

PCS Information Bulletin #37: COVID-19 Review

Wednesday, October 7, 2020

COVID-19 Fatalities Top 1 Million

The world crossed a tragic milestone since our last information-only COVID-19 bulletin: 1 million fatalities (https://www.washingtonpost.com/graphics/2020/world/coronavirus-deaths-1-million/?itid=hp-top-table-low&itid=lk_inline_manual_21&itid=lk_inline_manual_3). And this comes in addition to nearly 34 million worldwide cases of the virus, according to data from Worldometers.info. In the United States alone – the country worst affected by both total cases and total fatalities, we’ve seen more than 7 million cases and 200,000 fatalities, with the threat of resurgence looming and flu season right around the corner.

Latin America dominates the ten countries with the highest number of cases. While this wasn’t the case when PCS started tracking COVID-19 developments six months ago, we certainly identified Latin America early on as a region that seemed likely to sustain a significant number of cases and fatalities. Russia and South Africa weren’t top of mind back in March and April. Spain, however, was the focus of considerable attention back then, and it remains among the top ten in the world by number of cases.

Country	COVID-19 Cases	COVID-19 Deaths	Notes
United States	7.4 million	210,000	Consistently the hardest hit country in the world and unlikely to change in the near future, it seems; increasing concerns about data reliability as a result of political risk
India	6.2 million	98,000	COVID-19 appears to be spreading aggressively still
Brazil	4.8 million	142,000	Largest population in Latin America, concerns about data reliability as a result of political risk
Russia	1.2 million	21,000	
Colombia	818,000	26,000	Population of only ~50 million
Peru	810,000	32,000	Population of only ~33 million
Spain	760,000	32,000	Could be facing a resurgence
Mexico	730,000	77,000	
Argentina	720,000	16,000	Population of only ~45 million
South Africa	670,000	17,000	

Source: Estimates based on Worldometers.info

France, Chile, and the United Kingdom – historically impacted significantly by COVID-19 – aren’t far outside the list above, with signs of resurgence emerging.

And as some areas that were hit hard early on by COVID-19 and reached a level of infection decline and stability after taking action to battle the virus, some of those areas are now experiencing an upswing of infections and are considering bringing COVID-19 restrictions back.

- New York is considering whether or not to return to restrictions on nonessential businesses, although there is conflict between the city and state over the decision. This sort of political risk is no longer surprising. Several months ago, there was friction between the governor of Georgia and mayor of Atlanta. (<https://www.cnn.com/world/live-news/coronavirus-pandemic-10-06-20-intl/index.html>)
- COVID-19 could be in the midst of a resurgence in the United States. Only Hawaii, Kansas, Missouri, and South Carolina have shown downward trends. Meanwhile, 22 states are in the other direction, with the remaining 24 holding steady. (<https://www.cnn.com/world/live-news/coronavirus-pandemic-10-06-20-intl/index.html>)
- To counter an increase in transmission in Italy, masks will be required outside.
- COVID-19 cases have spiked in the United Kingdom, with a steady increase through September leading to a September 30, 2020, peak. The number of cases remains high, and the most recently reported days may be subject to revision. (<https://coronavirus.data.gov.uk/cases>)
- Spain and France have seen significant increases in COVID-19 cases over the past week. (<https://www.washingtonpost.com/graphics/2020/world/mapping-spread-new-coronavirus/>)

Reviewing the Q4 Risk Environment

Over the past six months or so, the PCS team has commented frequently and at length about the risks that could come to bear on the global re/insurance market in the fourth quarter of 2020. With the fourth quarter set to begin tomorrow, we'll offer a brief review of these risks so they remain top of mind.

1. *COVID-19*: There are signs of resurgence or a second wave in several key regions. In some parts of the world, the first wave rages on (and could conceivably clash with a second wave). Conventional flu season is coming, as well. And for the northern hemisphere, home to 90 percent of the world's population (<https://inshorts.com/en/news/90-of-earths-population-lives-in-northern-hemisphere-1487235613826>), winter is coming. In addition to virus transmission issues, cold weather will also impede some of the workarounds consumer businesses have used to offset threats to continued sales.
2. *SRCC*: The George Floyd riots from this past spring resulted in the highest insured losses from a U.S. riot and civil disorder event in PCS history, and there's still room for upward development. The highest PCS estimate for a riot and civil disorder event remains the loss in Chile a year ago. As a result of both social and economic strain either caused or exacerbated by COVID-19, the potential for unrest in both regions persists. While the PCS catastrophe designation for the U.S. riots ended on June 8, 2020, there have been instances of rioting since then – just not with enough insured loss to call for catastrophe designation. There are several ongoing issues that could cause riot catastrophes in the United States in the fourth quarter of 2020, including the November presidential election.
3. *Cyber*: Cyber attacks seem to become a greater threat during periods of chaos and instability. Ransomware attacks have spiked recently, although some have gone to smaller insurance programs or not had insured losses associated with them at all (strictly economic losses).
4. *Supply chain*: Social distancing in the workplace, backups at ports, and access to inputs and raw materials have caused plenty of supply chain disruption this year, made worse by the fact that forecasting tools have struggled to meet the challenge posed by the pandemic. While essential – and

