

PCS Information Bulletin #10: COVID-19 Review

Friday, April 10, 2020

We are changing our format a bit this week. Given that the topic of today's webinar is on parametrics for pandemic risk transfer, we aren't going to jump into that issue here. Instead, we'll save the parametric discussion for the webinar and then probably take a look at the disparate reporting among data sources again late next week.

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.

We understand that this is a time of significant uncertainty. If you have any questions about our thoughts above – or about the PCS catastrophe designation process – please contact Tom Johansmeyer using the information found at the end of this information-only bulletin.

SRCC: Another Year for Latin America?

More and more inbound calls to PCS from the global re/insurance market end up spending some time on strike, riot, civil commotion (SRCC). In general, economic pressure and an overall sense of fear can contribute to SRCC risk. The geopolitical situation even before the outbreak of COVID-19 showed signs of considerable strain, and now that the global count of cases is approaching 1.5 million, we're seeing elevated risks all over the place.

Based on headlines, Latin America might not be your instinctive concern for SRCC related to COVID-19. Earlier this week, we covered issues with SRCC in Italy, and the rapid rise of cases in Spain, Germany, and France (all over 100,000 cases, as of the afternoon of April 8, 2020). Of course, the United States has several densely populated areas with high rates of infection, including New York, New Jersey, and Massachusetts – not to mention other hot spots in states outside the Northeast region.

PCS has chosen to take a closer look at the SRCC risk in Latin America because for two reasons. First, last year was active in the region for SRCC. The Chilean riots led to one of the largest catastrophe losses in the world last year – 5th largest of the risk areas covered by PCS and 3rd largest in the Americas. Additionally, there are countries showing high rates of infection, and there's some amount of overlap between countries with 2019 SRCC events and 2020 COVID-19 infection. Chile is problematic for both – and has sufficient insurance exposure to impact the global re/insurance industry significantly.

A number of factors influence the risks associated with SRCC and COVID-19 in Latin America. The population of informal workers in the region (numbering approximately 130 million) could be disproportionately exposed to COVID-19, according to analysis by Verisk Maplecroft (<http://www.maplecroft.com>). Across the region, the tension between the need for food and other survival materials (workers) and efforts to restrict the transmission of COVID-19 (governments) could result in civil unrest. And in general, PCS notes that informal workers may be disproportionately exposed to all changes in the overall risk environment, given the range of protection that formal workers normally enjoy – and informal workers lack.

Economic difficulty from COVID-19 could increase the number of people turning to informal work arrangements, which in turn means fewer people with the protection (or at least full protection) of government measures intended to ease pressure on citizens. Such conditions could drive further wage deterioration and daily financial risks ranging all the way to (and past) eviction, PCS believes.

Chile should remain a challenging environment for the rest of 2020, according to Verisk Maplecroft. The organization’s baseline forecast is for a minor reduction in unrest over the coming half year. However, Chile will remain in Verisk Maplecroft’s “extreme risk category at least until the first quarter of 2021.

It will be important for the global re/insurance industry to keep an eye on Chile and the entire region in 2020. The 2019 riots in Chile caused sufficient insured losses to warrant a PCS LatAm catastrophe designation (we’re in the process of developing our second insured loss estimate), and several other countries sustained insured losses (although they didn’t meet the PCS LatAm threshold). The impacts of a pandemic on the global economy of course have effects on almost all local economies, and as a pandemic manifests locally, the situation can only become more problematic – increasing the risk of SRCC.

Country	COVID-19 Cases	Population	Notes
Brazil	16,238	212.2 million	Highest number of cases in the region
Mexico	3,181	128.6 million	Significant infection rate in a major U.S. trading partner
Colombia	2,054	50.8 million	2019 riots caused significant PD and BI, and infection rate is already high
Argentina	1,795	45.1 million	SRCC risk according to some sources was forecast to decline in 2020 (prior to COVID-19 outbreak), high infection rate
Peru	4,342	32.9 million	High risk to informal labor population per Verisk Maplecroft
Chile	5,546	19.1 million	Extremely high rate of COVID-19 infection, significant catastrophe loss from SRCC in 2019
Ecuador	4,450	17.6 million	SRCC economic losses of at least US\$1.6 billion in 2019, extremely high rate of COVID-19 infection
Bolivia	264	11.6 million	High-intensity SRCC in 2019 according to some reports

Source: PCS internal research, Worldometers.info
Data as of the afternoon of April 8, 2020 (ADT)

Adjusting to Increased Claims

Throughout the COVID-19 pandemic lifecycle, streamlined claim handling will become increasingly important. We discussed this recently with our bulletin **How COVID-19 Could Impact Catastrophe Claim Handling**, and we encourage you to give that article a second look. And, at the larger end of the claims spectrum, it's interesting to see Lloyd's announce the doubling of the threshold at which a "standard claim" becomes a "complex claim" (<https://www.reinsurancene.ws/lloyds-revises-claims-scheme-amid-ongoing-covid-19-challenges/>). This move presumably allows for more speed and flexibility in handling claims once considered complex, in order to address claimant needs faster and more effectively.

