

PCS Information Bulletin #7: COVID-19 Review

Friday April 3, 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 using the information found at the end of this information-only bulletin.

Business Interruption, U.S. Government Intervention, and PCS Catastrophe Designation

This is the single most important issue in the property-catastrophe market right now, according to the conversations we've had with our clients. There has been a lot of discussion about how the end insured could be supported for business impacts that don't meet the policy conditions for a claim – the main one being physical damage (PD) thresholds in property programs in order for business interruption (BI) to kick in.

There appear to be two possible (general) outcomes being floated in the market. One is a fund, in which legislation is in the works to propose a pandemic reinsurance program to provide a federal backstop that would cap total insurance losses faced by carriers in order to support businesses experiencing what would be a BI loss but without any PD. Insurers may also receive indemnification for their expenses for handling these from the government as well. Affected businesses would apply for assistance through a program that would be supported by insurers (as well as other stakeholders). This process would look more like a third-party administrator (TPA) model for the insurance industry or similar to federal grants administered by insurers, in which the risk and capital don't sit on their books. Instead, the insurers help manage the process. (Learn more at this [link](#)). The other is the more disconcerting outcome. It would involve statutory changes requiring insurers to honor non-PD BI claims, or legal decisions to the same effect. The two situations would have vastly different implications for PCS catastrophe designation.

U.S. government relief funneled through the insurance industry

The most important thing to remember is that PCS seeks to estimate the industrywide insured losses from a catastrophe event – be it natural or manmade. As a result, we believe that an industry loss with no actual attendant loss to the industry – would mean that PCS isn't reflecting the reality in the market.

Let's take a look at an example. The U.S. government decides to deploy \$20 billion in support for non-PD BI and deploys it through the insurance industry. Insureds aren't filing a claim in the traditional sense. Rather, they submit an "application" for the funds that would help them in their time of need. The insurers are effectively operating as third-party administrators for a federal program, and as a result, they aren't bearing the loss themselves.

In this scenario, the insured loss to the insurance industry would be \$0, and as a result, it wouldn't make sense to designate a catastrophe or report an industry loss estimate (although any losses actually paid by insurers under their policies would be factored into PCS catastrophe designation thinking – this is separate from the inclusion of federal funds disbursed through insurers using the TPA model).

This sort of outcome could be devastating to the global re/insurance industry and lead to the sort of dislocation that would make future risk transfer far more difficult and expensive to achieve. Essentially, capacity providers would have to model and price for outcomes literally inconceivable based on contract language.

It's possible to look at this scheme and ask if the government funding resembles subrogation. The insurer pays the insured (albeit not a claimant in the traditional sense) and then seemingly subrogates, recovering from the government. PCS has been clear that our industry loss estimates are gross of subrogation. In this scenario, though, the subrogation analogy doesn't fit. There needs to be some foundation for the initial claim to be honored by the original insurer, after which, it pursues a recovery from another insurer. Additionally, in the subrogation scenario, there is a risk on the insurer's book that corresponds to the claim submitted. What's been covered in the public domain so far doesn't look like subrogation and thus shouldn't be treated as such.

There is clear precedent for not including the disbursement of government funds through insurers in PCS catastrophe loss estimates. The NFIP "write your own" model effectively uses insurers as TPAs, and PCS does not include these losses in our catastrophe bulletins (although we do report NFIP incurred losses provided by FEMA in a separate reference-only database). Those are risks that live outside the insurance system, but which pass through the insurance system for administrative purposes.

The impact of changes in statute

The treatment of industry losses would be different, though, if in fact they are sustained by the insurance industry. Statutory changes, for example, that require insurers to honor non-PD BI claims would result in a claim paid by an insurer, which would represent, of course, an insured loss (even if it's believed that the loss was not justified). The aggregation of such losses – if they were to meet the PCS catastrophe designation criteria – would be tracked and reported as a PCS catastrophe event.

This would also be the case for litigation that results in systemic compromises in insurance wordings otherwise thought to exclude non-PD BI, infectious disease, or other relevant factors. If admitted paper or even widely used manuscripts to be found to have gaps that could ultimately require significant BI claims, the insured losses could be significant.

