

PCS Information Bulletin #21: COVID-19 Review

Wednesday, June 17, 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.

Key COVID-19 Developments

India has become the fourth-most affected country in the world by the pandemic, with more than 330,000 reported cases as of June 14, 2020. In Delhi, according to the *Washington Post*, daily new cases have exceeded 2,000 for the past three days. The country may face continued growth in infection rates through May and is of course the second-most populated country in the world. The most populated country – China – is showing signs of another wave of infection.

Twenty-one U.S. states have shown significant recent increases in COVID-19 infection rates. Texas, Florida, and California have posted highs, either on a per-day or seven-day average basis. This is more likely a continued proliferation rather than a resurgence or “second wave” of the virus. Further, there are signs that the easing of restrictions has resulted in increased virus transmission. The impact of recent protests in the United States may not manifest for a week or two based on the nature of how the virus spreads.

Maplecroft Civil Unrest Index Identifies United States as “High Risk”

The Verisk Maplecroft Civil Unrest Index assesses the risk of disruption to business caused by the mobilization of societal groups in response to economic, political, or social factors. According to Verisk Maplecroft (www.maplecroft.com), the events of the last several weeks elevated SRCC risk has put the United States into the “high risk” category according to its Civil Unrest Index. The events of last few weeks have seen the United States move into this category for the second time, with the first being a series of 2017 protests triggered by the presidential election in 2016. The quarterly index shows a fall of 13 places in the ranking to 78th highest risk out of the 198 countries measured.

Civil unrest incident data by GDELT shows a total of 9849 events nationwide in May – a 186 percent month-to month rise from April. Moreover, within the Security Forces and Human Rights Index, Minnesota was identified as the state with the highest-risk of violations committed by officers of the law– data being compiled prior to the current situation.

Tensions are expected to remain high in run-up to elections with more situations that could escalate at a national level throughout 2020. The breaking of social distancing in many urban areas could risk an increase in contagion rates providing an inaccurate picture of the re-opening measures. A second wave of contagion would add further strain on the already pandemic-hit economy, which official data shows has left more than half of black adults unemployed.

COVID-19, SRCC, and the United States: A Concern for the Rest of 2020

Violence and property damage from the riots affecting more than 20 U.S. states may have slowed, but protests have continued across the country. Unrest remains the norm, and the risk of another wave of riots remains. Like mentioned before, this is the second time in the past three years the country has been categorized thus – the first coming with 2017 protests resulting from the 2016 presidential election. And concerns about SRCC are likely to remain high until the next U.S. presidential election, which is only approximately five months away.

[We can help you engage with Verisk Maplecroft if you'd like to see the full analysis, as well as the related charts they have produced.]

The continuation of civil unrest and possibility of further SRCC could lead to challenges in event definition. In particular, it could be difficult to determine whether future unrest would be part of a single event that began in Minneapolis, or if it would be classified as a second event. This process can be subjective and require the consultation of several sources of information. As a result, PCS finds it difficult to weigh in on hypotheticals without a considerable amount of additional context.

Throughout the coming summer, the risk of SRCC in the United States will likely continue to be shaped by both the COVID-19 pandemic and its attendant impact on the economy (as well as a wide range of political factors, ultimately culminating in the November election and the risk of a post-election reaction). Persistent economic strain and the potential for a somewhat long and shaky recovery could prove an accelerant for possible future SRCC events (as it has with the recent PCS-designated event).

Making Sense of Business Interruption for COVID-19 and the U.S. Riots

Significant declines in consumer spending as a result of stay-at-home orders and other forms of restricted movement and commerce were in effect in some places when the riots began. Others, while not heavily restricted, were in the process of reopening. As a result, PCS has received thoughts from many clients suggesting that the business interruption impact of the riots could be somewhat muted. Businesses that aren't open – or at least aren't operating anywhere close to capacity – can't have a significant revenue impact, right?

Well, it's not that simple.

