

PCS Information Bulletin #29: COVID-19 Review

Wednesday, August 12, 2020

Every athlete – recreational or elite – has probably encountered some variation of actor Robert Strauss’s famous remarks: “Success is a little like wrestling a gorilla. You don’t quit when you’re tired. You quit when the gorilla is tired.”

For the global re/insurance industry, the pandemic has been much like a long, grinding endurance race. Fundamental to survival, let alone success, has been the salient tension between fatigue and discipline. The former makes the latter so much more difficult. You focus on form at the beginning of a race, exercising considerable discipline to make sure your body does all the right things in all the right ways. And by the end, you’re just hoping to finish, with your will dragging your body along.

We’ve heard a bit of this from reinsurance underwriters through the various renewal milestones over the summer. And with the informal start to the January 1, 2021, renewal set to begin in a few weeks, it’s worth taking a moment to reflect on fatigue and discipline.

New risks, uncertainty, and potential losses are among the most important factors in driving underwriting discipline. And of course, through the June and July renewals, there was plenty of attention focused on excluding (or at least limiting) the potential effects of pandemic and SRCC on reinsurance programs. Cedents, though, tend not to give up protections they’ve been getting for years, which led some renewal negotiations to become protracted affairs until one side finally yielded on key points. In some cases, fatigue set in among reinsurers, and they didn’t get the full set of terms they sought for issues such as pandemic and SRCC.

Fatigue thus means taking on a certain amount of unwanted risk for another year. In the past, that may have led to discomfort. In 2020, the potential for anxiety is just so much higher.

Between now and the next major reinsurance renewal milestone, there’s still plenty of time. The same could be said for hurricane season. And in recent years, we’ve seen what wildfires later in the year can mean for re/insurer balance sheets. That comes in addition to global political, social, and economic conditions that contribute to both financial uncertainty and the risk of unrest and civil disorder. The potential for big losses through the end of the year persists, making discipline in the face of fatigue more important than ever.

In mainstream society, we’ve already seen the impact of “coronavirus fatigue” on the population. Early reopenings in the United States led to a resurgence of infections and hospitalizations, along with attendant economic impact. Risk mitigation measures are already bumping up against communities that are simply tired of dealing with the pandemic. A rush to reclaim normalcy is only likely to make the situation worse.

The global re/insurance market is currently wrestling the COVID-19 gorilla. If you’re tired, you have two choices. The only one that makes sense, though, is to keep at it until the gorilla’s tired.

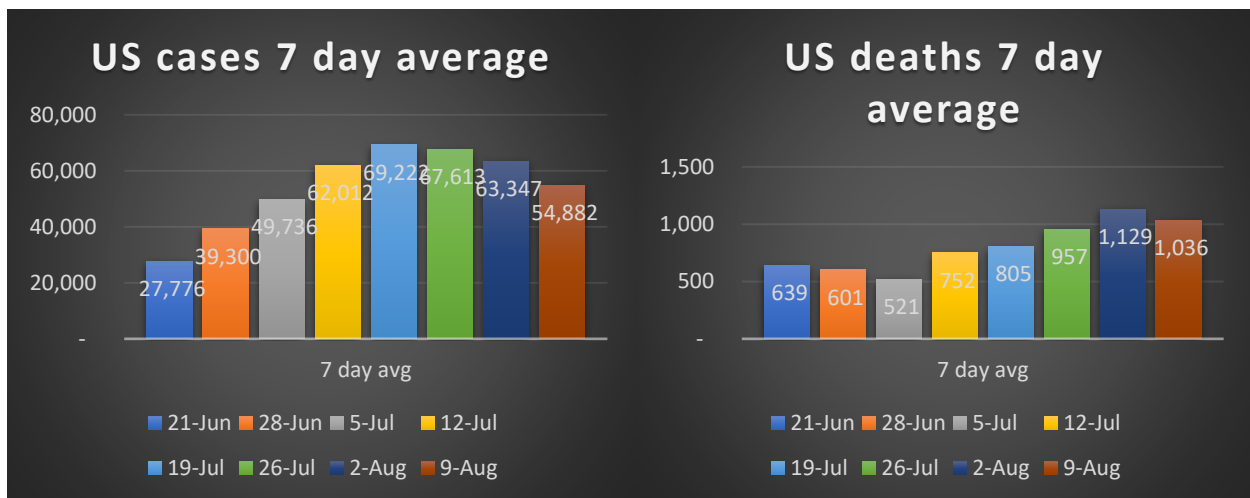
Analysis: COVID-19 average cases and fatalities