The situation here is straightforward, if disheartening. Statutory changes would affect what is actually covered, and the situations in which insurers are obligated to pay claims. There wouldn't be an application for supplemental funding via the insurer, there would be a claim submitted. Consequently, there would be an insured loss, which would then be aggregated and evaluated by PCS to determine if the event rises to a catastrophe. Even in this situation, PCS would follow our defined methodology and only designate a catastrophe event if our criteria are met.

BI Update in Mexico

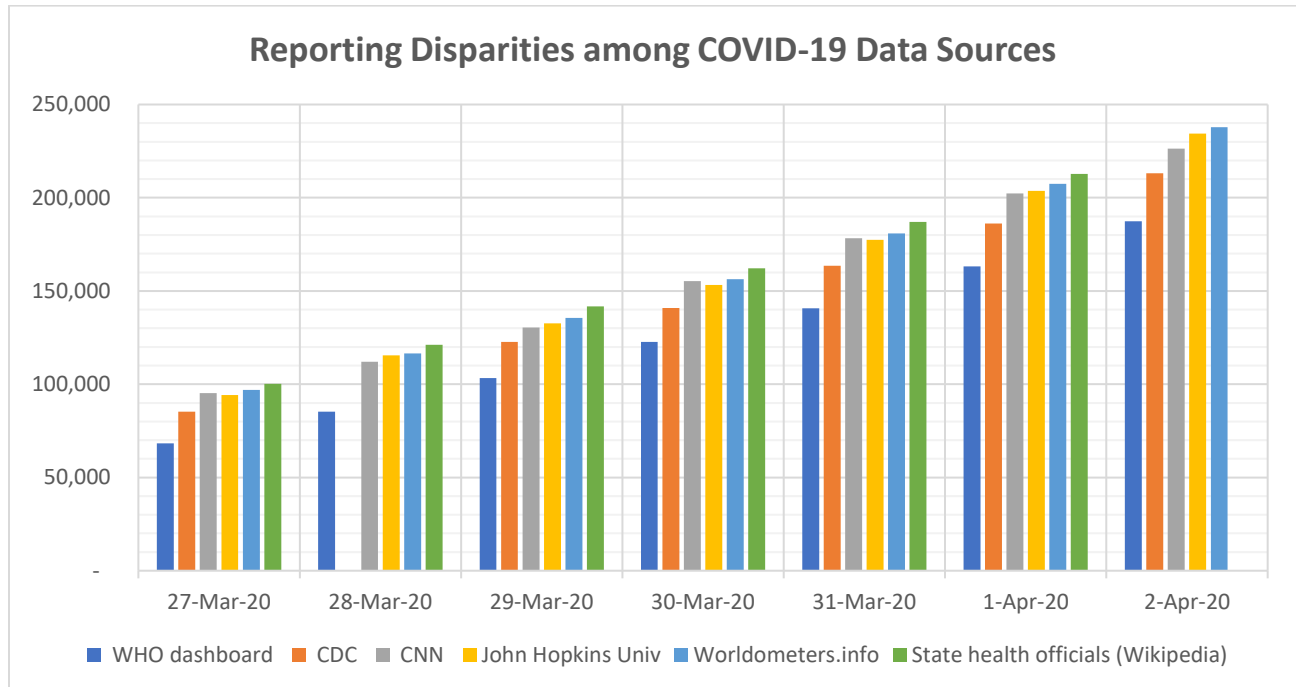
Based on conversations with the insurance industry in Mexico, PCS does not currently believe that there is a likelihood of sufficient claim activity to justify a PCS-designated catastrophe. Most policies require a certain amount of PD in order to trigger BI, and there's little indication of insureds seeking BI cover without PD (as there is in the United States). There are no bills or even discussions before the government regarding this issue in Mexico. PCS will continue to monitor the situation and would take any action only in accordance with our methodology.

