

PCS Information Bulletin #13: COVID-19 Review

Monday, May 4, 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.

Apologies for the brief break from publishing. We're back to regular updates again and plan to stick to our Monday/Wednesday/Friday approach, keeping in mind that we may be much lighter on some days based on the flow of information and focus of the market. Even though it's been a couple of weeks, we'd like to remind you that we're still in the early days of COVID-19. The initial rush of information has yielded to a seemingly more manageable flow. Folks are working from home, tending to the matters they normally would at this time of year (such as the Florida renewal), and generally insuring that our industry executes as usual.

While all eyes are on the Florida reinsurance renewal right now, it's important to think about what needs to happen from June 2, 2020. There's a human tendency to know that there's a big problem lurking out there – but to focus on near-term priorities out of habit, convention, or simply the pressure of a deadline. And although Florida is important, the risks of a COVID-19 resurgence – due to anything from early reopening's to the nature of the virus itself – are significant and worth some attention.

If, as some have suggested, COVID-19 could return after the summer, the result could be either infection or restriction measures that impact the holiday shopping season in Q4. That massive consumer spending season has implications for both retailers and the economy as a whole. Further, any knock-on effects (such as further unemployment) could lead to the sorts of instability that point to increased SRCC and cyber risk.

The ability to hedge effectively against a resurgence of COVID-19 and other attendant risks (such as SRCC and cyber) for the rest of the year will depend on two things: available capital and how well we understand the uncertainty ahead of us for the rest of the year. We'll lay out our thinking but suspect this won't be news to most of you.

As to available capital, the main consideration there is to see what's left after the June 1, 2020, reinsurance renewal. Even before the pandemic, the PCS team got a lot of questions about Hurricane Irma and Michael development – all within the contest of the upcoming Florida reinsurance renewal. So, there's been intense focus. If there isn't much capital available after the renewal, then that could make any sort of unconventional end-of-year hedge impossible. If there is capital, then protection buyers could find themselves facing an increasingly certain outcome – meaning that either the hedge isn't needed or it is urgent. If the former, there's no reason to buy. If the latter, nobody would sell.

There's no telling how fast things will move after the Florida reinsurance renewal is completed. It's important to sort out today's priorities, but at the same time, it would make sense to start planning for the rest of the year, as well, particularly if you're looking into broad parametric hedges for pandemic, cyber, and SRCC.

What Types of Claim Could Come from COVID-19?

Feel free to skip this section if you watched our earlier webinar on this – and if you'd like to see the recording, please follow this link (<https://www.verisk.com/insurance/webinars/on-demand/2020/what-could-a-covid-19-claim-really-look-like/>). While there's been plenty of talk about business interruption in the property market, the PCS team has identified several other areas that are worth your time:

Strike, riot, civil commotion (SRCC): We've mentioned this risk a fair amount over the past few weeks. Stay alert for signs of local unrest in the regions represented in your portfolio. Hungry people who aren't working and don't feel represented by their governments – unsurprisingly – pose a greater risk of unrest. Also, SRCC is among the few ways a catastrophe could realistically emerge from COVID-19.

Event cancelation: Again, this one shouldn't be a surprise. However, it may not be as straightforward as some think. Event cancelation isn't just a blunt force mental exercise of, "The pandemic is causing events to get canceled, so there will be losses all over." Different types of event result in varying ranges of flexibility. Some can be postponed, while others have to be canceled. One-time events, annual events, and those that occur every several years don't involve the same set of alternatives for event organizers. Please see below for a more in-depth look at these different potential experiences.

Ocean marine: There has been no shortage of media coverage on cruise ships and passengers at sea, looking for ways to gain access to ports throughout COVID-19. It appears that the last of them has come in, and so far, there's been little discussion in the industry about this class of business having significant losses from COVID-19. In general, the potential claims have been too small, according to the early assessment work we've done under PCS Global Marine and Energy. However, we have heard that the Diamond Princess could reach meaningful levels, albeit below the US\$250 million threshold for official inclusion in our loss reporting platform. We will continue to monitor this event for potential designation and may track it even if it remains under US\$250 million as part of our effort to reduce our reporting threshold for this class of business.

The view across the market appears to be that there are no other significant threats to the global marine market, although we do note that crew shortages due to COVID-19 do increase operational strain and could lead to an increase in risk of error or negligence. Additionally, the concentration of vessels outside ports in hurricane-prone areas (e.g., Miami) could become problematic during hurricane season.

Large property risk losses: The revelation of a potential claim by the Port Authority of New York and New Jersey – with a tower of US\$1.6 billion – is the first major indication that some large property programs could be affected by COVID-19. PCS is told that several insureds have notified on their large property programs. However, this could be part of an effort to get access to federal funding (as has been reported) or even, according to our sources, part of the normal course of the market when an event with even the potential to result in a claim occurs, even if a successful result may appear unlikely.

Several market sources have indicated that they expect several large property programs to result in insured losses as a result of COVID-19.

The Potential Range of Event Cancellation Experience

Re/insurers around the world have indicated a wide range of potential insured losses for the event cancellation market – some reaching tens of billions of dollars industrywide. As with any global loss event, granular analysis is important, because the likelihood of market homogeneity tends to be pretty slim. Below, PCS takes a look at the factors affecting events that are held every four years (e.g., the Olympic Games), annually (in this case, Wimbledon), and once only.

The 2020 Olympic Games, for example, may not result in a significant insured loss, according to some of our sources in the market. The event has been postponed. That should limit the effect on television revenue and global merchandising. Travel and in-person spending may suffer (it's too soon to tell), but that could be offset by increased demand in other spending categories. Overall, though, there's a lot of distance between the current situation and a full cancellation.

The Olympic Games, of course, benefit from the four-year schedule. Postponing for a year is plausible. Annual events, on the other hand, don't necessarily have that flexibility. Take Wimbledon, which is reported to have had a £100 million cover in place. An initial six-month postponement may not be realistic for the event (given the weather), and it may not be far enough out anyway, depending on whether there's a second COVID-19 wave later this year. A postponement until next year, of course, would put the tournament close to the 2021 installment – not to mention causing schedule problems with other similar events. Such factors increase the risk of cancellation for annual events, which would presumably have a greater insured loss impact than postponement.

One-time events have some additional factors to consider. They could be postponed if they are truly one-time, although a concert tour, for example, would have to cope with a knock-on effect from some date cancellations. Thus, there's a potential range from low to full insured loss. Additionally, market sources indicate that the timing of the cancellation could make a difference. If factors such as lack of access to hand sanitizer or potential staff made it impossible to hold an event, and if the cancellation was not ordered by the government, that could be much different for the insurance industry than a scenario in which large gatherings were prohibited by civil order.

Upcoming Friday Webinar

We'll include the registration link for our next webinar in our next bulletin (on Wednesday). For now, we suggest you block out some time in your calendar for Friday at 10am EDT (3pm in London). This week's session will feature Ted Gregory, director of operations for PCS, discussing the implications of COVID-19 for catastrophe claims handling – an important topic with hurricane season right around the corner. Please do feel free to share this (and the upcoming link) with your clients and colleagues.

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.

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=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