

PCS Information Bulletin #12: COVID-19 Review

Wednesday, April 15, 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.

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.

Cyber Fines: ICO Defers Marriott and British Airways

The Information Commissioner's Office (ICO) in the United Kingdom has announced six-month deferments for the fines issued to British Airways (PCS Global Cyber 1815) and Marriott (PCS Global Cyber 1814) as a result of their 2018 breaches. The deferments come on top of a previous three-month deferment and were implemented because of the impact of COVID-19 on the travel and hospitality sector.

- Marriott fine: £99 million
- British Airways fine: £183 million

Both fines are significant because of their sheer size, although the BA fine is of far more significance to the global cyber re/insurance sector. Marriott's fine comes atop what is likely to be a limits loss to their cyber program (whether strictly from first-party losses is still being debated around the industry). Further, it's unsure whether the fine would have been covered even if the limit hadn't been reached. Like so many limits losses in the affirmative cyber market before Marriott, the size of the loss ultimately cost the industry a learning opportunity.

BA's fine, on the other hand, fundamentally reshaped the loss and could have profound implications across the market. Before the ICO fine, the BA loss from its 2018 cyber breach was estimated to be less than €10 million and contained within the first layer of the Euro-denominated program. As such, it didn't even meet the threshold for PCS Global Cyber designation. The fine is larger than BA's entire 2018 affirmative cyber insurance program.

Whether fines and penalties are covered by the program remains the subject of intense debate worldwide. Some contend that the language not only supports coverage for fines and penalties, but that there was a discussion about this prior to inception, at which point it was confirmed. The insured and the capacity involve markets where fines and penalties can be covered. Other players in the market, though, contend that the issue can be challenged.

Many in the market are waiting to see if BA will be able to fight the fines successfully before weighing in on whether the program covers them. The current PCS Global Cyber bulletin provides an estimate and commentary reflective of the current state of the market. We will be working with our network of supporters to determine the implications of this fine deferment (if any) on the industry insured loss estimate.

Read the footnotes

It's always difficult to discern between fact and positioning in the early days of an event that has no real precedent within the past century. If you haven't taken a look at it yet, we suggest you read our white paper from last year, ***Reinsurance Manifesto: Getting Better Than "Any Other Credible Source" in the Public Domain***. If you need a copy, just give us a shout. This issue is about to take on renewed importance. In times of uncertainty, public statements are often used to try to shape an outcome.

A recent report by the OECD, *Initial assessment of insurance coverage and gaps for tackling COVID-19 impacts* (<http://www.oecd.org/finance/insurance/Initial-assessment-of-insurance-coverage-and-gaps-for-tackling-COVID-19-impacts.pdf>), is very much worth your time. What struck the PCS team, though, was a footnote on the sixth page, indicating that property-catastrophe treaties "are generally silent on whether pandemics are covered and intermediaries have suggested that it would be difficult for reinsurers to deny a claim that a cedant has incurred under a property insurance policy."

The key words in that language are: "intermediaries have suggested." Those three words indicate that this is far from established fact. PCS is planning to keep an eye on developments on this issue to see how they materialize. PCS has no opinion on the issue of whether property-catastrophe treaty language would address pandemics in any capacity.

What is interesting, though, is that there could be a mismatch between reinsurance and retro. That won't be an issue if reinsurance losses don't reach retro attachment points. And even the notion of a large reinsurance impact is uncertain right now, as we're still in the early days of the pandemic. A lot would have to develop in order for reinsurers to experience property losses (particularly given the lack of property damage and the discussion of infectious disease being excluded from property insurance in general).

However, let's take a look at this issue a bit more. Even if it isn't directly relevant for COVID-19, the implications of this thinking could be useful in developing future covers.

If there were enough property claims to cause retro to attach, the mismatch could come in the ILW market. PCS does not have a category for infectious disease, and based on what we've seen so far, it's unlikely that COVID-19 would fit into any storm family or peril that PCS uses (although we do leave room for the fact that SRCC claims could result in a "civil disorder" catastrophe designation by PCS in the future, as long as the underlying conditions are met). The problem would involve reinsurance losses from COVID-19 that are covered, and an ILW that does not show any losses because COVID-19 isn't covered by PCS as a catastrophe.

