

PCS Information Bulletin #9: COVID-19 Review

Wednesday April 8, 2020

Due to continued client demand, PCS has decided to publish further bulletins regarding COVID-19. This report is for information 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. The information below comes from public sources.

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 or Ted Gregory using the information found at the end of this information-only bulletin.

COVID-19 Catastrophe Definition: Natural Catastrophe, Manmade, or Something Else?

Global re/insurance market stakeholders need clarity. We understand that one of the most important questions in our community today is whether PCS will designate COVID-19 a catastrophe event. While we cannot answer that definitely now, we can certainly provide some information on what we're seeing in the market, and what key issues would drive us to either designate or not. Please remember that the situation remains fluid and based on the emergence of new data or trends, PCS may have to contend with further nuance from below in making the catastrophe designation decision.

First, PCS operates from a specific list of named storm families and perils, provided below. This list does not include "infectious disease," "virus," or anything else related to pandemic. As a result, even if there were at least US\$25 million of insured loss from COVID-19 on an industrywide basis affecting a significant number of insurers and insureds, PCS would not issue a catastrophe designation. If there were a catch-all category in place, the outcome may be different. But, PCS has had the below list in place for decades, and the global re/insurance community has referred to it regularly and come to rely on it in its current state. Thus, it would not be appropriate to add a category that did not exist before existing coverages inception. While PCS does reserve the right to change our methodology as we see fit, we strongly believe in our obligation to the global re/insurance market.

PCS Perils and categories for event designation

Perils	Storm Families
Earth Movement	Earthquake
Earthquake	Fire - Other
Fire	Fallen Objects
Fire and Explosion	Hurricane
Flooding	Riot
Freezing	Tropical Storm
Hail	Utility Service Disruption
Hurricane	Volcanic Eruption
Ice	Water Damage
Lightning	Wildland Fire
Power Outage	Wind and Thunderstorm Event
Riot; Civil Disorder	Winter Storm
Snow	Workers Compensation (from TRIA certified terror events only)
Sonic Boom	
Tornadoes	
Tropical Storm	
Volcanic Eruption	
Wind	

We have made a commitment to serve our client base, and we stand by that commitment confidently. We've said before that our team believes in what we do. Today, we demonstrate that – as we do every day.

So, to qualify as a catastrophe, the situation related to COVID-19 would have to meet the following criteria explicitly:

1. Result in at least a projected ultimate loss of at least US\$25 million industrywide
2. Affect a significant number of insurers
3. Affect a significant number of insureds
4. Come from one of the storm families and perils in the preexisting PCS list

There are some scenarios where that could still happen. And while one could dismiss them as remote, it's worth remembering that we're now located squarely in "remote" territory. For example, a wave of fires resulting from manmade activity that resulted from staffing or expertise shortages could theoretically result in 1-3 above and come from the preexisting list that would satisfy the fourth bullet.

Riot and civil disorder are also possible, and in fact, seem increasingly likely throughout the lifecycle of a pandemic (if you haven't read Monday's piece information-only bulletin article on SRCC risk, we encourage you to do so).

The losses in both cases above would not have virus or infectious disease in the peril or storm family, but the cause of loss would effectively have been caused by COVID-19.

Of course, this situation is still unfolding, and it's quite clear that we're still in the early days of the implications of this pandemic. PCS will continue to monitor the situation, and we will act only in accordance with our methodology. We do understand that there may be gaps between our methodology and reinsurance treaty or ILW wordings. We have spent several years discussing this issue with the market and have regularly raised the fact that (a) such gaps in definition can result in gaps in cover and (b) PCS will not change its definition, because we'd be chasing hard and soft market language constantly if we did.

*If you have any questions about PCS and how we designate catastrophes and estimate losses, please contact the PCS team. Even if we've briefed you on this several times before, we'd happily do it again. We believe that it's important for the market to understand how PCS works. And too often, market players get explanations on PCS from other market stakeholders. **That is a significant and easily preventable mistake. If you have a question about PCS, call PCS.***

Business interruption developments

Insurers in countries around the globe have advised their governments that mandating insurers pay on losses suffered due to the coronavirus that were not covered by policies risks destabilizing the insurance industry.

The Global Federation of Insurance Associations has indicated that insurers were committed to paying out on claims where there is coverage in a policy however, they should not be asked to cover areas where no contract existed.

In Canada, a class action lawsuit has been filed against Canada's top indemnity insurers for breach of contract in their refusal to pay business interruption claims from the COVID-19.

The class action suit describes business interruption insurance as permitting a business owner to collect from the insurer income that the business would have generated were it not for the unexpected event.

The class action suit was filed in the Canadian provinces of Quebec and Saskatchewan, with filing numbers of "500-06001056-205" in Quebec and "QBG797 of 2020" in Saskatchewan.

In the U.S. major insurer organizations recently sent a letter to California members of Congress.

The letter was sent in response to concerns raised by members of California's congressional delegation over COVID-19 and the exclusions for viruses and pandemics in standard commercial policies, the National Association of Mutual Insurance Companies said in a statement.

On March 26, the California Department of Insurance requested insurers to provide information relating to business interruption, civil authority, contingent business interruption, and supply chain coverage provided by existing commercial insurance policies.

California lawmakers have yet to introduce bills seeking to force insurers to retroactively cover COVID-19 business interruption losses.

