

PCS Information Bulletin #11: COVID-19 Review

Monday, April 13, 2020

COVID-19 is becoming a more familiar problem around the world. More and more countries are being affected on a widespread basis, and they are facing the challenges associated with it. Re/insurers have been through the first major reinsurance renewal since the wide outbreak (Japan at April 1, 2020), and the market is preparing for the next one – Florida at June 1, 2020. As an industry, we're finding our footing, and we're learning where the risks and opportunities may be. In general, as a global community, we're figuring out how to navigate the new and difficult times before us. We may not have all the answers now, but disciplined analysis and risk and capital management can make a difference.

As the COVID-19 situation continues to develop, the topics we cover in these information-only bulletins will evolve. Rather than focus on specific threads, our objective is to source and deliver information and insight from the market that directly addresses the challenges you face today – or may face soon.

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.

The Middle Months

Late March presented a series of challenges for the reinsurance market. In addition to the early uncertainty associated with COVID-19, our global community was also faced with the April 1, 2020, reinsurance renewal. Focused on Japan, even absent the pandemic, the impact of the 2019 typhoons remained to be seen. Now that the renewal has run its course, we move on to the “middle months” – the period between the April (Japan) and June (Florida) renewals.

During this period, reinsurers and ILS funds would begin to trade ILWs on Japan, sorting out their books after having participated in the renewal. And, in years past, it wouldn't be unusual to transact in other regions in order to free up capital for the Florida renewal. This year, there's added complexity from the prospect of redemptions in the ILS market, reduced risk appetite because of asset-side changes, and continued uncertainty from the property market.

There are signs that the situation may not be as bad as some had anticipated. ILW transactions are in the works right now, from what several market sources have indicated to PCS. Risk is being transferred, and there is capital available to participate. Even before COVID-19, there were questions about the Florida renewal, due to the continued loss development from Hurricane Irma, and those issues remain. Some questions and challenges associated with the pandemic persist, as well. However, the risk of the pandemic fully gumming up the works appears to have abated, at least a bit.

Another Near-Term Barrier to Innovation?

PCS remembers the second quarter of 2017 well. We had just launched PCS Global Marine and Energy and seen some positive early adoption activity. And we were in the process of developing PCS Global Cyber. The first steps of PCS Global Terror were in the works, too. The global reinsurance and ILS community was hungry for new ways to transfer risk in these classes of business, and capacity providers were eager to find new forms of original risk.

And then the hurricanes came.

Following Hurricanes Harvey, Irma, and Maria, the global reinsurance and ILS community turned its focus to property-catastrophe fully, to include managing claims. As one would expect. That's why our sector exists.

The knock-on effect of the hurricanes, though, was that innovation had to take a back seat. The losses caused by the storms eroded capacity available for deployment to new forms of risk. The industry's brain power had to be directed to the tasks at hand – paying claims and reconfiguring portfolios for post-catastrophe market conditions. Again, this is just the normal course of business following the largest U.S. catastrophe year since 2005.

Among the most important lessons from 2017 was the fact that not all loss-year consequences are financial. Time, attention, and zeal for new thinking have to be sacrificed for the core business, which can result in temporary setbacks for innovation.

It seems this could happen again in 2020.

Coming into this year, we saw a global industry making progress on cyber risk transfer. The early signs of a more robust retro market were evident, and interest in cyber ILWs had gained momentum. We also saw the early stages of renewed ILW trading for large onshore risk losses (using the newly launched PCS Global Large Loss index).

COVID-19, of course, resulted in market conditions that have required companies to refocus on their core businesses (again), potentially work with a reduced capital base, and generally proceed with extra caution as a result of the broad uncertainty associated with the pandemic. However, PCS remains confident that the industry's commitment to new thinking will continue. As we work our way through the pandemic, we'll all find new opportunities to source and trade new forms of original risk. And we may need to.

The "silent pandemic" threat that COVID-19 poses to the large property risk market (as we've previously discussed in these information-only bulletins) calls for a unique approach to risk transfer, and the ILW market is a natural fit. It may not be as easy to transact right now because of priorities for available capital in the "middle months" between the Japan and Florida renewals, but the importance of risk transfer for this type of risk remains.

Update: SRCC in Latin America

Latin America remains a risk area for strike, riot, and civil commotion (SRCC) claims as a result of COVID-19. Following a turbulent 2019, which saw civil disorder in several countries and a major insured loss from it in Chile, such activity was already a concern for 2020. The rapid spread of the pandemic through the region only seems to have elevated the risk.