In general, the pandemic has created a difficult claims situation – and one that is likely to become much more challenging. There is an underlying cause of economic loss that has no regard for time, borders, or jurisdiction. In some cases, policy wordings are ambiguous or silent in this case (i.e., pandemic), and in others, the economic losses to the insured are sufficiently high to make them attempt to claim anyway and hope that either legislative or judicial branches of government will enable even a particle recovery. Meanwhile, there's little mechanism for tracking such losses. PCS, for example, does not have a pandemic category – or a catch-all – and we do not believe it would be appropriate to add one on the fly, as that could undermine years of market engagement and analysis and also create massive gaps in risk and capital management out of thin air.

So, the market faces a wide range of inbound claims, with some of that influx already in progress. What can insurers do to handle the volume? Some thoughts we've heard from clients and in a wide range of conversations include:

- First and foremost, understand the policy language in play. For larger and more complex insurance programs, this is likely to be particularly important, and it caught a lot of people off guard when NotPetya hit in 2017.
- Start to get a sense of the classes of business that could be affected, and prepare your claims teams appropriately. While the reinsurance and ILS community has been focused overwhelmingly on property (to include catastrophe), according to the headlines, PCS has heard that the risk keeping some reinsurers up at night is D&O, which could take a while to manifest and then persist for years. We've also heard chatter about general liability and environmental.
- Be ready for catastrophes that could be caused or influenced by COVID-19 but are still catastrophes in their own right. Scroll up and reread the section on SRCC.
- Streamline claim handling for as many smaller claims as possible could help reduce the sheer workload associated with the claims function as submissions increase throughout the COVID-19 lifecycle. It should become crucial to understand the expense balance between the claim payment and loss adjustment expense (LAE). And it may come to pass that, in some cases, the former may be more cost-effective than the latter.
- Specialists may quickly wind up in short supply, especially if there are sectors or classes of business affected broadly. If you'll need to engage outside resources with specific areas of competence, begin those discussions as early as possible.
- For large property programs, review your book and get a sense of where your concentrations might be – particularly by sector.
- Keep track of the ways that PD are being raised in order to meet the relevant thresholds for BI to become an issue. This could affect more than one major risk in your book.

Pandemic Risk Insurance Act update

Proposed by Representative Maxine Waters, the House Financial Services Committee is currently considering the Pandemic Risk Insurance Act. It would force insurance firms to compensate companies for the business they've lost during the coronavirus pandemic.

Among the benefits of the program are suspension of commercial rental payments by private sector actors which would support small businesses and non-profit organizations that are struggling with the decision to stay open in the face of significant changes in public and consumer demand and with paying their bills and supporting additional grants for small businesses. This provision would support at least US\$50 billion in new grants for the Small Business Administration to provide to negatively affected small businesses, including minority- and women-owned small businesses.

The bill would require insurers to provide protection against lost and interrupted business due to the coronavirus pandemic. It would cap the total amount insurers would have to pay out. Nonetheless, they'd still have to pay large sums. For instance, with the Terrorism Risk Insurance Act (TRIA), the total amount insurers have to pay out against a terrorist act is capped at US\$100 billion per year. For every US\$100 billion, they have to pay out 20 percent of their direct earned premiums as a deductible. They then have to pay 20 percent of the remaining amount in excess of this deductible. The government will then pay the rest.

It's not clear what the limits would be for the Pandemic Risk Insurance Act, but they would likely have to be larger to meet the scale of the coming coronavirus economic malaise.

The Act would create a federal backstop much like the Terrorism Risk Insurance Act (TRIA), for insurance claims related to a pandemic or epidemic. The specific purpose of the Pandemic Risk Insurance Act of 2020 would be to provide for a Federal loss sharing program for certain insured losses resulting from a certified pandemic/epidemic. The Secretary of Treasury in consultation with the Secretary of Health and Human Services, the Secretary of Homeland Security, and the Attorney General would certify a particular health event or outbreak as a pandemic or epidemic.

Goals and specifics of the PRIA Program would be to:

- Create a temporary federal program of shared public and private compensation for insured losses as a result of pandemic losses, which would allow the private market to stabilize
- Protect consumers by ensuring the availability and affordability of insurance for pandemic risks
- Protect thousands of businesses (restaurants, hotels, convention centers, event venues, transportation services, caterers) and municipalities who depend on public events for their livelihoods
- Preserve state regulation of insurance

Zach Finn, a professor and director of the Davey Risk Management and Insurance Program at Butler University in Indiana indicates 80 percent of all entities do not have insurance for a pandemic.

Industry insiders PCS has communicated with have significant reservations involving the insurance industry as a "middle-man" regarding the implementation and execution of such a program and site challenges with the NFIP WYO program as a small example of what could occur on a greater scale with a Federal pandemic program.

COVID-19 and D&O cases update

Two shareholder lawsuits relating to coronavirus have already been launched in the US, one against Norwegian Cruise Lines, the other against a pharmaceutical company called Inovio. Both involve public statements made by the companies following the outbreak.

