with only one state, Minnesota. That implies that we expected the riots in Minneapolis to reach insured losses of at least US\$25 million. Since then, we've added more than 20 states to the catastrophe bulletin. While you can't scale up from the Minnesota designation, many do wonder how to get a sense of the riots and their potential impacts on the global re/insurance industry.

For a bit of context, it may help to look at the cities most affected by the riots – and how large they are by population. Although this is far from exact, it could help provide a sense of how challenging the situation could become in aggregate across the United States. To determine whether a city was “significantly affected” by the riots, PCS used information from FEMA as well as our network in the U.S. insurance industry.

2019 rank	City	State	Significantly Affected by Riots	2019 Population Estimate	State Reported COVID-19 Cases
1	New York	New York	Yes	8,336,817	400,499
2	Los Angeles	California	Yes	3,979,576	135,078
3	Chicago	Illinois	Yes	2,693,976	129,212
4	Houston	Texas	Yes	2,320,268	78,542
5	Phoenix	Arizona	Yes	1,680,992	28,296
6	Philadelphia	Pennsylvania	Yes	1,584,064	80,954
7	San Antonio	Texas		1,547,253	78,542
8	San Diego	California		1,423,851	135,078
9	Dallas	Texas	Yes	1,343,573	78,542
10	San Jose	California	Yes	1,021,795	135,078
11	Austin	Texas		978,908	78,542
12	Jacksonville	Florida		911,507	66,000
13	Fort Worth	Texas		909,585	78,542
14	Columbus	Ohio	Yes	898,553	39,190
15	Charlotte	North Carolina		885,708	37,205
16	San Francisco	California	Yes	881,549	135,078
17	Indianapolis	Indiana		876,384	38,033
18	Seattle	Washington	Yes	753,675	25,143
19	Denver	Colorado		727,211	28,183
20	Washington	District of Columbia	Yes	705,749	9,474

21	Boston	Massachusetts	Yes	692,600	103,889
22	El Paso	Texas		681,728	78,542
23	Nashville	Tennessee	Yes	670,820	27,575
24	Detroit	Michigan	Yes	670,031	64,998
25	Oklahoma City	Oklahoma		655,057	7,363
26	Portland	Oregon	Yes	654,741	4,988
27	Las Vegas	Nevada		651,319	10,030
28	Memphis	Tennessee		651,073	27,575
29	Louisville	Kentucky		617,638	11,708
30	Baltimore	Maryland		593,490	58,904
31	Milwaukee	Wisconsin		590,157	21,308
32	Albuquerque	New Mexico		560,513	9,062
33	Tucson	Arizona		548,073	28,296
34	Fresno	California		531,576	135,078
35	Mesa	Arizona		518,012	28,296
36	Sacramento	California	Yes	513,624	135,078
37	Atlanta	Georgia	Yes	506,811	53,249
38	Kansas City	Missouri		495,327	15,450
39	Colorado Springs	Colorado		478,221	28,183
40	Omaha	Nebraska		478,192	15,752
41	Raleigh	North Carolina		474,069	37,205
42	Miami	Florida	Yes	467,963	66,000
43	Long Beach	California		462,628	135,078
44	Virginia Beach	Virginia		449,974	51,738
45	Oakland	California		433,031	135,078
46	Minneapolis	Minnesota	Yes	429,606	28,523
47	Tulsa	Oklahoma		401,190	7,363
48	Tampa	Florida		399,700	66,000
49	Arlington	Texas		398,854	78,542
50	New Orleans	Louisiana		390,144	43,612

Sources: United States Census Bureau, PCS internal research, Worldometers.info

Minneapolis, where the riots began, is the forty-sixth largest city in the United States by population. However, there are some factors that could make the event disproportionately impactful in this city relative to larger cities that experienced riot activity. First, the fact that the event started there is meaningful. The people of Minneapolis were directly affected by the cause, and they are responding to a hometown event. Additionally, we suspect that Target's disproportionately large local presence may have left it more exposed to economic impact.