Marine Update: Ruby Princess COVID-19 Outbreak

Recent reports indicate the Ruby Princess, operated by Carnival Australia, has seven deaths and at least 300 cases of the coronavirus. Officials have been criticized for allowing the Ruby Princess – with its nearly 2,700 passengers – to disembark when the ship docked in Sydney, following the completion of an 11-day cruise from New Zealand.

More than 660 people from the ship, mainly passengers, have now tested positive for the new coronavirus, and 11 passengers have died. They account for more than 10 percent of Australia's 5,687 cases and over one-fourth of deaths as of April 6th. Nearly 200 of the 1,040 crew members currently on board the vessel reported COVID-19 related symptoms, while 16 crew members have returned positive results. So, as with most jurisdictions reporting COVID-19 cases, the rate of unconfirmed infection could be much higher than what is already reported through formal channels.

Australian government officials and Carnival Australia have been criticized since the ship's 2,700 passengers disembarked in Sydney on March 19, 2020, despite some of them showing signs of respiratory illness. Passengers were allowed to travel home and only later advised to quarantine.

The crew of the Ruby Princess, operated by Carnival Australia told authorities that some passengers were suffering from flulike symptoms when the cruise ship docked in Sydney last month, but that COVID-19 wasn't an issue according to local authorities.

Homicide detectives will be involved in the probe into the circumstances surrounding the docking of the vessel. The police investigation will involve interviewing thousands of witnesses, including the ship's captain, doctors, crew, passengers and staff from various government offices and agencies. Princess Cruises has also been linked to COVID-19 outbreaks on two of its other ships, the Diamond Princess and the Grand Princess. In February, more than 700 people tested positive and 11 died after being on board the Diamond Princess, which was quarantined for two weeks off the coast of Japan.

For the insurance industry, the main question for the marine space appears to be around what the liability exposures could become, and whether there could be PD and BI implications as well. PCS will continue to monitor this situation for any insured loss activity that would be relevant to our US\$250 million PCS Global Marine and Energy threshold.

Marine Update: Crew Shortages, Fatigue, and Elevated Risk

One of the most important risks for the global specialty lines space (and for manmade risks in general) hasn't been discussed nearly enough. People. COVID-19 is significant, of course, because it's an illness affecting human beings. When one is affected, their ability to produce is significantly impaired. For businesses seeking to maintain at least a bare minimum amount of activity throughout the pandemic, employees affected by the virus can't be productive. On land, this can have profound implications. For employees who are at sea – and not permitted to dock and disembark – the problems can be much greater.

According to a recent *Wall Street Journal* article (<https://www.wsj.com/articles/ships-are-moving-but-exhausted-sailors-are-stuck-at-sea-under-coronavirus-restrictions-11586084402>), crews for oceangoing vessels are in short supply. Illness and travel restrictions have made it difficult to source and replace crews. Some are stuck at sea because of vessels with infected crew members. According to the International Chamber of Shipping, 1.2 million seafarers are out at sea. And that's 75 percent of the world's seafarer population, according to the article. And approximately 25 percent of the community is from the Philippines, which has just recently reached 3,660 COVID-19 cases.

COVID-19 in Seafaring Countries

Country	COVID-19 Cases	Population
Philippines	3,660	109.2 million
China	81,708	1.44 billion
Vietnam	245	96.46 million
India	4,778	1.38 billion
Myanmar	22	54 million

Sources: PCS internal research, WSJ, Worldometers.info

The concentration of seafarers in the Philippines should be sufficient cause for alarm for shipping companies looking to keep vessels operational, particularly with the country still in the early days of the epidemic. Whether it will continue to spread remains to be seen, but at more than 3,000 cases reported, the market should keep an eye on the country's progress. India remains a concern because of the risk of widespread transmission in densely populated areas, and many believe that there's more to the story in China than the data disclosed so far reveals.

In addition to the lost revenue associated with reduced crews, it's also important to note that reduced staffs, teams working with less rest than usual, and the overall stress of the COVID-19 environment could generally increase the risk environment. Fatigue and fear can contribute to error, which means that the risk of insured loss may be elevated right now.

Event Cancellation: Wimbledon

The All England Lawn Tennis Club has canceled the annual Wimbledon tennis event and is in the process of preparing materials for a claim. The organization could reportedly recoup at least £100 million as a result of the cancellation (<https://www.insurancebusinessmag.com/uk/news/breaking-news/wimbledon-cancellation-were-fortunate-to-have-the-insurance-218811.aspx>).

A full cancellation – in general – has a greater financial impact on the insured, thus generally leading to higher insured losses. Postponed events may experience some lost revenues but should have the opportunity to recoup most of it when the event is ultimately held. The Olympics have been postponed and are thus not expected to have a total loss on their insurance coverage.

The Latest PCS COVID-19 Webinar

If you haven't registered for our next webinar, "The Problem with Pandemic Parametrics," yet, you can do so at <https://register.gotowebinar.com/register/910722588815346443>. Please join us on Friday morning at 10am EDT. Register anyway if you can't make it, and we'll be sure to send a link to the recording to you.

To take a look at last week's webinar, on "silent pandemic," you can visit <https://register.gotowebinar.com/recording/6992058729885839361>.

We're planning to host webinars every Friday on a wide range of COVID-19 topics. If you have an idea for a webinar or would like to be a panelist, please contact PCS. We'd love to hear your ideas and even have you join us as part of the event!

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=7015x000000iQIAAA2&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

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.