Most news reports continue to focus on aggregate case and fatality counts, but the scale of the numbers in states and countries affected earliest can skew one’s perspective of how the pandemic is developing now. Aggregates would make sense for any parametric risk-transfer instruments, but to understand development and impact, PCS believes a focus on recent effects would be more prudent. Overall, more than 5 million cases have been identified in the United States – taking only 17 days to increase from 4 million, according to a report by CNN.

The seven-day moving average of cases and deaths is more likely to show peaks, the impact of recent mitigation measures, and hot spots across the United States

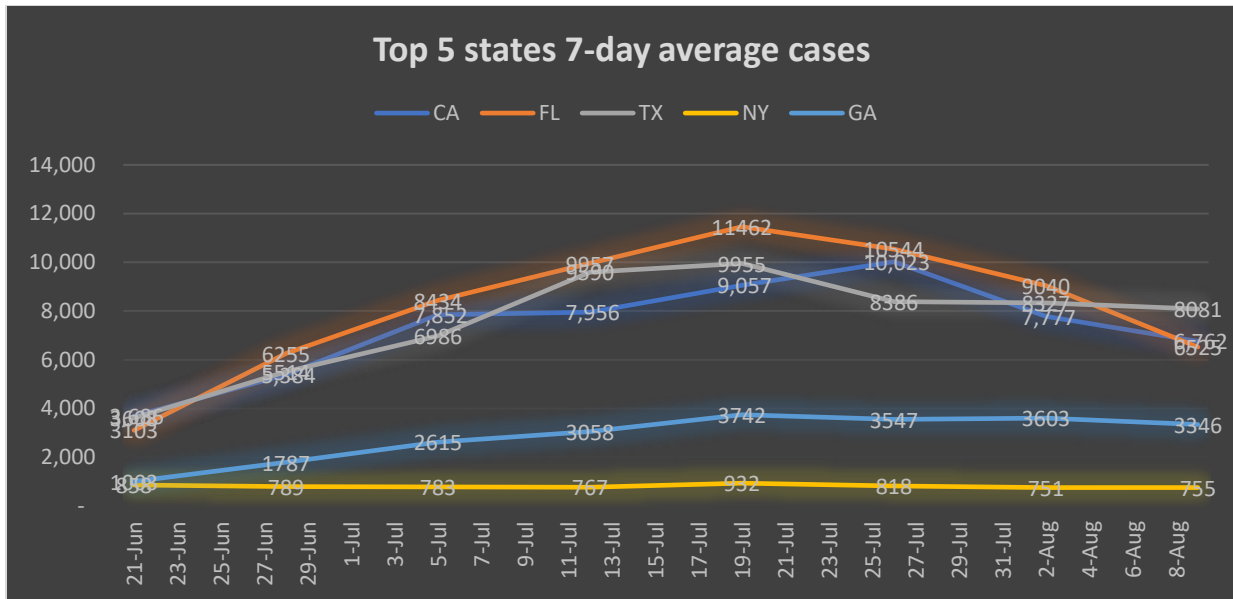
Note: PCS has been keeping track of the daily cases recording them at 4pm EST time through the various sources and provides a consolidated analysis at regular times.

