

PCS Information Bulletin #16: COVID-19 Review

Wednesday May 13, 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.

Surety overview

Note: We know there are probably some surety experts among our readers. If you're one of them, feel free to skip this explainer piece. We understand. That said, we'll probably be integrating this type of content into our information-only COVID-19 bulletins from time to time given the broad diversity of our audience. PCS works with a wide range of insurance industry professionals worldwide, so we hope that the occasional explainer piece will help at least a few folks in our community learn a bit more about the industry, and how COVID-19 could affect it.

A surety bond is an instrument by which one party becomes legally liable for the debt, default, or failure of another party. This most commonly occurs when insurance companies take on the liability of contractors. There are three parties in the typical surety transaction: the principal (i.e., the contractor, who is often mistakenly referred to as “the insured”), the obligee (i.e., the project owner protected by the bond), and the surety (i.e., the insurance company or guarantor). Surety bonds give the obligee assurance that the contractor will complete the work. The bond also vouches for the contractor. As part of the bond qualification process, insurance companies thoroughly examine the contractor’s financial statements, project history, staff, and equipment.

If this environment was one that was easy to navigate up to now – with insurers having a variety of companies to choose from – the current challenges from COVID-19 have changed the situation dramatically. Companies need to work within the regulations that the CDC and WHO have put in place regarding worker safety, as well as justify which projects are actually essential. Social distancing and adequate spacing between laborers are difficult. Tight jobsite quarters, sharing of tools and equipment, and the requirement to routinely disinfect hands and surfaces raise concerns and are considered just some of the challenges the surety sector faces.

The surety and construction worlds are inextricably linked. When the construction sector is booming and economic times are prosperous, surety companies see very few claims. The only challenges are shortage of labor, aging generation of skilled tradesmen, and a nation’s infrastructure. However now, with the COVID-19 environment, restrictions are impacting construction jobsites, either because parties are unsure if they can continue or specific leave or “hall passes” for workers are required to proceed. Restrictions on operations across the world have hindered production, acquisition and transport of other materials, driving up prices or slowing job progress. This unanticipated market demand is creating material shortages which threaten the viability of ongoing projects. All these scenarios yield to the unmistakable conclusion that bond claims could increase exponentially over the next year.

As the impacts are being felt and local and state governments are issuing orders rapidly, sureties and their contractors are advised to read the fine print of their contracts. Standard form bonds do not address work stoppage, delays, acts of God, but clauses and provisions do – such as force majeure or

comparable excusable delays, suspension of work or work stoppage, terminations, change in law. Given the likelihood of liquidity and solvency challenges across many industries it is expected that the risk of loss to the surety market to increase significantly.

As of December 31, 2019, there were 323 insurers that reported direct written premium for the surety insurance line of business in the US alone. Direct premium written was nearly US\$6.8 billion for those insurers at year-end 2019, according to NAIC.

All of this could change significantly as the impact on the industry will face new issues. Business relationships are a more significant factor than ever. The surety's bonded contractor/principal may be unable to keep its doors open if it is unable to remain on budget, or if the loss of work becomes too severe due to the pandemic. Construction financing can be withdrawn or modified, severely impacting the principal's ability to perform or bid on future work. The principal and surety need to assess insurance coverage, the impact of work stoppages, inability to perform, and delays in completion requiring policy extensions and cost increases.

Here are ways that COVID-19 has altered the construction industry for the near future and beyond:

- Job sites should become cleaner and safer
- Distancing will be the norm, via technology – remote technology for inspections
- Projects will take longer – job sites will add to the time it takes to complete projects
- Telework will become more common - cost benefits of a remote workforce
- Union influence will grow – they provide a voice for the workers
- Demand for project types will change – healthcare-related manufacturing projects could see more activity
- Supply chains will recalibrate – sources of materials around the world could change
- Modular adoption will increase - offsite construction methods

It is essential for the surety to understand the multitude of pandemic-related challenges construction projects will encounter. The challenges caused by the pandemic are unforeseeable but will have a significant impact on the construction industry.