Update: Reporting Disparities among COVID-19 Data Sources

In key regions around the world, reported cases of COVID-19 are skyrocketing. In general, this has implications for where parametric risk-transfer transactions would put their trigger points, as each new reporting cycle reveals more about COVID-19 and its corresponding economic impact. Further, the rapid increase in cases could provide more insight into how local, regional, and national governments respond to reporting requirements as their healthcare infrastructure becomes increasingly strained. As we've covered in past bulletin, constrained access to testing, professionals, and other resources can exacerbate reporting disparities that naturally exist as a result of staffing levels and differences in publication cycles at reporting agents generally accepted as authoritative.

Note: PCS has been keeping track of the daily cases through the various sources and provides a consolidated analysis on Fridays for the past 7 days.

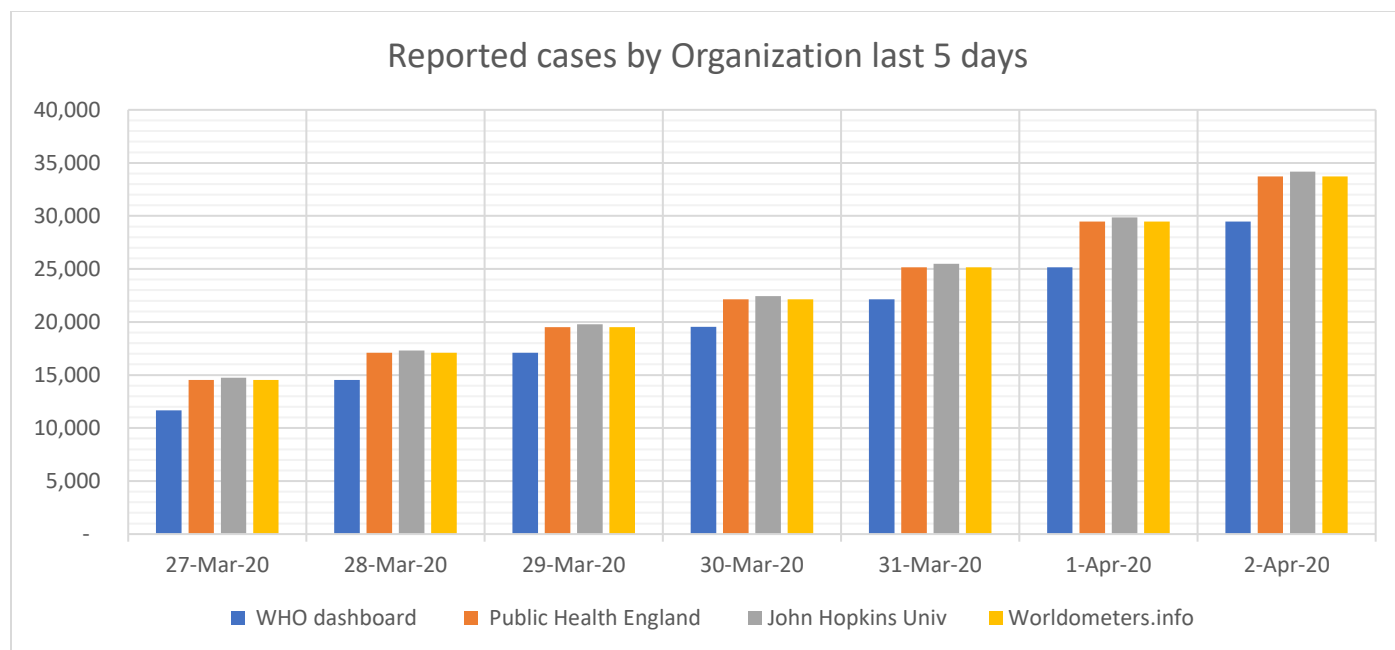
U.S. Reported Cases



1. The most up-to-date case counts will come from states; CDC officials have said
2. CNN's tally relies on state totals and won't always match the CDC's count
3. John's Hopkins dashboard thus far has been found to update several times a day
<https://coronavirus.jhu.edu/map.html>
4. Worldometers.info – web scraping tool -
<https://www.worldometers.info/coronavirus/country/us/>