U.S. seven-day average cases and deaths



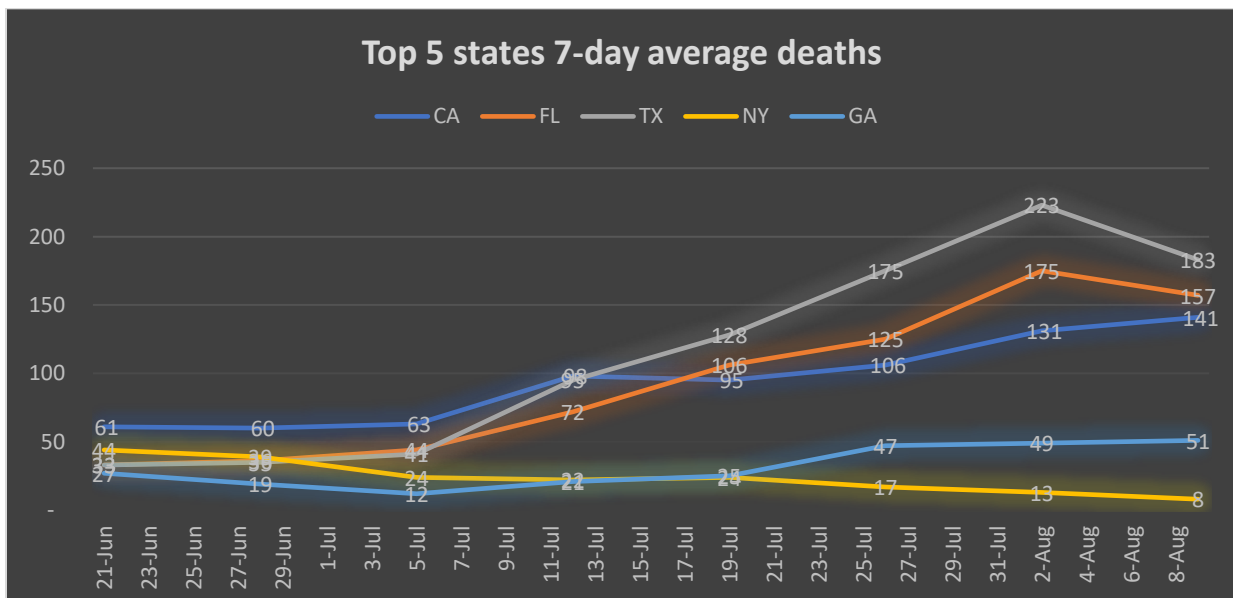
Source: Worldometers.com

The seven-day average case count in the United States shows a peak in the second half of July, with the beginnings of a decline in early August. Fatalities show a similar pattern so far, although on a lagging basis (because fatalities lag infection). Five of the worst affected states in the country appear to follow this pattern directly.



Source: Worldometers.com

Florida, Texas, and Georgia appear to have peaked in accordance with the nationwide trend, although it could be a bit early to draw that conclusion definitively. State and local mitigation measures – as well as data reliability, reporting processes, and overwhelmed healthcare facilities – could also bring a temporary decline back up. New York is included to show that its infection and fatality rates are well below those of the most active states right now, even though New York remains one of the most heavily impacted on an aggregate basis since the beginning of the pandemic.



Source: Worldometers.com

COVID-19, Supply Chain, and Beirut

The insurance issues associated with the Beirut port explosion are complex and could take a while for the industry to digest fully. One of the (many) early questions that arose in PCS's client conversations in the specialty market focused on COVID-19 and the supply chain. Two perspectives were expressed to us:

1. While unsure of the cargo that may have been affected, could we assume that there wasn't much in the warehouses because of the pandemic?
2. While unsure of the cargo that may have been affected, could we assume that there was a lot in the warehouse because the pandemic backed up supply chains?