COVID-19 related automobile data and loss trends

Three months into the coronavirus pandemic, the United States faces another crisis as a byproduct of the COVID-19 pandemic, a surge in speeding and reckless behavior on the nation's roadways.

According to law enforcement and traffic experts, reports of drivers being cited for traveling over 100 mph are becoming more common. Reports of drag racing, drivers chasing land-speed records and more speed-related crashes have been reported by police agencies across the country almost immediately after states began their coronavirus lockdowns in mid-March when traffic volumes fell dramatically.

Drivers in some states also may be hearing that police departments have ordered officers not to make routine traffic stops so they can avoid unnecessary direct contact with motorists during the pandemic, highway safety officials have stated.

According to Susanna Gotsch, CCC director and analyst, analysis of collision and liability auto insurance claims processed by CCC on behalf of its insurance customers from mid-March by week over the last

three years revealed an increase in the percent of overall claims flagged non-drivable as well as increase in the percent of claims flagged total loss.

In Atlanta, a driver who tested positive for the coronavirus, and was supposed to be in self-quarantine, was pulled over by a state trooper for allegedly driving 130 mph in a 65-mph zone on Interstate 75 last month.

In New York, a police officer assigned to a coronavirus response unit was killed when a driver who was allegedly drag racing on the Cross Island Parkway struck the back of his Harley-Davidson motorcycle. And in early April, social media exploded with celebrations of a new coast-to-coast speed record amid the coronavirus shutdown, following reports that a crew of three men drove from New York to Los Angeles in 26 hours 38 minutes which would require them driving an average of 100+mph.

Traffic nationwide is down 41 percent compared with pre-pandemic volumes, according to the transportation-data firm Inrix. Volumes of some of the country's busiest highways are down by 50 percent. However, traffic incidents, such as crashes, have dropped only 21 percent nationwide.

In some of the most congested areas of the country, average speeds have increased by as much as 250 percent. For example, the average speed on Interstate 405 at 5 p.m. in Los Angeles went from a crawling 19 mph to 68 mph. In Chicago, the average speed on Interstate 290 more than doubled 24 mph to 62 mph. In the Washington region, average speeds during the evening rush rose from 27 mph to nearly 70 mph on the Capital Beltway, well above the posted 55 mph limit.

The analysis of millions of miles of driving data based on smartphone sensors found speeding is up by 27 percent on average, while hard braking climbed 25 percent. Phone usage on the nation's roadways steadily increased in the weeks following the stay-at-home guidelines, up by 38 percent in mid-April, according to the report.

Traffic safety advocates are pushing for more enforcement and education, concerned that the bad behavior could continue as states reopen and more people return to the roads.

New white paper on claim handling during COVID-19

Following our webinar last week (recording soon to be available at www.verisk.com/originalrisk), PCS has updated and fine-tuned a white paper on claim handling during the pandemic. We originally released it early in the pandemic, and have since received more feedback from our clients in the U.S. catastrophe re/insurance sector. If you'd like an updated copy, please reach out to Tom (tjohansmeyer@verisk.com), Ted (tgregory@verisk.com), or anyone else at PCS. Even if you read the previous version and attended the webinar last week, you'll probably want to see the update.

Webinar: Hedging a Difficult Q4

This week's PCS webinar ties together several themes we've discussed since the early days of the pandemic. It's difficult to say what will happen until the end of the year. There's the risk that COVID-19 won't subside, or that a summer lull could lead to an autumnal resurgence. A significant increase in cases could lead to the sort of heightened instability that drives greater risk of SRCC and cyber attacks. S

So, there's a basket of risks that could occur simultaneously closer to the end of the year. Of course, consumer spending hits a high point in the middle of the fourth quarter, with the holiday shopping season. A series of manmade risks (like cyber and SRCC) at the same time as a resurgence of COVID-19 would make what's shaping up as a bad year even worse for retailers, and consumer spending tends to be seen as the global economy's engine.

Join us on Friday at 10am EDT (11am in Bermuda, 3pm in London) to discuss some interesting ways to manage risk and capital in what could be an interesting and challenging fourth quarter. Register at <https://register.gotowebinar.com/register/3510807004759046159>, and please feel free to share the link with clients and colleagues, friends and family.

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