

PCS Information Bulletin #17: COVID-19 Review

Wednesday May 20, 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.

Event cancelation and postponement considerations

We've talked a bit about the Olympic Games and Wimbledon in past editions of PCS's information-only COVID-19 bulletins. Since then, we've seen more worldwide sporting events react to the changes required by COVID-19, and they could provide additional insight into how the global economy – and as a result the insurance industry – could be affected. Even if the events (or organizations that produce them) don't have relevant insurance for pandemic, changes to an event can affect other insureds as well, from travel and leisure to retail to consumer product manufacturing. So, understanding how the event cancelation market could work may provide insights into other lines of business, as well.

First, let's talk about the spectrum of impacts to events. We've covered this in bits and pieces in previous bulletins, so it's probably worth having it all in one place.

Cancelation: This is the most extreme outcome. Because of the pandemic, an event is canceled in its entirety. This would have the greatest financial impact, as ability to shift to alternative streams of revenue or dates (which would be possible with postponement) would be severely constrained. There's the possibility of taking some events online instead of in person, but for major events (from sports championships to concerts), that's either not possible or not possible at remotely the same underlying economics. Generally, one-time events seem to be at the greatest risk of cancelation, along with those that occur annually. For one-time events that are postponed, there's the very real possibility that it will be a fundamentally different event by the time it's actually held – with current ticketholders attempting to get refunds and a new batch of customers actually showing up when the event occurs.

Postponement of an event occurring every few years: Basically, we're talking about the Olympic Games, although there are other event types as well that fall into this category. Moving the event back a year generally seems realistic (as we've seen with the Tokyo Olympics), and in a pinch, it's likely that there's another year available as well (2022). After all, the summer and winter games were held in the same year until the 1990s. The impact on related revenue streams for the event and its direct ecosystem (food vendors, merchandising, etc.) should be relatively manageable, although companies that support the event indirectly (hotels, restaurants, and so forth) would still suffer a fairly significant impact. Hotels and restaurants may have the ability to generate more revenue a year later based on higher prices, but they'd have to survive to be able to do so. The risk of a shortage of non-event infrastructure (such as hotels) could be problematic and affect the revenues associated with a delayed event.

Postponement of an annual event: This requires a bit more planning and coordination. Once you push a 2020 event into 2021, you wind up with two annual events within the same year. If you don't separate or distinguish them sufficiently, you run the risk of impairing one or both events. For athletic events, for example, high-profile athletes may choose to participate in only one, or they may focus on one and deemphasize training for the other. If there isn't enough time between them, a lack of additional

training time could impact the results – and the public perception of the event. And of course, other events on the calendar may remain in place (or moved as well), which leads to further decision-making fodder for participants, officials, spectators, and sponsors. Essentially, crowding of events could diminish both single-year financial performance, as well as reputation for future years.

Now, let's take a look at how some events are responding. Not the big ones, like the Olympic Games and Wimbledon. We've discussed those enough already. There are plenty of other very large events out there with challenges from COVID-19. And while they may or may not have their own insured loss, how they handle cancellation and rescheduling can affect the restaurants, hotels, and other consumer and commercial service providers that benefit from them.

The 2020 IRONMAN World Championship has been rescheduled to February 6, 2021, which means there will be two world championship events in the same year (with the 2021 iteration presumably scheduled for its usual time of year). For the event itself, this likely means some preservation of revenue, although there could be implications for hotels, restaurants, and other vendors who support or are affected by the event. Overall, though, the financial risks – at a high level – appear to be manageable via postponement. Interestingly, there is precedent for rescheduling this event. It last happened in 1982.

Others may take a stab at squeezing events into the end of 2020, while running the risk of either a second postponement or an outright cancellation. I saw an update for the Tortosa Gravel 2020 race, which is now being held in October. Admittedly, this is a small event and doesn't draw massive crowds as participants or spectators. A niche cycling race, it may be able to manage aspects of the event in ways to reduce risk, although it'll still be held hostage by ability to travel. An event like this may struggle if it runs into 2021, as it would bump up against next year's installment. If you've never heard of this event, it's probably safe to assume there are many, many more that you haven't heard of as well, meaning there's some aggregation of smaller event cancellations. Unlikely to have a significant insurance impact, they could have second-order impacts that ultimately reach the insurance industry.