even most nonessential – goods are still flowing, there are pockets of demand that can't be met. And even where the supply chain has shown resilience, points of vulnerability have become more noticeable.

5. Consumer spending: Frankly, this is just a broad economic threat, as consumer spending is estimated to account for as much as 70 percent of economic activity. If people stop spending, everything else is affected. Pandemic risks should at least slow the crowding of retailers and restaurants, even if government restrictions aren't enacted or enforced. Personal economic uncertainty as a result of layoffs and increased saving activity in the face of uncertainty could further contribute to a broader economic slowdown. Supply chain issues could reduce some discretionary consumption. And in general, it could just become even harder for consumers to spend the way they used to (e.g., if restaurants don't offer ample indoor seating in colder parts of the world).

6. Political: The U.S. presidential election is extremely likely to have global implications – from economic policy to the nuts and bolts of COVID-19 handling in a cross-border environment. Further, the election carries a heightened risk of SRCC. While many focus on the risks of SRCC as a result of election outcome, please keep in mind that uncertainty of outcome could increase SRCC risk, as well.

This is just worth reading: <https://www.cnn.com/2020/09/29/health/how-to-stay-safe-covid-fall-autumn-wellness-trnd/index.html>. "COVID-19 fatigue" is perhaps the greatest risk associated with the virus, aside from the virus itself. It can be exhausting to focus on protecting yourself and your family – and to sacrifice the normalcy you used to enjoy. Just keep in mind that you can't unilaterally declare victory against a pandemic. Stay safe. Stay sane. If you need a pep talk, call one of the PCS team members. We're always ready to help.

Speaking of "fatigue" risk, don't forget about deal fatigue. With the January 1, 2020, reinsurance renewal coming, there's a lot of talk about negotiations potentially being more challenging than usual. And that's based on a similar dynamic at past renewal milestones this year. Remember the classic thoughts of journalist Robert Strauss: "Success is a little like wrestling a gorilla. You don't quit when you're tired. You quit when the gorilla is tired."

A COVID-Infected White House: Some Implications for the Insurance Industry

There are plenty of details, guesses, and analyses about what the president's positive COVID-19 test, hospital stay, and return to the White House mean for the upcoming election. The PCS team is focused exclusively on what an issue like this could mean for the global re/insurance industry, rather than the broader socioeconomic landscape. With that in mind, let's take a look at what this evolving situation could involve for our industry ahead of the January 1, 2021, reinsurance renewal.

The infection of the U.S. president has changed the news cycle, which could at least temporarily divert attention from other SRCC risk factors, like the post-indictment situation unfolding in Louisville, Kentucky (in the Breonna Taylor case). The result could be a temporary alleviation of SRCC risk, although the underlying causes of unrest should remain. The risk wouldn't disappear, and it could manifest based on other relevant activity.

There's an opportunity for states to pivot on reopenings, mask requirements, and other policy associated with managing the transition of COVID-19. An uptick in risk mitigation could reduce the social and economic effects of the virus (even if only to a small extent). The perception of elevated risk based on the infection of the U.S. president and key staff members provides ample justification for policy

decisions, particularly at a time when cases seem to be increasing in key areas around the world – and with traditional flu season approaching. The dynamic seems unlikely to be limited to the United States. In fact, there's a chance other companies may take this as a policy driver before certain states do. Improved mitigation measures could reduce worldwide pandemic impact, which could reduce some risk to insurers.

As this situation unfolds, the PCS team will refresh our observations as relevant.

Hurricane Delta and COVID-19

With this latest storm, we're once again in record naming territory, and its potential strength is a strong reminder that hurricane season isn't over. Already, PCS is evaluating the impact of the storm on Mexico, to determine whether it will warrant the first PCS Mexico catastrophe designation since the service was launched a little over a year ago. Forecasts indicate that landfall should happen in Louisiana, potentially New Orleans.