Not all retail categories perform the same way. Throughout the pandemic, there has been a clear and significant negative impact on non-essential categories, such as consumer electronics, luxury, specialty, and apparel. Some segments, however, have shown some growth. Grocery is perhaps the most prevalent. With restaurants closed (and even now limited in many places), people were more likely to eat at home. That led to a spike in grocery revenues. It's worth noting that in many large U.S. retailers, there's a non-trivial grocery contribution to revenue. Examples include Walmart, Target, Walgreens, and CVS. So, diversified retailers could have seen some revenue support from grocery even if they felt strain in other (core) classes of business.

With COVID-19 therefore creating additional exposure (via increased average sales) for some retail categories, there's the possibility of increased business interruption from SRCC events in key national retailers (including those mentioned above). If it turns out that there's sufficient physical damage from the riots, then grocery sales could feature in the calculation of business interruption.

Scope of Locations Damaged during the Riots and COVID-19-Related Adjusting Guidance by DOI's

During our webinar last week our PCS team provided some context around our PCS catastrophe designation for the first U.S. SRCC event in five years – and the largest in nearly three decades. The scale of the coast-to-coast protests across the United States during the past several weeks has rivaled the widespread demonstrations of the civil rights and Vietnam War eras. Curfews were imposed in major cities the country, including the Twin Cities (Minneapolis/St. Paul), Atlanta, Chicago, Los Angeles, San Francisco, Seattle, and other major metropolitan areas.

Reports indicate more than 1,500 locations across the Twin Cities areas have reported some form of damage from minor to total loss. A list of reported locations can be found in the following article, <https://www.startribune.com/minneapolis-st-paul-buildings-are-damaged-looted-after-george-floyd-protests-riots/569930671/>.

Retailers with multiple stores in many of the cities such as Target, Walmart, CVS, Walgreens, grocery chains, and auto parts have been cleaning up from the protests and are now starting to reopen some locations. Store closures, in some cases, have amounted to weeks rather than days. And where there has been physical damage, the risk of loss accumulation (including business interruption) could be significant and aggregate to a meaningful industrywide impact.

An example of the reopening' in the Twin Cities, after 25 of its stores were damaged, Walgreens reported that it has managed to get the majority of locations open again. They have recently announced that all but five of its 113 stores in the Twin Cities metro area are open for business, after some were damaged, looted, and in some cases burned.

The protests originated in the Twin Cities, and the scale of damage has been largest there so far. That said, cities large and small across the United States have been affected. In the Pacific Northwest, the intersection of Pine Street and Sixth Avenue in Seattle was the scene of heavy activity with burned-out vehicles on the street. People entered Nordstrom and other stores through smashed windows and emerging with armfuls of merchandise. Pacific Place shopping mall was also the scene of major activity during the uprising where windows reflected cars ablaze across the street.

In the Southeast, the front of CNN Center in Atlanta was the scene of protests that resulted in damage to the front of the building and inside along with other locations across downtown.

In the Northeast, reports show streets nearly deserted and dotted with boarded-up, spray-painted, and bashed-in buildings after days of looting in Midtown, Soho, and other areas across the new York. And in Philadelphia, looters robbed stores in broad daylight and police vehicles were ablaze. Nearly half a block was burned in the Kensington section of Philadelphia, which included pharmacies, locally-owned bodegas, clothing stores, and check-cashing providers.

And in California, San Francisco and areas across Los Angeles (including Santa Monica and Long Beach) had sustained damage. Affected retailers include CVS, Walgreens, the AT&T stores, Urban Outfitters, Swatch, Dolce & Gabbana, Coach, Salvatore Ferragamo, Swarovski, Crate & Barrel, and Louis Vuitton.

