PCS Information Bulletin #22: COVID-19 Review

Wednesday, June 24, 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.

The COVID-19 Crisis Has Reached Chile

When PCS discussed COVID-19 in Latin America during our May 1, 2020 Friday webinar, total reported cases had reached 19908 in a country of only 18.7 million people. The rate of infection was sufficient to be alarming. Today, the effects of COVID-19 in Chile are far more severe.

As of the evening of June 22, 2020, Chile has nearly a quarter of a million reported cases, with 4,500 fatalities. The seven-day moving average for daily new cases for the past three days reaching 5840 cases, 5481 cases, and 5279 cases. The number of people currently affected remains above 35,000. And the case per million population rate is more than twice that of Brazil.

The impact of the pandemic on Chile comes during what was already expected to be a difficult year. Last year's riots — which caused several billion dollars in insured losses — came from underlying drivers that remained relevant even before the first signs of a global outbreak early in the year. For more analysis, take a look at our webinar on COVID-19 and Latin America: LINK.

The First Wave's "Secondary" Spike in the United States

More than 20 states have posted significant increases in COVID-19 cases reported. The numbers themselves may not look as shocking as those revealed in March or April, but to perceive the implications of the latest outbreak purely in comparison on a raw quantum basis would be short-sighted. Major population centers like New York, Boston, and Miami came in the March/April iteration. In the states currently being affected, there are plenty of large cities, but it may take longer to see how the reports take shape.

An initial review of Florida and California show the limitations of looking at reported cases on a statewide basis. Back in April; when the Miami metropolitan area was affected rather profoundly, the state numbers were staggering. However, cases reported were fairly low in the state's other major cities, such as Orlando, Tampa, and Jacksonville. Today, the resurgence of COVID-19 in Florida isn't affecting Miami as much (seven-day rolling average of approximately 1,200 new cases reported on Sunday June 21, 2020), but Orlando, Tampa, and Jacksonville have shown 528, 563, and 254 new cases, respectively, reported just on Sunday alone.

In California, statewide numbers were high 45 days ago, but there weren't many areas with high concentrations. Los Angeles and San Francisco seem more at risk today than they were in April. Los Angeles seven-day average number of cases has spiked to around 1,700 cases per day for the last three days, compared to about 1,000 cases for the seven-day average at the end of April. San Francisco's highest day in recorded cases was Saturday, June 20, with a record number of 348 cases. The seven-day average for the last few days is around 220 cases, an increase compared to the 150 seven-day average that was recorded throughout the months of April and May.

The latest apparent outbreak isn't a second wave — rather a continuation of the first into previously under-affected parts of the country. The lessons of the past few months, if heeded, could help mitigate the spread of COVID-19. On the other hand, protests and riots, the hasty (or even overzealous) relaxing of social distancing restrictions, and general apathy could accelerate the spread of this apparent secondary spike.

Civil Unrest in Southeast Asia

As we have spoken so much on the SRCC topic in the United States and Latin America, it is time to turn our attention on another area that PCS monitors – Southeast Asia and Pacific.

With strict orders to enforce social distancing and lockdowns during the COVID-19 environment, the Southeast Asian countries have not been that affected by protests so far. The cases we are aware of so far are the food riots in Manila around April 1, 2020, as well as some garment workers protests in Bangladesh.

Thailand is a particularly interesting example here, as there has been a resurgence in the anti-government movement in the wake of last year's election. It subsided a bit due to the pandemic, but it is expected to flare up again during the second half of the year because of the political environment.

Myanmar is at the highest level of risk by far, according to Verisk Maplecroft, due to general instability and already-high numbers of protests, as well as due to the risk of more unrest ahead of the general election in November.

Malaysia has experienced a lot of political turmoil already, so there is a latent risk. And this is followed by countries like Sri Lanka, Papua New Guinea and Indonesia, where the economic downturn could play a significant role.

Could a Shortage of Seafarers Affect the Marine Re/Insurance Market?

Supply chains rely on the sea. In fact, ships carry as much as 80 percent of the world's goods trade (by volume), according to the UN Conference on Trade and Development. So, what happens when there aren't enough people to keep ships (and goods) moving? We may get a sense of that soon.

Back on our April, 24, 2020 PCS Friday webinar on the types of claims that could arise from COVID-19, we discussed potential implications for the global marine re/insurance market (LINK). Talk of a potential shortage of qualified crew had already begun, particularly the impact of the virus on countries that contribute heavily to the seafaring community.

COVID-19 in Seafaring Countries

Country	COVID-19 Cases	Population
China	83,418	1.44 billion
India	449,613	1.38 billion
Indonesia	47,896	267.7 million
Russia	599,705	144.5 million
Philippines	31,825	109.2 million
Vietnam	349	96.46 million
Myanmar	292	54 million
Ukraine	38,074	42 million

Sources: PCS internal research, WSJ, Worldometers.info

According to a CNN report (https://www.cnn.com/2020/06/18/business/seafarers-shipping-coronavirus/index.html), unions and shipping companies had agreed to suspend crew changes in March as a way to minimize supply chain disruption. The relevant contracts, though, seem set to expire. And there are concerns about the health and safety of crew members already, even absent another extension.

Ports that don't allow crews to disembark, long quarantine periods, and other travel restrictions have frustrated normal crew management practices. Of the 1.2 million seafarers generally at sea at any given time, an estimated third of them need crew change. And even travel back to their home countries can be especially challenging.

