

## PCS Information Bulletin #35: COVID-19 Review

*Wednesday, September 23, 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.

### **Is this how the second act begins?**

Since the spread of COVID-19 appeared to recede substantially over the summer – absent certain key regions – there’s been plenty of speculation as to whether the first wave of the pandemic was behind us. Periodically, someone would suggest that a flare-up of transmission was a second wave. Most such speculation tended to be dismissed, on the assumption that a genuine second wave of infection would be of the sort that “you’d know it when you see it.” And it looks like Europe might be starting to see it (<https://www.cnn.com/2020/09/19/europe/europe-second-wave-coronavirus-intl/index.html>).

- The United Kingdom’s 14-day notification rate exceeded 45,000, according to the ECDC. That’s a new record. Of course, increased testing may contribute to the spike, which would make it difficult to compare to similar metrics from the country back in March and April. However, the spike remains noteworthy.
- France reached a record level of new COVID-19 cases reported in a 24-hour period last Friday (13,215). Hospital admissions are on the rise as well.
- Italy and Poland also reached 24-hour highs for reported cases.

Summer vacations, back-to-school, and general complacency are offered as reasons for the resurgence of COVID-19. And with summer ending and flu season coming, it seems as though conditions for another significant threat from the pandemic could be in the making.

What’s interesting now is that we have more than six months of experience as a global risk area. There have been advancements made in our collective understanding of the virus. Mask use is more common, and there are a range of legal and social pressures against high-risk activities (such as gathering in bars and restaurants). While such restrictions aren’t always honored, the fact that they are in place could provide more social infrastructure for a return to more aggressive measures should they become necessary. In March, most areas were starting from a standstill.

As a re/insurer trying to ascertain the potential impacts of a second wave of COVID-19, the effort becomes a bit nuanced.

- Shutdowns/lockdowns/civil orders to close: There’s still no accepted nomenclature or definition of “lockdown,” and that would have to be addressed in order for serious risk-transfer agreements to be effective. PCS’s conversations in the market so far suggest there’s some room for improved understanding, here. In addition to that is the question of whether governments would learn from the past and shut down faster if necessary, in the face of a second wave of COVID-19. We don’t believe that experience necessarily begets learning. In particular, we see political risk as a counterbalance to the use of closure orders, which means that the expected

use of such closures in risk and capital management decision making may not be a perfect fit. Political risk remains a crucial factor through the end of the year, and underwriters should spend a bit more time focusing on it. This isn't a pitch, just my personal experience – I've been using Verisk Maplecroft data (<http://www.maplecroft.com>) to refine my thinking on political risk. It's definitely helped.

- Human behavior may also be more of a variable than it was back in the spring. In March, there wasn't even much of a debate about wearing a mask. Now, there is. That means at least some amount of personal risk management behavior can be expected earlier in the second wave than in the first. It won't be perfect. Some folks still refuse to comply with such social norms or government mandates. However, there's still some rather than none. That should provide at least some mitigation, as well as a platform for broader adoption of personal risk management behavior as the intensity of a second wave would increase. Overall, this could reduce transmission speed and breadth relative to the first wave. In the spring, the human behavior variable was, frankly, a bit one-sided. It took time to offer the alternatives (such as mask wearing) that would add dimensions to it. Now, we have a better sense of the ranges in front of us, which could accelerate something of a flight to prudent behavior.
- The economic implications remain uncertain but could be significantly more severe. November has both the largest U.S. air travel day of the year, historically. That's the day before Thanksgiving. It also has the largest retail shopping day of the year – the day after Thanksgiving. (For those of you outside the United States, Thanksgiving is Thursday, November 26, 2020.) It looks like air travel won't be back to historic levels by the end of November, and some major retailers have already announced plans to scale back their Black Friday activity. Also, the busiest retail shopping days of the year – after Black Friday – are all in December. So, the economic threat from a second wave of COVID-19 could be more severe than the first one. Additionally, the workarounds found by many restaurants (such as outdoor dining) won't be as effective in northern locations from November onward.

It seems fairly likely that a second wave of COVID-19 will be an important issue for the global re/insurance industry. If not in terms of direct losses, the economic effects, continued work-from-home requirements, and psychological toll will remain indirect impacts at least. Also, with the January 1, 2021, reinsurance renewal coming, economic malaise and overall health, geopolitical, and economic uncertainty could exacerbate capital constraints and affect market activity. This is where a broader view of macro risks (particularly political risk) could come in handy.

## **A different kind of trip to the mall?**

Not necessarily related to COVID-19, the plight of the mall concept has been an interesting one, as regular readers of these information-only bulletins have seen. And of course, COVID-19 hasn't helped the prospects of this suffering segment of retail and real estate. What has been both fascinating and promising, however, is how malls have sought to reinvent themselves. Here's the latest (<https://www.cnn.com/2020/09/18/business/malls-repurpose-empty-stores/index.html>):

- Doctors' offices have begun to set up shop in malls. Dentists, as well. While it's still early days, it would be fascinating to see if malls become medical centers – or even wellness centers. Regular medical practices, urgent care, and dentists could all be located in one central place. Add to that a gym, nutritionists, counseling and therapy, and maybe even a spa? I'd be more likely to visit a mall like that than a traditional one!
- Fulfillment and distribution centers are also beginning to take over locations previously occupied by retailers.
- In Idaho, a Sears is being replaced with a charter school for high school students (roughly ages 14-18 for those of you in countries with different names for this stuff).

Malls will continue to be challenged by conditions related to COVID-19. After all, they are natural gathering places, and basic personal risk management during the pandemic is to avoid such locations. However, if they can outlast the worst of the economic malaise forced by the pandemic, the retooling could have positive consequences.