PCS will continue to monitor event cancellation activity to provide anecdotal updates to the market when possible.

What could reopening mean? A handy timeline to use for monitoring

After weeks and months of lockdowns, quarantines, and other restrictions, both talk and action have turned to "reopening." Well, maybe "easing" is a more accurate way to put it. Whatever the label you apply, though, markets around the world are trying to open their doors to commerce again. And of course, there's very little in the way of agreement – on whether to reopen, what should reopen, how reopening should occur. There are discussions of public health risk versus economic risk. Some wrap themselves in high-minded rhetoric, while others pick over every secondary and tertiary effect. A few countries have brought back restrictions, after early attempts at easing resulted in new spikes of COVID-19 transmission.

Yet, it looks like easing has come. In the United States, several states have eased rather aggressively, with Florida and Georgia taking the headlines (although they're not alone). Now, the big question on the minds of many is whether the easing of restrictions will lead to reinfection rates. The extent to which easing occurs certainly influences the risk of broad transmission, which means that the hypothetical

timeline below may have some variability. However, it's the loose guideline that PCS is using to monitor for secondary spikes.

Initial post-easing monitoring: When there's a spike in reported cases immediately after restrictions are eased, it makes for a salacious headline, but the information itself isn't all that useful. It's already hard enough to tell whether reported cases are new or have been lingering, whether increased testing has just confirmed more infection, or if there was in fact recent rapid transmission. As regions implemented restrictions, they often used timeframes of two to four weeks. The former was intended to limit movement during the period during which the virus could be transmitted, and the latter was intended to add another two weeks for any transmission occurring during the initial two-week restriction. With this in mind, PCS figures that it'll take at least two weeks after restrictions have been meaningfully eased to see if there will be a secondary spike.

If infection rates continue to show a favorable trajectory, then perhaps the situation is truly improving, and further monitoring with further easing could be possible. However, if a resurgence occurs, the situation becomes more difficult.

Another lockdown: As we've seen, some countries have not been averse to bringing back restrictions because of increases in COVID-19 transmission – for example, Germany and South Korea. If key market easing activity (and broader reopenings) result in a significant increase in COVID-19 transmission, it's likely that another period of restriction could occur, and it would likely last at least four weeks, as that seems to be the bare minimum for containing the spread of the virus (two weeks to start, plus two weeks to capture any transmission during the first two week period). Based on signs warranting a return to easing – probably with a more conservative approach – the discussion about opening doors a bit would begin again.

Slower easing: This effectively loops us back to the top of this timeline. When it's time to ease restrictions again, you'd likely see a somewhat conservative and iterative approach. Each step forward would likely require two to four weeks of monitoring to ensure there isn't another post-easing spike.

So, in the end, we could see an additional three months result from overaggressive easing, with a longer timeline depending on the extent to which a resurgence of COVID-19 takes hold. Starting from June 1, 2020, that would put the next reopening at the beginning of the school year – and the unofficial start of the January 1, 2020, reinsurance renewal.

Keep in mind, this exercise is somewhat speculative. Each jurisdiction will follow its own path as it sees fit. There's nothing to require caution – or speed. Popular demand, election-year factors, and public health insights are all likely to make a difference. The framework above simply provides a look at how PCS plans to monitor the situation for the coming three months or so. And of course, we'll adjust as needed. If you have any thoughts on this, please do feel free to share them with us.

Is cyber insurance becoming a luxury purchase?

Crises have a tendency to make markets revisit their priorities. We've seen examples of this throughout the COVID-19 pandemic, and the latest sector to come under the proverbial microscope is cyber insurance.