So, truth be told, the answer could be almost anything. In the earliest stages of evaluating a loss event, though, it's important to have a sense of relevant context and how that could impact the factors contributing to the eventual insured loss. For the Beirut explosion, the cargo question could involve where supply chains were in the COVID-19 cycle.

What we've seen throughout the pandemic is that there has been no single supply chain impact. We'd have much more predictability if the pandemic caused suppliers to stop producing en masse – or if they didn't stop and end retailers and buyers simply refused to order or accept delivery.

Typhoon season preparations in Japan and COVID-19

Our PCS COVID-19 Informational Bulletins 27 and 28 provided some perspective on emergency management in two of the hardest hit states in the U.S. with COVID-19 infections, Florida and Texas. While we are approaching the height of the 2020 Atlantic Hurricane Season, we must still apply focus on the eastern hemisphere as Japan is approaching the height of its own typhoon season. Our PCS APAC index captures significant Nat Cat events in Japan. And as we get deeper into typhoon season, Japan is unfortunately experiencing an increase of COVID-19 infections.

The cumulative total of COVID-19 infections in Japan surpassed 50,000 on Monday. It was Aug. 3rd that the nationwide total reached 40,000, and it took only seven days to add another 10,000. Among Japan's 47 prefectures, Tokyo confirmed 197 new infections on Monday, the first drop under 200 since July 27 when 131 cases were reported according to the metropolitan government. The daily figures have been running high in Tokyo since late July and hit a daily record of 472 on Aug. 1. On Sunday, the daily cases stood at 331.

This week, the entire nation of Japan is on summer holiday with the annual Obon period, which involves many people living in urban areas returning to their family homes outside the cities or in different prefectures. Many in the public are worried how infections will spread through people's movements. Local governments in Japan are preparing for a worst-case scenario similar to FEMA and individual U.S. state emergency operations leaders, for a natural disaster and a coronavirus outbreak hitting their areas at the same time.

Despite the end of a state of emergency over the virus outbreak that Prime Minister Shinzo Abe declared for the entire nation at one point, infections have not gone down to zero and the country is experiencing a resurgence in cases. Japan is not a stranger to natural disasters. PCS designated events for Typhoons, Jebi, Trami, Faxai and Hagibis are examples from recent years. Local municipalities have response plans however this year, they working to find the balance between providing catastrophe shelter to thousands of constituents while preventing emergency shelters from becoming a hotbed for coronavirus infections.

Their plan is aimed at avoiding the overcrowding of emergency facilities by increasing the number of emergency shelters in their existing plan. By doing so the plan is meant to dispersing evacuees and lower virus transmission risks as Japan is calling for avoiding the "three Cs" -- confined and crowded places and close contact with others. The number of evacuees at hotels is expected to increase as well as the government requests citizens to refrain from crossing prefectural borders to reduce the risk of the coronavirus spreading.

The most serious risk factor in all of this is the number of victims that would follow a disaster. The population of Tokyo and its three neighboring prefectures of Chiba, Saitama and Kanagawa totals nearly 36.6 million, comprising around 30 percent of the entire nation's population. For comparison, the population of Seoul represents 49.6 percent of South Korea's population; Paris has 18.2 percent of France's population; and London makes up 13.4 percent of the British population. If one third of the population in the metropolitan area is presumed to be hit by a disaster, that is equivalent to approximately 12 million people.

The COVID-19 pandemic is presenting scenarios for emergency management leaders. One measure to help prevent further spread of the virus involves people keeping six feet/two meters away from one another. However, based on the population and total area of central Tokyo, the area available for each person turns out to be around 49 square meters, or a radius of 3.5 meters each. This means it would become difficult in some areas to maintain a 2-meter distance if all the residents go to evacuation shelters. Disaster management minister Ryota Takeda previously announced funds have been freed up for local governments to stockpile supplies for the compounded threat however residents have also been advised that they need to make their own preparations in the event of having to contend with COVID-19 and a catastrophe event concurrently.