Verisk Maplecroft (<http://www.maplecroft.com>) rates ten of the 12 countries in South America as “high” or “extreme” risks, using their Civil Unrest Index. Chile has an “extreme risk” rating. As of the morning of Sunday, April 12, 2020, the country has nearly 7,000 reported cases of COVID-19, in a population of only approximately 19 million.

SRCC risk could come from a number of factors in the region – one of which involves discrimination against migrants (<https://www.americasquarterly.org/content/coronavirus-and-latin-america-4-possible-outcomes>), which is consistent with Verisk Maplecroft’s concerns about the impact of COVID-19 on the informal workforce (see last week’s bulletin). Further, divisiveness involving informal economies, migrants, and high concentration of immigrant populations should give underwriters a reason to monitor for SRCC in several European countries, as well – particularly Italy, Germany, and France. High rates of infection, waves of nationalism, and the risk of subsequent economic malaise could contribute significantly to SRCC risk.

Country	COVID-19 Cases (4/12/2020)	COVID-19 Cases (4/7/2020)	Notes
Brazil	20,964	12,240	
Mexico	4,219	2,439	
Colombia	2,709	1,579	2019 riots caused significant PD and BI, and infection rate is growing rapidly
Argentina	2,142	1,628	SRCC risk according so some sources was forecast to decline in 2020 (prior to COVID-19 outbreak), high infection rate
Peru	6,848	2,561	Noted rapid increase in cases
Chile	6,927	4,815	Extremely high rate of COVID-19 infection, significant catastrophe loss from SRCC in 2019
Ecuador	7,257	3,747	SRCC economic losses of at least US\$1.6 billion in 2019, extremely high rate of COVID-19 infection
Bolivia	300	194	High-intensity SRCC in 2019 according to some reports

Source: PCS internal research, Worldometers.info
Data as of the morning of dates referenced (ADT)

Further information about COVID-19 in Latin America:

<https://www.fdiintelligence.com/article/77284>

<https://www.americasquarterly.org/content/coronavirus-and-latin-america-4-possible-outcomes>

Business Interruption: U.S. Government and Commonwealth of Puerto Rico Government Updates

President Donald Trump recently suggested insurers should pay some business interruption claims related to the coronavirus pandemic. He made the comments on the same day that a group of Republican Senators wrote to him to express concerns about various state lawmakers introducing bills seeking to mandate business interruption coverage for virus-related losses.

His comments come after multiple commercial policyholders, including restaurants in several states, sued their insurers seeking business interruption coverage. In many cases, insurers have indicated that coverage is not triggered because direct physical damage is required for the coverage to apply. The policyholders assert that contamination by the virus and the government restrictions on their businesses constitute physical damage.

Lawmakers in several states have introduced bills that would force insurers to pay coronavirus-related business interruption claims. Additionally, seven Republican Senators on the Senate Banking Committee sent a letter to President Trump stating that insurance legislation introduced in various states “would potentially undermine our understanding of contractual obligations.” The senators stated that the proposed changes “undermine our understanding of contractual obligations” and would serve to “help one segment of the economy by seriously harming another.” They said insurance companies have not charged premiums associated with pandemic risks and therefore do not have the capital and reserves required to cover losses due to the coronavirus closures.

“If the insurance industry were now forced retroactively to cover perils that were never accounted for commercial insurers could experience significant economic strain and/or insolvencies, given the magnitude of the current cumulative estimated claims,” the senators letter indicated.

“Adding another point of stress during these times, this would likely put our businesses in an even worse position — draining the U.S. insurance reserves to pay these claims could leave us in a position of having inadequate reserves to cover claims that are actually intended to be covered, such as damage from wind, fire, hail, and other covered perils,” they added.

“Because business interruption insurance typically does not cover pandemics absent an explicit rider, insureds under these policies were never charged premiums for that risk and insurers did not reserve for or hold capital against the potential future loss,” the letter continued.

The senators also questioned the need for a government backstop to respond to business interruption losses from future pandemics. Reference our **PCS COVID-19 Informational Bulletin Number 10 update regarding the Pandemic Risk Insurance Act** for additional information.

In Puerto Rico, the House of Representatives is considering a bill that would force insurers to pay business interruption claims retroactively. Known as Project 2469, the bill is being reviewed in the Committee on Consumer Affairs, Banking and Insurance. Local insurance leaders in Puerto Rico has have released several statements in response to the bill one of which states “Reinsurers would stop participating in this market if the measure is approved since in Puerto Rico the clauses would be altered after they accept them.”