Based on what we're hearing so far in the market, PCS does not believe that this will be a significant issue for 2020. But, we believe that a discussion on this is important for helping re/insurers transact in the future.

COVID-19 and Turkey

The rapid spread of COVID-19 in Turkey has taken the country from 1,236 cases on March 28, 2020 (the first day the country reached 1,000) to more than 50,000 on April 11, 2020. The virus is most prevalent in Istanbul, followed by Izmir and Ankara (the three largest cities by population).

As to property insurance exposure, PCS has learned that virus tends to be excluded, which means there shouldn't be any meaningful industry impact. However, there are claims being paid in the private health insurance market.

UPDATE: Major European Airlines Impacted by COVID-19

The travel industry has been one of the most significantly impacted industries by COVID-19. According to International Air Transport Association (IATA), major European airlines are struggling the hardest, and some could have difficulties surviving the second trimester of this year if they do not receive significant bailouts from governments or private banks.

Air France KLM has asked for several billion Euros from the French and Dutch governments to help them make it through the next four to five months. Both governments each own 14 percent of Air France KLM and decided to work together to support the airline. At the same time, the airline has been in negotiations with several private banks for loans of 12 to 18 months (backed up by governments), however a consensus has not been reached yet.

Lufthansa is on the brink of sending 60 percent of its workforce on temporary unemployment due the decreased number of flights. Ninety percent of the flights operated by the airline have been suspended. Lufthansa is asking the German government for several billion Euros in liquidity relief funds in exchange for taking over part of the company. According to Reuters, several banks are involved as well in these negotiations, including Deutsche Bank and Golden Sachs, among others.

Austrian Airlines, a subsidiary of the Lufthansa group, has indicated that layoffs are very close to happening. Germanwings, the low-cost operator for Lufthansa, has completely stopped all their flights and employees' hours have been reduced drastically. Austrian has also sent out a memorandum indicating it is asking for support from the U.S. government – up to US\$12 billion – while also negotiating with its local Austrian government asking for €800 million to maintain liquidity and help save jobs. The discussions are in the preliminary stages and they could take weeks until a concrete agreement is reached.

Based on the most recent estimates, IATA believes airlines worldwide could record a loss of approximately US\$39 billion in the second trimester alone due to the COVID-19 crisis.

Decreased auto usage and premium refunds resulting from COVID-19

States across the U.S. have issued stay-at-home mandates to help slow the spread and flatten the curve of COVID-19. In the U.S., that has led to a decline of about 35% to 50% in driving in many states.

As a result, multiple insurers in the U.S. have taken steps to refund auto insurance premiums to their policyholders. In general, insurers that represent four out of five auto insurance policies sold in the United States have offered to refund some portion of auto premiums according to the Consumer Federation of America (CFA) and the Center for Economic Justice (CEJ).

Auto insurance companies in the US will offer about \$10.5 billion in insurance premium rebates to their customers according to the Insurance Information Institute (I.I.I.). I.I.I. indicated in a release that it based its findings on an analysis of 14 auto insurers operating in America who recently announced premium refunds, discounts, dividends, and credits totaling \$8.1 billion. These insurers cited reduced policyholder mileage and the receipt of fewer claims resulting from the COVID-19 crisis as the reason why they are offering financial relief

California Insurance Commissioner Ricardo Lara has taken the additional step of ordering insurers to refund some premiums to help provide financial relief to businesses and consumer during the coronavirus pandemic. The Governor's bulletin impacts insurance lines with a decreased risk of loss due to the crisis, including private passenger and commercial automobile, workers' compensation, commercial multi-peril and liability, and medical malpractice, according to a news release from the commissioner's office.

The order would cover premiums for at least March and April and could extend through May if statewide stay-at-home restrictions remain in place.

In the U.K., multiple insurers have reported decreases in motor claims by of 40 to 50 percent. However, reports indicate motor insurance companies in the U.K. have not widely taken action to discount, refund or rebate motor premiums and have received questions for providing automatic refunds or discounts to customers who are driving fewer miles as a result of the coronavirus lockdown.

While in Canada a number of Canadian insurers are also reducing or rebating auto insurance premiums to compensate customers who are driving less because they are working at home or are self-isolating as a result of the coronavirus pandemic.

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.