

PCS COVID-19 Information-Only Bulletin Update - Monday November 2, 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.

SRCC, Election Day, and the Week Following – Insurance Industry Implications

The U.S. presidential election is set for tomorrow, although much of the voting has already happened. So far, more than 90 million Americans have voted, with early voting accounting for more than 2016 totals in some states (<https://www.washingtonpost.com/politics/2020/11/01/we-have-data-who-voted-early-key-battleground-states-who-they-may-be-voting/>). However, the symbolism associated with Election Day itself will likely remain. That makes Tuesday, November 3, 2020, an important date for the evaluation of strike, riot, and civil commotion (SRCC) risk.

Historically, Election Day blends into Election Evening, with projected outcomes announced and a presumed winner accepting victory, even as the actual vote counting takes longer and then the final Electoral College vote longer still. Analytical efforts may still feature in Tuesday night's media coverage, with new forms of estimation potentially taking the place of exit polls. The newness of estimation alone should be enough to weaken projections relative to past years – and thus maintain a level of uncertainty throughout the evening and subsequent days to come.

There are scenarios where a final outcome could take several weeks, but for now, and specifically regarding SRCC risk, PCS is focused on the week following the election. Based on our experience and historical data, we believe that Election Day and the day immediately after are less likely to show large riots of the sort that could drive significantly high insured losses (although there are scenarios in which this is possible). Rather, we believe that – if anything were to materialize – it would start with several localized protests that could then conceivably evolve into riots.

Localized events are less likely to lead to high levels of industrywide insured loss. In fact, only two PCS-designated riot catastrophe events have exceeded US\$100 million (not adjusted for inflation): the 1992 Los Angeles riots and the riots that occurred this year.

In the days following any initial, localized rioting, the spread of mixed messages, disinformation or misinformation, widespread anxiety arising from uncertainty and speculation, and any additional economic strain could result in further protest (and possibly subsequent riot) in other parts of the country (as we saw in late May and early June this year). And by Friday night, a further variable is included: Many won't have to work the next day, allowing them to participate in civil disobedience, which of course could escalate into something more. For catastrophe #2033 in the United States, PCS issued the designation bulletin on a Sunday, following a late-week initiation that was followed by weekend escalation.

Could the riots begin sooner than Wednesday, November 4, 2020? It's possible, and there are some factors that could influence this, including the ongoing civil unrest in Philadelphia. Although estimate claim counts have been small throughout the riots there over the past week, the possibility that preexisting sentiment could be accelerated by an outside factor persists. So far, that doesn't seem likely to happen. COVID-19 and developments associated with the pandemic (and how it's being positioned in the election) could also contribute both to the initiation of riot activity and to its proliferation. The United States is currently experiencing its highest level of reported cases per day (https://www.washingtonpost.com/graphics/2020/national/coronavirus-us-cases-deaths/?itid=sf_coronavirus).

What's different from the high levels reported in March/April and then elsewhere in the country over the summer is that the current surge is broadly distributed across the country. According to recent reports of a call with the nation's governors, Dr. Deborah Birx, the White House coronavirus response coordinator, at least 1,200 counties, approximately one-third of the country now qualifies as a hot spot (<https://www.nytimes.com/live/2020/10/31/world/covid-19-coronavirus#with-nearly-100000-new-cases-the-us-breaks-the-daily-record>).

All but three states/territories have reported more than 1,000 cases per 100,000 population over the past week. Nearly half of the states have reported more than 3,000 cases per 100,000 population (13 of them are showing double-digit percentage increases during this period). There's a sense that the broad increase in reported cases could result in simultaneous hot spots in the coming weeks, particularly with the onset of winter, traditional flu season, and the holiday season (not to mention any post-election civil unrest).

As insurers prepare for any riot activity next week, it's important to keep location in mind. While major cities may seem most likely to experience riots, they may not suffer the same insured losses as smaller cities. In July, the riot on Chicago's "Magnificent Mile" didn't experience large insured losses or significant volumes of claims affecting the broader insurance community because most of the damage was limited to vandalism, looting, and interior damage that did not escalate out into areas where additional damages could have generated a larger number of claims. Manhattan, likewise, didn't experience significant insured losses compared to other states during the George Floyd riots. In the cases of both Manhattan and Chicago, building construction made a difference.

From what PCS has learned from our network of catastrophe claims professionals, fires generally result in the large losses that increase the industrywide total significantly. Smaller cities with more suburban elements closer to city centers may be more susceptible to significant insured losses because of this. Strip malls and big box stores may sustain damage more easily. And they are easier to access and tend to be surrounded by large parking lots (accommodating larger crowds close to the building). We've learned that some insurers are helping their commercial clients take measures to protect their businesses from physical damage (such as boards on the windows).

Should a riot catastrophe event follow the U.S. presidential election, the PCS team will follow our methodology as we always do, and we've been working with our network of insurers, reinsurers, independent adjusters, and other professionals involved in post-catastrophe remediation to prepare for loss reporting if necessary.

Riot catastrophes have some unique characteristics that could affect the flow of information (and thus development of the insured loss):

- Claims tend to be largely commercial. As a result, the claim lifecycle can take longer because of the experts needed throughout the process.
- Large commercial programs can be disproportionately affected. We know of three individual risk losses of at least US\$100 million from the George Floyd riots. This can further elongate both the claim lifecycle and the time it takes for PCS to reach a stable industry loss estimate.
- Some retailers that were affected significantly in the spring and summer may have since renewed their property insurance.
- We haven't heard any news about SRCC being excluded from summer property insurance renewals, but in fairness, we didn't dig into it. (If you have any thoughts on this, please give us a call.)
- The size of the industry loss could be disproportionately affected by losses from large national accounts – as we saw in 2019 in Chile and 2020 in the United States. So far, roughly a third of the industry loss for #2033 is from three large national retailers.
- The industry still doesn't know the full scope of large retail accounts on #2033, given the claim lifecycles for large commercial claimants. At our last estimate, we learned that several large retailers had notified physical damage losses of up to US\$20 million and indicated that they hadn't been able to notify on business interruption yet. We're awaiting a datapoint, therefore, that could be crucial to understanding industry losses from future riots.

The PCS team welcomes you to stay in closer contact than usual with us over the coming weeks. We always want to hear from you and appreciate working with you, but we're hoping for a bit more engagement with you during the coming period of uncertainty. There's enough difficulty in the current environment, and at a minimum, we want to do what we can to make more manageable for you. Additionally, the last thing the market needs right now is unnecessary ambiguity regarding industry losses and catastrophe designation. To that end, if you have a question, please come directly to us.

Best,

Tom and Ted – the PCS leadership

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