## **Upcoming COVID-19 effects on Aviation Industry**

In normal years, our PCS team would log hundreds of thousands of miles annually to meet with our subscribers, industry partners and business contacts internationally. However, as we all know with COVID-19, our new normal is meeting remotely via teleconference versus logging airmiles for meetings and conferences. And although not a PCS Specialty Line index, yet, aviation is an industry which we have been monitoring for some time.

In the U.S., Congress approved \$32 billion for passenger airlines, cargo carriers and contractors earlier this year in March on the condition that a set level of air service is to be maintained during the pandemic and that neither jobs nor pay rates were to be cut through Sept. 30<sup>th</sup>. Republican Senators on Monday Sept. 21<sup>st</sup> introduced a bill that would give the airline industry more than \$28 billion in additional aid. Airlines are looking for assistance to prevent massive layoffs in October with CEOs and union leaders reaching out to the White House and Congress to come to an agreement on a deal for more industry aid. They say they will have to start cutting tens of thousands of jobs in a little more than a week without congressional action. But despite bipartisan support to prevent job losses from hitting flight attendants and pilots, an agreement remains uncertain amid a stalemate over a broader coronavirus relief bill. Airlines are calling for a six-month extension of the Payroll Support Program (PSP) that was included in the CARES Act in late March. Under the terms of that law, airlines are prohibited from firing or laying off any employees until Oct. 1. But in order for there to be an extension, Congress would need to pass new legislation.

Airlines are requesting that any new package provides them with a \$25 billion injection to postpone any job cuts at least until April, giving companies more time to recover, potentially leading to fewer layoffs. However, the industry has said it doesn't foresee a full recovery until 2024. American expects it will have to furlough or layoff some 19,000 employees starting next month, more than any other U.S. airline. United Airlines has said it would have to cut about 16,000 jobs but it's reached a preliminary deal to avoid furloughs of close to 3,000 pilots. The unionized pilots started voting on that cost-cutting plan, which would mean a reduction in schedules, this week. Southwest Airlines expects to avoid job cuts this year thanks to thousands of workers who accepted buyouts and leaves of absence. Delta Air Lines also expects to largely avoid furloughs with the exception of more than 1,900 pilots though talks with their union to avoid those cuts are ongoing. Even German airline Lufthansa announced on Monday September 21<sup>st</sup> that it had decided to implement further cuts to its fleet size and personnel, after air travel in the summer season was "significantly" lower than expected.

United Airlines and its industry unions have sent a letter urging Congressional leadership and Treasury Secretary Steven Mnuchin to restart negotiations of COVID-19 legislation. United is the second airline to send a joint letter with its unions to Congress urging a six-month extension of federal aid, following a similar move by competitor American Airlines last week.

As it stands currently, even if the airlines were not having significant issues staying airborne, travel abroad for U.S. citizens still remains challenging and elusive due to the widespread effects of the virus within the U.S. borders leaving other countries to weigh heavily the decision as to whether to allow travelers from the U.S. into their country or not.

<b>Open to US citizens</b>	<b>Open with restrictions to US citizens</b>
Albania	Antigua and Barbuda - Negative Covid-19 test result within 7 days
Belarus	Armenia - Negative Covid-19 test at airport or 14-day mandatory quarantine
Brazil	Aruba - Negative Covid-19 test result within 72 hours
Mexico	Bangladesh - Negative Covid-19 test result and 14-day home quarantine
North Macedonia	Barbados - Negative Covid-19 test result within 72 hours
Serbia	Bermuda - Negative Covid-19 test result within 5 days + \$75
Turkey	Cambodia - Negative Covid-19 test result within 72 hours + \$2,000 Covid-19 deposit
Zambia	Costa Rica - Negative Covid-19 test result within 48 hours, travel insurance and health form
	Croatia - Negative Covid-19 test result within 48 hours
	Dominica - Negative Covid-19 test result within 72 hours

	Dominican Republic - Negative Covid-19 test result within five days
	Dubai - Negative Covid-19 PCR test result within 96 hours of arrival, travel insurance and health form
	Ecuador - Mandatory 14 day quarantine and negative Covid-19 test result within 7 days
	Egypt - Negative Covid-19 test result within 72 hours
	Ethiopia - Negative Covid-19 test result iwith 72 hours, 14-day quarantine
	French Polynesia - Negative Covid-19 test result within 72 hours
	Ghana - Negative Covid-19 test result within 72 hours
	Grenada - Negative Covid-19 rapid result test result on arrival
	Haiti - Mandatory 14 day quarantine
	Honduras - Negative Covid-19 rapid result test result on arrival
	Ireland - Self-isolate for 14 days
	Jamaica - Negative Covid-19 test result less than 10 days old
	Kenya - Negative Covid-19 test result within 96 hours
	Maldives - Negative Covid-19 test result within 72 hours
	Malta - Must transit through a safe corridor country after staying 14 days in that country
	Montenegro - Negative Covid-19 test result within 72 hours
	Morocco - Negative Covid-19 test result within 48 hours and a serological test (can be outside 48 hours)
	Namibia - Negative Covid-19 test result within 72 hours, mandatory 7-day quarantine
	Rwanda - Negative Covid-19 test result within 120 hours of departure
	South Korea - Mandatory 14 day quarantine
	St. Barts - Negative Covid-19 test result within 72 hours
	St. Lucia - Negative Covid-19 test result within 7 days

	St. Maarten - Negative Covid-19 test result within 72 hours
	St. Vincent and Grenadines - Negative Covid-19 test on arrival, additional test on arrival
	Tanzania - Covid-19 tests on arrival
	Turks and Caicos - Negative Covid-19 test result within 5 days
	United Kingdom - Self-isolate for 14 days