

PCS Information Bulletin #14: COVID-19 Review

Wednesday, May 6, 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.

Although the coronavirus pandemic has not shut down daily adjusting operations, the approach to handling claims is constantly evolving. Claims managers are working to stay on top of new government regulations and guidelines. According to a recent survey from Insurance Nexus, 68 percent of claims executives believe that claims adjusting will never be the same after COVID-19.

The PCS team reached out to many of our partners in the industry from primary insurers, wind pools and residual markets and independent adjusting firms to identify challenges that they anticipated on the horizon that could impact claims response in the event of a significant hurricane or other major claims property damage event. With this feedback, we published a bulletin early on which consisted of feedback from some of our partners within the insurance industry regarding ***How COVID-19 could Impact Catastrophe Claim Handling***. Since then, we've followed up with some of our contacts in the field after the storm activity that occurred over Easter weekend with tornados in several states for more feedback on the challenges being faced in the current environment.

A recurring response we received was regarding safety concerns for both adjusters and policyholders when an onsite inspection is warranted, especially when interior inspections are deemed necessary. An adjuster who may be asymptomatic interacting with older insureds (according to the CDC are at higher risk of contracting COVID-19) presents a significant risk that insurers will have to weigh. And they may have to explore alternative ways to engage with clients in the event an adjuster isn't allowed inside by the claimant to perform the interior inspection.

A major hurricane in Florida would certainly expose this issue. Beyond the sheer scale of losses often seen from major Florida hurricanes, our industry would also have to figure out how to handle claims from the high number of retirees and elderly across the state. Personal protective equipment is at premium, and we have heard from multiple sources many adjusters do not have enough of the proper equipment for daily use – a challenge similar to that of many medical professionals. The possibility for reputational or public relations problems if an adjuster tests positive for COVID-19 after having visited insured locations is a significant risk highlighted by several of our sources. Ken Toolson the president of Crawford US recently mentioned that, so far, only 3 percent of the policyholders they've contacted have said they are suffering from flu-like symptoms or have recently returned from an overseas trip or a high-risk area.

Companies are expanding the use of remote adjusting technologies and applications, with adoption increasing dramatically over the past several months. However, the reduction of physical inspections

may lead to significant supplemental payments and increased loss severity, as identification of moisture in structures and delayed water mitigation is anticipated to create additional loss severity.

Although fast-tracking and remote adjusting can account for a significant percentage of claim settlements, there would still be a need for field resources for physical inspections of complex personal lines losses. Commercial losses in particular generally would necessitate physical inspections and those large losses with large reserves with a potential for significant Business Interruption losses triggered by a physical damage loss event during this COVID-19 situation of significant concern to many.

Update: Large Property Risk Market Activity

PCS has heard from the global re/insurance market for a couple months now that large property risk programs (at least around US\$200 million in limit and up) could be affected by COVID-19. In fact, several PCS sources indicated that the market could realistically expect several such losses this year. Apparently, it's not unusual for original insureds to pursue claims early on as a way to demonstrate the effort en route to an application for federal relief or simply in an aggressive effort to achieve compensation.

So far, PCS has not designated any such events in PCS Global Large Loss as a result of COVID-19, given that preliminary notice steps are not sufficient to suggest industry losses for large risks in excess of our US\$250 million threshold. We will continue to monitor developments in this sector and will update our perspective as appropriate.

Recently, it was reported that the Port Authority of New York and New Jersey is trying to claim against a US\$1.6 billion tower. A limits loss would make this relevant to the large property risk ILW market, where common trigger thresholds range from US\$1.25-1.5 billion. However, there is no indication so far of a loss of any amount, and this is still early in the process. For re/insurers conducting analysis on this market for the purpose of ILW risk transfer, though, the scenario is worth nothing.

Additionally, the Thor Equities claim that was recently reported involves a tower of US\$750 million (<https://www.law360.com/insurance/articles/1269319/thor-equities-hammers-insurer-over-covid-19-rent-coverage>), which would put it below the threshold of most individual large risk loss ILWs. Again, there's no indication of a loss of any amount, as it's still too soon to tell what any outcome would be.

COVID-19 Trade Credit Insurance

COVID-19 continues to make a massive impact on a global scale, which leads to an increase in risk that companies will be unable to pay outstanding receivables. These risks have been intensified by a blend of government emergency orders, restrictive regulations, and amendments that have been enforced around the globe to mitigate the transmission of COVID-19.

What is trade credit insurance? Trade credit insurance policies are used by businesses for many reasons. It is used to protect businesses from a debtor that cannot pay a debt, does not pay a debt, or becomes insolvent. Trade credit insurance may allow businesses to pursue new customers that would have seemed too risky. It also reduces the immediate liquidity needs of buyers, which eliminates the need for buyers to pay in advance.

Some of the major industries that have adopted trade credit insurance are construction, retail, importer/exporters, metal/oil/gas, textile/clothing, and agriculture. Policies may range from \$1 million up to \$100+ million. Smaller businesses are typically insured on a company to company basis while

larger companies may have their entire book of business insured. It is important to note that trade credit insurance is serviced daily. Unlike property insurance, as market conditions and the creditworthiness of companies change, so do the terms and coverage of trade credit policies. Trade credit carriers don't reduce/increase premiums or cancel policies without new information. And the frequency at which companies release financial information determines how often an underwriter may service that policy.

According to Moody's, the coronavirus outbreak will lead to more corporate defaults than the global financial crisis of 2008. Most trade credit insurance policies include a waiting period after a bill is due before a claim can be submitted by a policyholder. General payment terms between suppliers and buyers can range from 60 to 90 days; however, terms may extend over 120 days in certain circumstances. One can expect that COVID-19 related claims will begin to arrive during the early summer months and continue throughout the year; therefore, insurers and re-insurers have begun to brace for the waves of COVID related claims. What has traditionally been one of the lowest loss ratio lines of insurance may take a massive hit in what some are calling a "black swan" event. The impact could depend on how bad the pandemic becomes, the extent to which regulations and restrictive measures affect different businesses, and how long it lasts.

Our Newest Webinar: Hurricane Claim Handling and COVID-19

Hurricane season is right around the corner. As the global re/insurance market works through the annual Florida reinsurance renewal, there are plenty of questions about how insurers would handle a hurricane this summer. After all, people are working from home, claimants may not want to get within six feet of adjusters – let alone let them do interior inspections. How would the industry handle this? Ted Gregory, director of PCS operations, will be joining us on Friday at 10am EDT for the weekly PCS webinar. We're prepared to go longer than the usual 60 minutes to accommodate any additional questions that may come in. Please feel free to share the link below with colleagues and clients.

<https://register.gotowebinar.com/register/4557800459152149004>

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