Because of the pandemic, original commercial insureds are trying to understand how their businesses are being affected, and whether or not they'll be able to claim for business interruption. And related to that, sophisticated insurance buyers in particular are probably thinking about whether (and how) they should get non-physical damage BI protection for the future.

Cyber had become an important part of the insurance purchasing discussion prior to COVID-19, but since then, it has taken a back seat to non-PD BI. This is to be expected. The global insurance industry always rushes to the latest risk, with insufficient consideration often given to the last "big problem" (if you want an example, call us up and we can talk about the back and forth between BI and breach in 2017 and 2018 with NotPetya and then Marriott). Pandemic is the current problem, which makes cyber seem, well, not so bad.

True or short-sighted? Both?

Cyber risk certainly hasn't gone away, but the question seems to be whether it's more manageable than previously thought. Or, more specifically, whether it can be claimed for now that cyber is more manageable than previously thought. If you want to focus your efforts on non-PD BI from the pandemic, there's a certain value in kicking the cyber can down the road for now.

Let's dig a little deeper here.

The Hanover's Cyber Risk Report, conducted in conjunction with Zogby Analytics and published at the end of April, reveals that 60 percent of businesses reported they would be unprofitable in less than two days if they lost access to critical systems or data. And, 92 percent reported they would experience a negative financial impact. That's not a lot of runway post-attack. Let's also assume that, given the financial strain already caused by COVID-19, a cyber attack now – depending on the target – could be an existential problem.

In fairness, cost is an important consideration. Unplanned expenses and constraints on budgets could cause some executives to wonder if it would be cheaper and maybe even more effective just to assume the cyber risk. Do you not buy cyber insurance in favor of pandemic-related non-PD BI? Even if the cyber threat is day to day and pandemic may not be? If cyber is a luxury today, it may not be next year. Or in most years.

In past years, that approach may have been possible, particularly before non-affirmative cyber events such as NotPetya reshaped cyber insurance-buying behavior. With the recent work on the industry, cyber has been gradually eliminated from other lines of business, which makes it even more essential now.

The good news is that small and medium buyers are more aware of the threats surrounding a cyber attack and have such entertained the conversation on increasing their cyber limits. Renewals are happening and new buyers are coming to the table. The sectors that are most vulnerable to

cyberattacks, like healthcare, want to have the peace of mind that they won't have to deal with the consequences of an attack on top of the current situation. With organized crime targeting these

vulnerable industries, their exposure profile has gone up and, if attacked, they don't have the time to dance the negotiation dance and get their data back from perpetrators or their systems back online. Of course, there are the ones that are trying harder to cut costs so they survive so in that case, they might delay the buying decision.

Large corporations rely on risk managers and executives to maintain the current level of cyber insurance despite the strains on budgets. Usually cyber insurance is a percentage of their revenue, but the thought of not having it (and be seen as delinquent) could put buyers in a tough spot an event was to happen when the cover would've been in place.

More insureds coming to the table, means more questions are being asked about the security measures associated with employees working from home and the IT security. Underwriters want to avoid as much as possible the dormant losses that can slip through the cracks during these times. Claim latency is a real concern with the thought of large cyber risk losses coming six to twelve months down the road, because system security was compromised.

Business Interruption Developments update

As we have indicated in several prior COVID-19 bulletins, this pandemic has the potential to forever change insurance policy interpretation.

Policy language is often construed by courts with little regard to the intention of the policy drafters. Carriers are required to make coverage determinations based on the nature of the claim, relevant case law, and the intent behind the policy language.

Unfortunately, there's no road map for carriers dealing with the current emerging risk, which is highly political in nature. But they can prepare for the unexpected by identifying exposure, relevant policy language, and engaging in good faith claim handling practices.

Insurance carriers have been inundated with business interruption claims. There's no shortage of legal scholar analyses of the insurance coverage issues presented by these claims. Many of these opinions engage in a cursory analysis and abruptly conclude such claims will not be covered for business income losses because the insured property or other premises has not sustained a "direct physical loss". Business interruption claims stemming from COVID-19 continue to be a hot legal and political issue.