The City's Emergency Operations Center, which has been continuously activated in response to the COVID-19 pandemic, will now transition into a tropical storm response with liaisons from public safety, infrastructure, transportation, and human service agencies, as well as State and Federal partners. Louisiana reported just over 500 new cases of the novel coronavirus on October 6th as hospitalizations had a big increase for the second straight day, according to the Louisiana Department of Health.

On Tuesday, health officials added 506 new cases to the ongoing tally, bringing the statewide total to 169,044.

The New Orleans Police Department, New Orleans Fire Department, and Emergency Medical Services have emergency personnel ready to respond as necessary. High water vehicles, boats, and barricades are being strategically deployed in areas prone to flooding. The Orleans Parish Communication District is prepared to meet the emergency communications needs of New Orleans residents during this tropical weather event. Should the storm veer to the west of the current cone, it could follow the landfall of Hurricane Laura.

Delta became the earliest 25th named storm of any hurricane season when it strengthened rapidly from a tropical depression Monday. It was a tropical storm by Monday morning, a hurricane by Monday night and a Category 2 hurricane by early Tuesday morning, according to the National Hurricane Center (NHC).

Delta is also the latest record-breaker for the 2020 hurricane season. It is the earliest 25th named storm on record, beating the previous record by six weeks. That record was set in 2005, the previous most-active hurricane season with 28 storms and the only other season to run through the traditional alphabet of names and start naming storms from the Greek alphabet. Since there are still two months left of hurricane season, 2020 is likely to surpass 2005 as the most active season overall.

If it makes landfall in the U.S. this weekend, Delta will also be the 10th storm to do so this year. That would hand 2020 another record: The most storms to make landfall in the U.S. in a single season.

Energy companies on Monday also began evacuating offshore oil platforms. BP and BHP began evacuating non-essential personnel from their offshore platforms, the companies said. BHP also plans to shut production at its facilities by Wednesday. Occidental Petroleum, the third largest offshore producer by volume, said it was taking steps to protect its people and facilities. Royal Dutch Shell and Murphy Oil

Corp. said they were monitoring the storm. Offshore production in U.S. Gulf of Mexico accounts for 17% of total U.S. crude oil production and 5% of total U.S. dry natural gas production.

As the storm forms and travels, PCS is monitoring for potential impacts that would be covered in PCS Global Marine and Energy, which is set to begin covering elemental risks in the Gulf of Mexico.

Monitor COVID-19 outbreak data and trends in Louisiana: <https://ldh.la.gov/index.cfm/page/3997>

Louisiana Department of Health COVID-19 news: <https://ldh.la.gov/index.cfm/newsroom/category/227>

Political instability threatens South America once again

Thanks to COVID-19, Latin America is on course for another fall filled with political violence according to our sister company Maplecroft. Countries running along South America's western side have been hit the hardest. Peru has recorded the highest number of deaths in the world per 1 million population (966.79 as of 16 September); followed closely by Chile (642.85) and Ecuador (641.7). On top of the COVID situation, these three countries are headed into election cycles before the end of the year and with decimated economies and discontented voters, there is high likelihood of potential fractures in the political landscape and rise for disruptive, anti-establishment movements.

Governments from Santiago to Quito are at a disadvantage, as the pandemic continues to erode public support for high profile presidents. The lack of measures to bring back a sense of stability to the economy builds distrust even on the legislative branches, fueling the risk of social unrest. Private investors fear that Chile and Peru, world's top copper producers, could threaten the stability of the global supply chains. According to data compiled by Armed Conflict Location & Event Data Project (ACLED) civil unrest incident numbers were back pre-pandemic levels and voters will be wanting change and expecting improvements.

Political Stability projections see the greatest risk of a deterioration in Peru because of the fragmented political scene and the collapse of traditional national parties. In Ecuador, the outlook is only marginally better, as the political temperature rises between the radical left and the traditional right wing, which is determined to get back into office after 15 years in opposition.

Lastly, Chile is caught up in an electoral race that will see voters heading to the ballot box no less than five times between 25 October 2020 and 19 December 2021 for a constitutional reform process, and municipal and general elections. That means the likelihood of things going sideways has significantly increased. Low participation is one of the main risks because it would open the door to challenges to the legitimacy of the results, either in the form of legal actions or outright mobilizations. Demonstrations already took place in Santiago between 25 and 27 September 2020, organized by the 'approve' (favoring a new constitution) and 'reject' camps and some of these included violent clashes. Political Stability has already deteriorated dramatically upon the 2019 unrest and projections seem to be unfavorable for the upcoming two years. Will all the upcoming risks, Peru and Chile have their positions as Latin America's most stable economies threatened, which could have major implications on social, economic and foreign investments.