The suit against the Norwegian Cruise Lines alleges Norwegian employed sales tactics of providing customers with unproven or blatantly false statements about COVID-19 to entice customers to purchase cruises. Additionally, Carnival Corp. has stated that it has received, and expected to continue to receive, lawsuits from passengers aboard the coronavirus-stricken Princess cruises and additional lawsuits stemming from COVID-19.

The suit against Inovio indicates statements made by Chief Executive Officer J. Joseph Kim during an interview imply that he had developed a vaccine for COVID-19 “in a matter of about three hours once we had the DNA sequence from the virus.” The suit says Kim made similar comments in a meeting with President Donald Trump on March 2 as well.

The threat of large-scale claims relating to COVID-19 has already prompted some insurers to tighten the wording in new and renewed D&O policies limit exposure. The global market for D&O insurance in London, the United States, and Bermuda, provides for around US\$600-700 million in cover according to several sources.

Hedging “Silent Pandemic” from COVID-19

If you haven’t had a chance to read it yet, we encourage you to see the latest from PCS on how to address the risk of “silent pandemic” in large risk programs. Check out the interview over at <https://www.artemis.bm/news/silent-pandemic-risk-how-to-hedge-it-qa-with-tom-johansmeyer-pcs/>.

Updates from the PCS COVID-19 Webinar Series

If you weren’t able to join us for our latest Friday webinar, “The Problem with Pandemic Parametrics,” you’ll be able to view a recording early next week. We’ll be sure to send the link to it. Additionally, we’re getting ready for next Friday’s PCS webinar. We’ll have three very interesting guests joining us to talk about cyber activity in the COVID-19 environment. It’s going to be a fantastic experience, and I hope you’ll be able to come!

Useful Links from COVID-19 Data Sources

- US Government Federal Guidance - <https://www.usa.gov/coronavirus>
- Government of Canada Federal Guidance - <https://www.canada.ca/en/public-health/services/diseases/coronavirus-disease-covid-19.html>
- UK Government Guidance- <https://www.gov.uk/government/topical-events/coronavirus-covid-19-uk-government-response>
- Government of Mexico Federal Guidance - <https://www.gob.mx/salud/documentos/nuevo-coronavirus-2019-ncov-comunicado-tecnico-diario>
- ESRI COVID-19 GIS hub: https://coronavirus-resources.esri.com/?adumkts=industry_solutions&aduse=local_state&aduc=email&adum=list&utm_Source=email&aduca=mi_smart_communities&aduco=coronavirus_hub_resources&adut=950533&adupt=awareness&sf_id=7015x000000iQIAAA2&aducp=operational_second_body_text
- WHO COVID-19 situation reports: <https://www.who.int/emergencies/diseases/novel-coronavirus-2019/situation-reports>
- CDC Overview Page: <https://www.cdc.gov/coronavirus/2019-ncov/cases-updates/summary.html> (includes links to testing locations, nature of transmission, etc.)
- Insurance Information Institute Corona Virus Toolkit - https://www.iii.org/sites/default/files/docs/pdf/covid19_toolkit_03162020.pdf
- Pharmaceutical technology Coronavirus COVID-19 outbreak: Latest news, information and updates - <https://www.pharmaceutical-technology.com/knowledge-bank/coronavirus-faqs-covid-19-categories/>
- CNN Live Coronavirus pandemic updates: <https://edition.cnn.com/world/live-news/coronavirus-outbreak-03-17-20-intl-hnk/index.html>
- Worldometers.info - <https://www.worldometers.info/coronavirus/country/us/>
- Wikipedia US pandemic - https://en.wikipedia.org/wiki/2020_coronavirus_pandemic_in_the_United_States
- European CDC - <https://www.ecdc.europa.eu/en/publications-data/download-todays-data-geographic-distribution-covid-19-cases-worldwide>
- GOV.UK - <https://www.gov.uk/guidance/coronavirus-covid-19-information-for-the-public>
- Public Health England - <https://www.arcgis.com/apps/opsdashboard/index.html#/f94c3c90da5b4e9f9a0b19484dd4bb14>

- Sante Public FR - weekly update - <https://www.santepubliquefrance.fr/maladies-et-traumatismes/maladies-et-infections-respiratoires/infection-a-coronavirus/articles/infection-au-nouveau-coronavirus-sars-cov-2-covid-19-france-et-monde>
- GOV of Canada - https://www.canada.ca/en/public-health/services/diseases/2019-novel-coronavirus-infection.html?utm_campaign=not-applicable&utm_medium=vanity-url&utm_source=canada-ca_coronavirus#a1
- MorgenPost.DE - <https://interaktiv.morgenpost.de/corona-virus-karte-infektionen-deutschland-weltweit/>
- Robert Koch Institute - https://www.rki.de/DE/Content/InfAZ/N/Neuartiges_Coronavirus/Fallzahlen.html

If you have information that could be useful to PCS or the industry and would like to share it with us, please contact Tom Johansmeyer (+1 441 799 0009 / tjohansmeyer@verisk.com), Ted Gregory +1 201 253-6866 / tgregory@verisk.com), or your regular PCS contact. We'd be happy to connect with you. All information supplied will be held in the strictest confidence and only be used to inform industry-wide analysis that is fully anonymized.