Mobility Data and COVID-19: The Effectiveness of Staying at Home

Google's COVID-19 Community Mobility Reports provide aggregated and anonymized location data retrieved from Google Maps and other Google products utilizing location services. The reports show movement trends over time based on baseline data from early and mid-February for the respective categories. Reports were generated for the following categories: Retail & Recreation, Grocery & Pharmacy, Parks, Transit Stations, Workplaces, and Residential.

The percentages provided below show the increase/decrease from the baseline, up to April 5, 2020. The idea behind this report is to help government and health officials make critical decisions to combat the spread of COVID-19.

	Retail & Recreation	Grocery & Pharmacy	Parks	Transit Stations	Workplaces	Residential	Confirmed Cases as of 4/12/2020	Percentage of Population
CHILE	-69%	-49%	-70%	-59%	-42%	20%	7,213	0.038%
FRANCE	-85%	-62%	-73%	-82%	-53%	17%	129,654	0.199%
GERMANY	-58%	-13%	61%	-47%	-30%	8%	125,975	0.150%
GREAT BRITAIN	-82%	-41%	-29%	-70%	-54%	15%	84,279	0.124%
INDIA	-77%	-65%	-56%	-71%	-43%	21%	7,794	0.001%
ITALY	-95%	-82%	-90%	-86%	-62%	24%	156,363	0.258%
JAPAN	-25%	2%	3%	-43%	-13%	8%	6,748	0.005%
USA	-59%	-28%	-11%	-68%	-47%	15%	503,198	0.150%
SOUTH KOREA	-17%	14%	46%	-14%	-13%	6%	10,512	0.021%
SPAIN	-94%	-77%	-90%	-89%	-68%	23%	166,019	0.355%
TURKEY	-76%	-40%	-61%	-76%	-48%	19%	56,956	0.068%

Source: Google COVID-19 Community Mobility Reports

Many believe that staying home and social distancing will help slow down the spread of COVID-19. Multiple countries throughout the world have issued stay at home orders in hopes of combating the contagious coronavirus. Above, we have compiled reports for some countries along with the number of confirmed cases as of April 12, 2020.

New York has been heavily hit by the coronavirus and has stayed at the top of the charts within the US for both number of cases as well as number of deaths. On March 22, 2020, Governor Cuomo of New York officially activated the stay at home order for New Yorkers, to flatten the curve. The data provided by Google shows that Rockland County (which has the highest number of cases in NY) showed a significant drop in people being out and about, but the numbers were still not as low as someone would hope. Retail and recreation were only down about 61 percent from the baseline set in mid-February and the decrease was only about 60 percent for transit stations, and workplace was only down about 47 percent. The report suggested very similar numbers for Westchester County (third highest infected county in the United States). There was a 60 percent decrease in individuals visiting retail and recreation locations and 48 percent decrease for the workplace locations.

Countries like Turkey and France are of concern as well since they, like New York, are doing well at keeping citizens inside and recommending social distancing; however, both countries are seeing an increase in number of confirmed cases. Chile, for the time being, is doing well at keeping people at home and thus have a fairly low number of confirmed cases.

Based on the reports above, Spain, Italy, and France have some of the most compliant numbers for the people staying at home and not going to public locations; however, they're still seeing the highest

number of confirmed cases for COVID-19 for percentage of population. Countries like Japan and South Korea, who have a relatively low number of confirmed cases do not have people staying indoors and avoiding public locations. South Korea has actually seen an increase in the number of people going to Grocery Stores, Pharmacies, and Parks. Germany is having some mixed numbers with a decrease in most of the categories except for parks where there was an increase in 60 percent of people attending the parks.

Turkey, Chile, and India are moving in the right direction with majority of the population staying at home and their numbers of confirmed cases staying on the lower end of the spectrum. India has initiated a countrywide curfew that could keep the countries case count low.

Data provided by the google community mobility report shows that staying home and social distancing alone will not be able to stop the spread of the COVID-19. Other precautions have to be taken to preventing the spread of COVID-19.

Updates from the PCS COVID-19 Webinar Series

If you weren't able to join us for our webinar last Friday, "The Problem with Pandemic Parametrics," you'll be able to view a recording soon. We'll be sure to send the link to it. Additionally, we're getting ready for next Friday's PCS webinar on the cyber re/insurance market during COVID-19 with a few knowledgeable and insightful guests. You'll definitely want to join us 10am EDT – register at <https://register.gotowebinar.com/register/8479154803544888333>.

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&adapt=awareness&sf_id=7015x000000iQIAA2&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.