Nearly 600 buildings across the Twin Cities have been vandalized, looted or had some form of physical damage reported. Over 60 have been destroyed completely by fire. Others have reported extensive water damage or severe fire damage. Many have occurred along Lake Street in Minneapolis and University Avenue in St. Paul's Midway which area have experienced some of the heaviest damage, along with those nearest Minneapolis' Third and Fifth police precincts.

Nineteen cities with larger populations than Minneapolis were significantly affected by the riots. While the table above does not show any degree of damage for the cities relative to each other, it does provide a sense of the event's scale.

The riots didn't happen in a vacuum. Rather, they occurred in communities already dealing with the implications of the COVID-19 pandemic. Of the 20 cities identified as significantly affected by the riots, 12 are in states that also had enough COVID-19 cases to be among the top ten in the United States. Simultaneous riot and pandemic (or near-simultaneous) has the potential not just to elongate or intensify riot and civil disorder but also to complicate the post-event claim handling environment, particularly when it comes to business interruption.

Our PCS team has continued to remain in contact with insurers, adjusting firms, engineering firms and others regarding this event. Even with the scale of this event encompassing over 20 states, companies have expressed they have enough expert resources to scale up to handle the anticipated commercial claim volume. However, the complexities involving commercial business interruption and inventory calculation is rarely seen on a scale of this size with these many states affected at one time thus may have a noticeable impact on the cycle time of some of these claims as well as the overall loss development.

Large Property Loss Potential from the Riots, COVID-19 BI Implications

There is early but growing concern in the global reinsurance market about implications for large property programs from the riots in the United States. Based on the loss pattern seen in Chile last year, if there were even a handful of large D&F programs with significant losses, the overall industry loss from the U.S. riots could become quite large. The large number of cities affected (and thus states listed in the PCS catastrophe bulletin) could have unusual implications for large national retail programs.

First, the sheer volume of cities involved exposes a large number of individual store locations for national retailers, restaurants, and so on. One pharmacy, for example, may not sustain enough damage (including business interruption) to meaningfully affect a nationwide insurance program. However, multiple stores in each city, scaled across a dozen cities, could have much greater implications. With Target having closed 9 percent of its stores, it might make sense to take a look at the top 20 retailers in the United States and see how many stores they have in areas affected by the riots.

Further, the business interruption impacts from the riots may not be intuitive. The straightforward thought would be that COVID-19 had resulted in many business closures or partial closures, significantly impaired consumer spending, and generally reduced revenues across the United States. And of course, all of that is true. That said, certain retail sectors have actually seen upticks in consumer spending – in particular, the grocery segment.

Grocery accounts for a meaningful amount of retail sales at the likes of Wal-Mart and Target. Additionally, underwriters would be prudent to take a look at the large national grocery store chains in the United States (such as Albertsons, Publix, and Kroger) to see if any had significant presences in affected areas. As a result, increased spending plus an accumulation of affected locations could have an unexpected business interruption impact in the event that this sector is affected by the riots. We've heard that several clients are checking to see if there's a likely D&F impact. If relevant, the losses could show up in PCS loss estimates for the riots, our database of global large risk losses, or both.

Based on PCS internal research, key retailers that may have disproportionate economic impact include Adidas, Amazon/Whole Foods, Apple, CVS, Nike, Trader Joe's, Walgreens, and Walmart. Ours was just a cursory examination, and the total number of companies affected is likely to be much larger. The table below comes from various news reports.