As PCS has reported earlier, several states have introduced legislation to retroactively expand coverage under existing business interruption insurance policies to provide coverage for losses due to COVID-19. As of mid-April, seven states had pending legislation on this topic: LA, MA, NJ, NY, OH, PA and SC. The District of Columbia also had introduced such a bill and Puerto Rico was considering introducing one. As of now, none have been passed.

It appears that the pendulum may be starting to swing in the opposite direction and legislators are getting the message that such legislation would paralyze, if not bankrupt, the insurance industry. On Wednesday, May 13, Louisiana lawmakers scrapped a bill that would have forced insurers to cover retroactive business interruption claims due to COVID-19.

However, state senators agreed to rewrite and amend Senate Bill 477 to allow a proposal requiring insurers to clarify exclusions on business interruption policies to move ahead.

The “vast majority” of business owners have found out that “a shutdown due to a virus or pandemic” is excluded from coverage, Republican Sen. Rick Ward, sponsor of S.B. 477, told the Senate Insurance Committee hearing.

Republican senators, many of whom are small-business owners and were not covered for pandemics, expressed concerns. If insurers “did not collect for that incident how can they go back retroactively and make a payment,” said committee Chairman Sen. Kirk Talbot. “Premiums would be outrageous if they did cover those things and probably nobody would have had the insurance anyway,” Sen. Mike Fesi said. Louisiana Insurance Commissioner Jim Donelon told lawmakers the bill was “extremely dangerous.”

The NAIC and NAMIC have both expressed strong opinions against any such legislation. The National Association of Insurance Commissioners has told Congress that if they pass such a bill, of which there are several pending, the industry cannot afford it and the industry will go bankrupt.

The scrapping of the Louisiana proposal follows last week’s decision by the Council of the District of Columbia not to go ahead with a proposal to force insurers to provide retroactive business interruption coverage on small-business COVID-19 claims.

PCS will continue to monitor this topic and submit updates in future informational bulletins.

COVID-19 cases involving directors and officers

On May 14th, the U.S. Securities and Exchange Commission charged two companies and a chief executive officer with making misleading claims related to COVID-19.

The securities regulator charged Turbo Global Partners Inc. and its CEO, Robert W. Singerman, with making false and misleading claims related to equipment to detect individuals with fevers, according to an SEC statement. Previously, Mr. Singerman had been charged with fraud.

According to the complaint, Turbo Global claimed that this technology could be instrumental in “breaking the chain of virus transmission through early identification of elevated fever, one of the key early signs of COVID-19.” As alleged, the press releases also included statements, attributed to the CEO of Turbo Global’s supposed corporate partner in the partnership, that the technology “is 99.99% accurate” and was “designed to be deployed immediately in each state.”

The SEC alleges that Turbo Global had no agreement to sell the product, that there was no partnership involving any government entities, and the CEO of Turbo Global’s supposed corporate partner did not make or authorize the statements attributed to him. According to the SEC, Singerman drafted the releases, which he knew to be false.

The SEC's complaint against Turbo Global and Singerman, filed in federal court in the Middle District of Florida, alleges that the company issued false and misleading press releases on March 30 and April 3 regarding a purported "multi-national public-private-partnership" to sell thermal scanning equipment to detect individuals with fevers.

Separately, the SEC has filed charges against Applied BioSciences Corp., which said it had begun offering and shipping finger-prick COVID-19 tests to the general public, when in fact the tests could only be administered in consultation with a medical professional, the statement said.

Applied BioSciences issued a press release in March saying it had started shipping finger-prick tests that could be used in homes, schools, hospitals and other locations. The press release caused the company's stock price and trading volume to soar according to the SEC.

However, the tests were never intended for home use by the general public and could only be administered in consultation with a medical professional, and Applied BioSciences hadn't shipped any tests at the time of its press release, according to the SEC. The company also did not disclose that the tests weren't authorized by the U.S. Food and Drug Administration (FDA).

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