The need to change crew could have profound implications for goods in transit around the world. With supply chains already feeling the effects of a presumably exhausted seafaring workforce and a host of other restrictions on the movement of people and cargo (e.g., social distancing measures), the removal of up to a third of the relevant working population would likely be felt by the end consumer.

However, the risks associated with the current crew situation could result in an escalated risk environment. Mistakes, accidents, and other drivers of supply chain disruption (and insured loss) could increase when normal crew management operations can't be maintained. For marine re/insurers, it's crucial to monitor the current risk environment, particularly given the lack of alternatives that the shipping industry may have available.

COVID-19's Influence on SRCC Claims in the United States

PCS catastrophe number 2033 was designated regarding the SRCC event that erupted in late May as a result of the killing of George Floyd and is our first U.S. SRCC event since the 2015 Baltimore riots. Our preliminary estimate for this event is targeted for June 29, 2020. Adjusters, contractors, engineers, forensic accountants, and others are at the beginning of their journey of assessing, evaluating and settling losses, and awareness of guidance and recommendations from Departments of Insurance and government officials in each of the affected states has to be considered on every claim.

As mentioned in our COVID-19 Informational Bulletin Number 21 last week, the Illinois Department of Insurance requests insurers to advance claim payments and "err on the side of the policyholder" when paying claims as a result of riots, civil commotion, or vandalism. Also, and the Illinois Department of

Insurance (DOI) bulletin advises insurers “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 expedite claims processing for these losses.”

Guidance released by Pennsylvania Insurance Commissioner Jessica Altman aims to help business owners understand the terms in their policies and how and when to file claims. Altman called on carriers to help “the commonwealth and expedite claims processes to the extent possible to help businesses and communities in need.”

The New York State Department of Financial Services issued an emergency regulation requiring state-regulated insurers to accelerate the claims process for businesses and individuals suffering damage from a riot or civil commotion.

As of June 22, 2020, the Minnesota Commerce Department following the issuance of state Executive Order 20-64 issued Administrative Bulletin 2020-3 which outlines their expectations regarding expedited claim handling as well as their direction regarding the handling of business interruption claims. The Minnesota Commerce Department guidance states, “To the extent business interruption provisions are included and operative under a policy, insurers should base payouts on expected business activity during the time of closure. These losses are occurring at a time of business reopening following months of closures due to COVID-19. The Department does not believe it is appropriate to calculate businesses losses using the time period under the Governor’s Stay Home orders. Alternative calculations could include revenue from the same time period in previous years or a similar calculation.” Additionally, the bulletin goes on to state “Insurers should err on the side of the policyholder when considering the applicability of exclusions” and “Insurers should work collaboratively with policyholders to allow for the replacement of structures and equipment with renewable, resilient, or sustainable technologies that may lower long-term risk following rebuilding or repair.”

The guidance disseminated from Minnesota, Illinois, Pennsylvania, and New York of course relates significantly to losses incurred in the major cities on Minneapolis/St. Paul, Chicago, Philadelphia and New York City and the adjustment of claims and case reserves will be influenced by these directives and any others issued by officials in other states.

Significant International COVID-19 Updates

The impacts of the COVID environment continue to make waves within the global economy. Governments around the world continue to create legislation and regulation to support their citizens and economies. Several countries and regions are outlined below regarding what some governments around the world are doing to combat the economic disturbances caused by COVID-19.

European Union

The EU Council has approved, “SURE” (Support to mitigate Unemployment Risks in an Emergency). The temporary process will allow for a financial assistance up to €100 billion in the form of loans from the EU to affected Member States. It will act as a second line of defense, supporting short-time work schemes and similar measures, to help Member States protect jobs, employees, and the self-employed against the risk of unemployment and loss of income. EU leaders backed the agreement on April 23, 2020, and the package is to be operational by June 1, 2020.

The Council has also made a decision to provide about €3 billion of macro financial assistance to the Republic of Albania, Bosnia and Herzegovina, Georgia, the Hashemite Kingdom of Jordan, Kosovo, the Republic of Moldova, Montenegro, the Republic of North Macedonia, the Republic of Tunisia, and Ukraine in order to help them cope with economic effects of the COVID-19 environment.

United Kingdom

The UK has issued an extension to the Coronavirus Large Business Interruption Loan Scheme. The maximum loan size increase from the existing £50-200 million. This allows some larger firms that do not qualify for the Bank of England's COVID Corporate Financing Facility to be able to access enough finances to meet their cash-flow requirements.

Japan

The Bank of Japan has introduced a new fund-provisioning measure to further support financing mainly of small and medium-sized firms. The Bank will provide funds to eligible counterparties against pooled collateral for up to one year at the loan rate of 0 percent with the maximum amounts outstanding of eligible loans reported by those counterparties.

Thailand

In response to Covid-19, Cabinet has approved a fiscal package with phases I, II, and III amounting to at least THB1.5 trillion (US$49 billion) or 9.6 percent of their GDP.

To assist businesses during these pressing times, Thailand has taken measures to help businesses which include soft loans by the Bank of Thailand (BOT) to financial institutions amounting to THB 500 billion (US$16 million) for on-lending at 2 percent interest to SMEs with outstanding loans. The government will cover the first 6 months of interest and guarantee up to 60-70 percent of these loans. The government has also introduced flexible repayment conditions for businesses including a loan payment holiday of six months for SMEs.

Spain

The Spanish Government approved and sanctioned a guarantee scheme of about €100 billion which would support employment and mitigate the economic effects of the pandemic. The approval of the first, second and third tranches of the said guarantee scheme has now agreed to launch a fourth tranche, of about €20 billion, which would benefit the self-employed individuals and the SMEs.