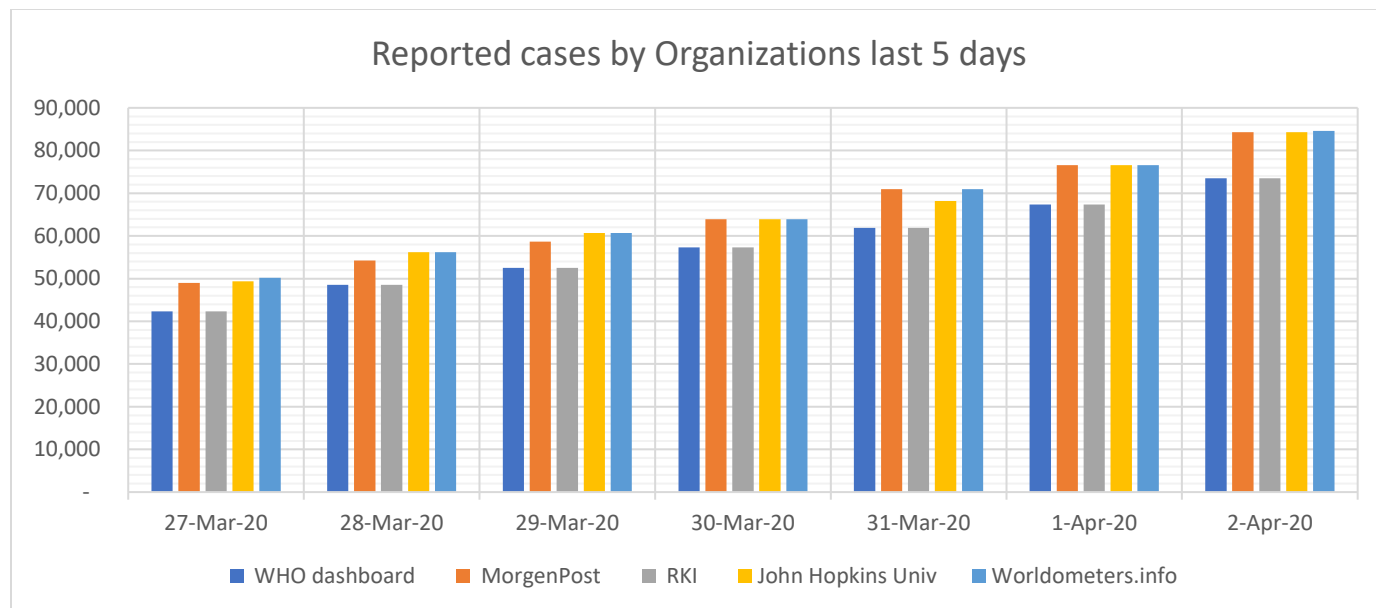
While the WHO remains significantly behind other authoritative reporting sources, there appears to be a convergence in the others. This likely results from increased consistency in the collection (and web scraping) of data from known accepted sources, resulting in similar reporting. The CDC, which presumably can't webscrape or otherwise just pull data from local and state health agency sites, remains a step behind – which is sensible and to be expected given the likely operational requirements they have in collecting and reporting data.