Company	Category	Impact
Adidas	Apparel, Footwear, Specialty	Temporarily closed all U.S. stores after one location affected by looting
Amazon/Whole Foods	Grocery	Closed stores in/near Chicago, Los Angeles, Minneapolis
Apple	Consumer Electronics	100 of 217 stores closed at points during the riots
CVS	Drug Store, Pharmacy	More than 300 stores experienced at least some physical damage across 25 states
Nike	Apparel, Footwear, Specialty	Unknown number of locations closed
Target	Grocery, Apparel, FMCG, Varied	175 stores closed (9% of total)
Walgreens	Drug Store, Pharmacy	36 stores closed in Chicago alone, ~20 in the Minneapolis area
Walmart	Grocery, Apparel, FMCG, Varied	"Hundreds" of stores closed

In addition to the retail segments such as those we have already mentioned, other categories that have not been tested in a catastrophe setting such as the cannabis industry and the insurers who provide cover. Dispensaries were looted of inventory in many major cities across the U.S. and this segment has never experienced an insurance event of this magnitude, providing a test for those that are in that market. Federal law banning cannabis versus state laws that provide the cover could get interesting if litigation becomes involved.

<https://www.cnbc.com/2020/05/31/amazon-target-and-apple-scale-back-business-in-cities-hit-hard-by-protests.html>

<https://www.startribune.com/burned-out-pharmacies-leave-a-hole-in-twin-cities-neighborhoods/570954862/?refresh=true>

<https://www.nbcchicago.com/consumer/nbc-5-responds-consumers-in-lurch-after-looters-force-pharmacies-to-close/2283197/>

<https://www.miamiherald.com/news/nation-world/national/article243164326.html>

<https://thcnet.com/news/several-us-cannabis-companies-targeted-during-nationwide-protests-as-business-owners-lose-millions-to-looters>

Parametric Problems: When the Data Disappears

The use of informal data sources in parametric and industry loss warranty triggers comes with a wide range of risks. We've covered them at length in previous installments of our information information-only bulletins on COVID-19 and in various white papers and reports. The risk became real, recently, with data related to the pandemic removed from Brazil's health ministry website.

According to the *Washington Post*, historical data has been replaced only with daily results reflecting the past 24 hours (https://www.washingtonpost.com/world/the_americas/coronavirus-brazil-bolsonaro-official-death-count-case/2020/06/07/73a713f4-a8cf-11ea-a9d9-a81c1a491c52_story.html). Online aggregators such as Worldometers.info continue to publish aggregate totals, and it's safe to assume that publishers that have saved historical data locally can recreate the past results they need to continue reporting as they have been.

That said, the implications for the use of government data in parametric transactions for pandemic are profound. Let's assume that you've decided to enter into that sort of transaction and have specified (a) the data source (in this case, Brazil's Health Ministry), (b) the trigger details (e.g., number of aggregate reported cases), (c) and the website where the data is to be found. As to (c), you notice that the data has been removed and replaced with information not sufficient for transaction reporting purposes. This could be construed as a trigger failure event.

So, what happens when there's a supposed trigger failure? Of course, the search for a mutually agreeable result begins. What's tough is that, in this sort of situation, you could wind up with reporting agencies that have different information. For example, Worldometers.info currently has a total of 691,962 total COVID-19 cases reported for Brazil. The Washington Post has 691,758. The difference is not big right now, but a quick review of PCS's previous information-only bulletins on COVID-19 show how quickly that can change. Further, if you look hard enough, you can widen the gap a bit. The WHO shows 672,846 confirmed COVID-19 cases for Brazil.

The situation in Brazil also shows a salient case of what can happen when political risk comes to bear on pandemic reporting. It's been reported that the changes in reporting practices by the country's Health Ministry are politically motivated. As a result, contemplate adding political risk analysis to future pandemic parametric triggers, should you decide to use government-reported information. When you look at the ten largest economies in the world by GDP, according to both IMF and World Bank estimates, you'll find Brazil ranked ninth. India and China are also ranked in the top ten by both organizations – both of which have political risk issues, as well.

Realistically, the situation in Brazil (as well as prior reporting issues in China) speak to the need for a dedicated, experienced, and independent reporting agent in parametric transactions. Two of the most important risk-transfer lessons from the COVID-19 pandemic will likely be: (1) the importance of understanding, managing, and transferring pandemic risk and (2) the importance of using an independent, robust, and reliable reporting agent to do so.