Insurers and adjusters will have to stay advised of state department of insurance mandates which relate to claim adjusting such as Illinois Department of Insurance bulletin 2020-15 which states “to the extent business interruption provisions are included and operative under a policy, insurers should base

payments on business activity levels that eliminate the impact of COVID-19.” Follow-up by the National Association of Mutual Insurance Companies (NAMIC), regarding the passage pertaining to business interruption in the Illinois DOI bulletin resulted in the following answer from the Illinois DOI, “The bulletin intends to encourage carriers to consider business income policies at their pre-COVID levels of operation, not in a staggered or partial COVID-operational level. In other words, if a business was operating at \$10,000 revenue prior to COVID, then that should be the basis for determining income level, not the partial operating level of COVID (\$5,000).”

The cities mentioned in our article are just a few of the affected within the near two dozen states included in our catastrophe designation. With the majority of losses from this event being commercial and will involve business interruption complexities, we anticipate that it will take time for the ultimate loss for this event to fully come into focus in the coming months. Our PCS team anticipates our preliminary estimate for this event to be published for our subscribers by June 29, 2020.

Online Pandemic Shopping Is Officially Bigger than Black Friday Week

Years of experience have trained consumers to hunt for deals and make major purchases during the five days that comprise Black Friday weekend. Now, due to the COVID-19 pandemic, ecommerce sales have increased profoundly. This near-spontaneous spike in ecommerce activity has surpassed the Black Friday weekend levels that brands tend to spend months preparing for. And the elevated levels of ecommerce spending could stick around for a while, as Yahoo finance just announced the retail sales in general jumped 17.7 percent in May compared to a negative -14.7 percent in April.

According to PriceSpider data, online sales transactions increased by 22 percent the week of 4-22-2020 to 4-28-2020 compared to Black Friday week 2019, 11-29-2019 to 12-5-2019, which had a whopping 59 percent more product page views. PriceSpider also believes some drivers behind this shift could have a staggering for the rest of the year as the measures that governments take will directly affect retailers:

- Deals aren't what's driving sales – the two main reasons for buying right now are panic and boredom.
- People are buying a wider range of products online – groceries and beverages were products that were generally bought in person, but that's not necessarily the case anymore
- Consumer electronics are extremely in-demand – According to Adobe's Digital Economy Index consumer electronics purchases were up 11 percent in May over April.
- Brands and retailers are prioritizing online experiences – convenience with digital shelf and pick-up/delivery options is the first thing in mind of every consumer.
- Ecommerce is always open – you can do the shopping at any hour you want.

With all the uncertainty in the coming weeks regarding the re-opening measures consumers will continue relying on online brands and retailers to find and buy what they need without having to stay endless lines to get it or check-out or wear a mask.

Amazon Distribution Center Fire, Supply Chain, and COVID-19

The recent fire at an Amazon distribution center in Redlands, California may provide interesting insights for the global re/insurance industry during the COVID-19 pandemic. It's been reported that the warehouse's employees didn't sustain any injuries (<https://edition.cnn.com/2020/06/05/us/amazon-redlands-fire-trnd/index.html>), although there was significant damage to the facility. PCS Global Large Loss has taken a preliminary look at the event, and for now, we believe that it would fall short of our US\$250 million designation threshold. But that doesn't mean there aren't lessons for the global re/insurance industry.

The impact of the pandemic on global supply chains has led to conditions at distribution centers that could increase insured losses in the event of loss activity (e.g., a fire). With many retailers unable to open their doors (at least not fully), their ability to accept additional inventory has changed. Some can't afford to pay for more product, while others haven't turned over existing inventory sufficiently. As a result, distribution centers have seen an accumulation of inventory that normally wouldn't stay in place as long as it has. This means that fires – and other loss events, such as earthquakes and tropical storms – could cause disproportionate losses, as they would damage goods in place that would normally be moving.

The same thinking could be applied to ports – especially those exposed to tropical storm activity. Goods may accumulate at ports as a result of the same supply chain disruptions mentioned above. Also, smaller workforces have resulted in more vessels waiting outside ports, which create further concentrations that could be threatened either by manmade or natural loss activity.