UK Reported Cases



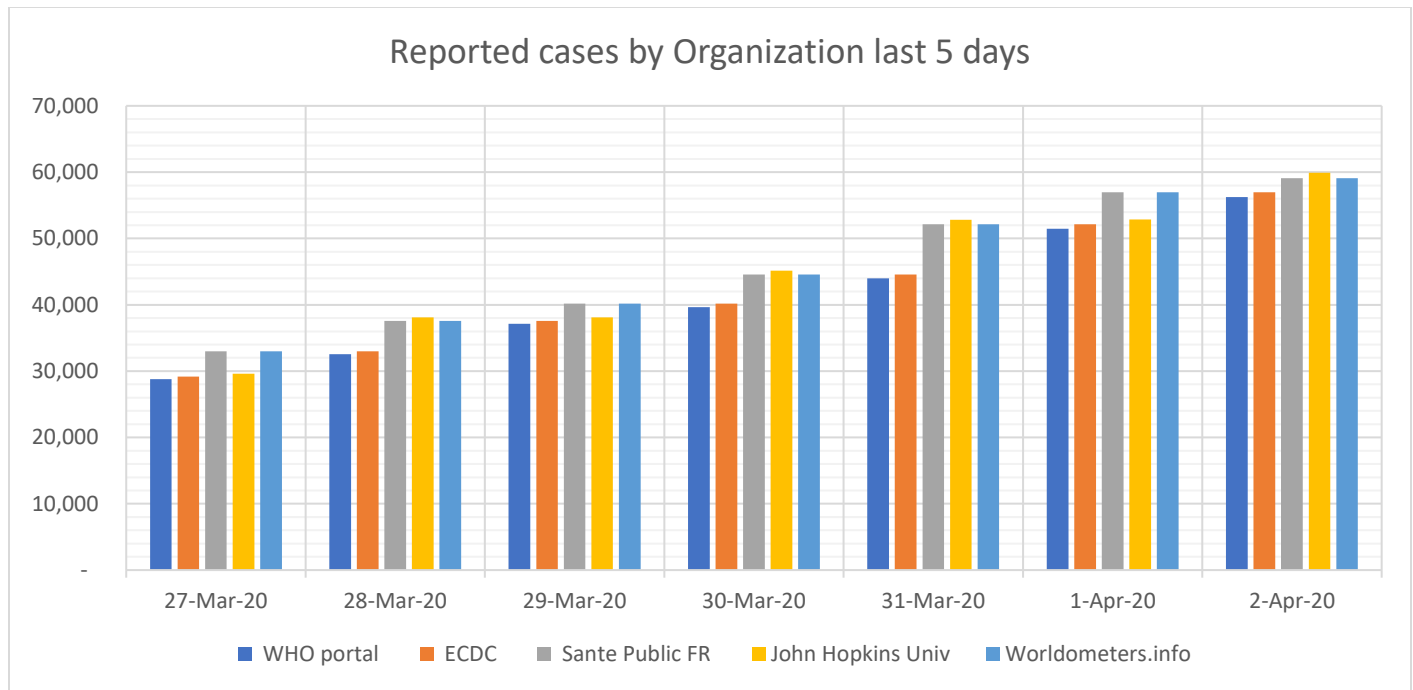
The number of cases in United Kingdom has climbed significantly recently, but appears not to have impacted data reporting all that much. Public Health England appears to be the most timely and accurate source, with others converging around it. Johns Hopkins may be pulling more granular information which keeps it slightly ahead of PHE, but not to the point where gaps in data become alarming. For future parametric trigger transactions, PCS would likely refer to PHE primarily and use the others as reference points.

Germany Reported Cases



There appear to be two tracks in reporting in Germany: RKI (which appears to be the feeder for the WHO) and public sources, with MorgenPost probably pulling Johns Hopkins. Given the large volume of cases and recent growth, PCS will continue to monitor the reporting gap between the two authoritative original sources.

France Reported Cases



The cadence of reporting in France has been interesting. Most sources have been relatively consistent and not updated in the same manner as other countries, which showed more variation, at least at points. As the number of cases has increases, the Santé publique France has stayed aligned with other sources, which suggests more consistency in original underlying reporting.

We're beginning to review new regions to include in this analysis and have been monitoring the increase in confirmed cases in Spain particularly closely (<https://covid19.isciii.es/>). We've seen a rapid increase in the number of cases there and are also beginning to watch Germany more closely, as well.

For more information on parametric trigger issues and basis risk considerations, please review our two earlier information-only bulletins on COVID-19.

Update: Travel Insurance

A few days ago, The Association of British Insurers (ABI) has announced that travel insurers could make record payouts in claims due to COVID-19, which is consistent with its estimates. Most of the claims are expected to be for cancellations and could easily exceed the cancellation payouts for all of last year, making it the highest cancellation payout on record. The ABI anticipates around £275m to be paid to customers with a volume of expected coronavirus related claims close to 400,000. To date, the highest annual figure of payouts for cancellation was £148m in 2010 that encompasses the Icelandic volcanic ash cloud in 2010, with a total of 294,000 claims submitted for that year. [\[link\]](#)

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.