PCS Information Bulletin #26: COVID-19 Review

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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.

COVID-19, Natural Catastrophes, Volunteers, and Consequences

The PCS team's first webinar on catastrophe claim handling during COVID-19 was among our most important and well attended. Held back in May, we discussed a wide range of issues from the use of technology in claim handling to maintain social distancing to claim leakage and loss inflation. It's never a bad idea to revisit that webinar and share it with your colleagues (https://www.verisk.com/insurance/webinars/on-demand/2020/pcs-friday-series-hurricane-season---key-covid-19-issues/). One topic that came up during the Q&A period has found its way into the news, and it's worth much more discussion. What would the situation on the ground be like?

The article delves into issues about the availability and ages of volunteers during catastrophes, noting that most volunteers are in the age groups at most risk of COVID-19 transmission and fatality. Additionally, there may not be enough personal protective equipment (PPE) available. (Read the entire article: https://www.thedailybeast.com/i-was-a-military-covid-planner-trust-me-texas-is-in-deep-deep-trouble?source=us-news&via=rss). Additionally, there's the notion that military personnel would provide support absent a sufficient base of volunteers. Insufficient training, exposure to the virus, and an overall impact to readiness for their core mission (rather than domestic support and relief) could be consequences.

Of course, the issues discussed in the article also lead to the potential for chaos at shelters and other relief centers. Think back to the photos of the Superdome in the aftermath of Hurricane Katrina to understand the potential for COVID-19 transmission after a major catastrophe event. And then scale up any implications for volunteers, emergency management professionals, and the military.

How does this ultimately affect the post-catastrophe claim handling environment?

The starting point is the claim lifecycle. Just about everything associated with COVID-19 has the potential to lengthen the time it takes to close a claim. Even in cases where claims are paid out without inspection, using remote adjusting technologies, or through scoring mechanisms to determine whether or not there's a total loss that should just be paid. While such practices would accelerate claim payment, the lifecycle could be elongated on a relative basis because infected claimants may not be available. Even in the age of digital signatures, strain on cell networks could make it difficult for a claimant in a relief center to finalize any documentation.

Simply finding claimants may be difficult. The proliferation of mobile technology today compared to 15 years ago should certainly help, but network strain, adjuster workload, infection, and other factors could make the process more challenging. Adjusters would have to invest more time in locating and engaging claimants, even if the overall claim handling process is meaningfully streamlined.

The movement of affected claimants to relief centers – presumably inland – could also have profound implications for the communities where they are sent (as addressed in the article above). The movement of large amounts of people who are held together in close quarters could result in the risk of increased transmission to the surrounding community – with transmission potential coming from volunteers, relief workers, emergency management professionals, caterers and delivery teams, and others who may be involved in the process of helping those affected by a natural catastrophe.

The social and economic implications of increased transmission are already an issue for the United States. The combination of that and a major natural catastrophe could have severe long-term effects and disproportionately high near-term consequences. Insurers would need to be prepared for shortages of labor and materials, longer claim lifecycles, increased claim leakage and demand surge, and difficulty in engaging claimants. Loss development could go on for much longer than one would normally expect.

Resources related to catastrophe claim handling and COVID-19 can be found at: https://www.verisk.com/insurance/products/property-claim-services/original-risk/

A Quick Thought on PPE, Volunteers, and Access to Capital

The notion that the Red Cross may not have enough PPE for volunteers caught our attention. The use of the ILS market to drive in capacity – not unfamiliar to the Red Cross (https://www.artemis.bm/news/red-cross-volcano-cat-bond-targets-multi-continent-coverage-from-q1-issue/) – could be an interesting solution. An instrument could be structured as a dual trigger parametric for pandemic and either parametric or blended with industry loss for the catastrophe portion. However, that would only drive cash into the organization. If the solution is PPE, then there would still have to be a sufficiently resilient supply chain in order to ensure that the materials could be manufactured and shipped to the folks who need it. As we've seen throughout the pandemic, supply chain risks mean that preparation rather than capitalization may be more important for critical materials such as PPE.

Mask Enforcement and the Retail Experience

Nine of the largest retailers in the United States have begun to require that customers wear masks (https://www.washingtonpost.com/nation/2020/07/17/coronavirus-live-updates-us/). While they may have had these requirements on a regional basis previously, the latest decision is nationwide. A single policy for the entire country makes sense, as it streamlines employee communication and training, in-store enforcement, and managing customer expectations. Additionally, it could provide risk management benefits.

There's been no shortage of news coverage of customers refusing to wear masks in stores – and sometimes getting hostile when they are required to. Steps taken to enforce mask use on a store-by-store basis, even when there's a nationwide policy in place for each retailer, can lead to incremental expense. Many have employees posted at entrances to ensure that customers wear masks, and in some cases they offer hand sanitizer as well (this practice is in place down here in Bermuda, as well). This may come at extra expense to the retailer. Or, if the door employee comes from existing scheduled staff, the result could be degraded service or less efficient operation in the store itself. Needless to say, there's a cost to the retailer – in a sector where margins are notoriously thin.

The extra expense/degraded experience associated with allocating a resource to the door is probably not an existential threat to the large retail sector in the United States. However, it comes at a time where retailers have to assume a wide range of additional costs while also sacrificing the practices that have helped them grow top line over the past few decades. And each individual consequence of COVID-19 adaptation can have a knock-on effect across a store's operation.

Let's assume, for example, that the door employee is not an additionally scheduled resource. Rather, he or she is pulled from working a cash register. This reduces register capacity by a certain percentage (depending on how many registers remain open, of course). Reduced register count can result in longer lines at each open register. With customers having to wait six feet apart, the reduced register capacity sends customers deeper into the aisles while they wait in line. There are two implications here. First, store capacity restrictions could lead to longer lines outside because it takes longer to get customers through the registers. That reduces foot traffic and ultimately constraints top line for the day. Also, customers in the aisles form obstructions for shoppers, which can have a negative impact on basket size (speaking from personal experience … my hunt for up-market olive oil had to wait another week).

Mask enforcement has become a sufficiently important risk management issue that it's become worth it to have an employee at the door. However, managing risk has had a clear impact on financial performance – at a time when many other factors threaten financial performance as well.

The big question for the retail sector now is how it will absorb the various constraints introduced by COVID-19 and absorb them into the next wave of strategic planning. Online shopping ushered in the age of the "retail experience," in which it was crucial to increase foot traffic, keep customers in stores, longer, engage them in a sensory experience, and push to increase basket size. The next retail age may be exactly the opposite: accelerate the customer through the store, simplify the product selection, reduce the tactile experience (perhaps investing in other senses, though), minimize store employee interaction, and improve self-checkout even in stores that seek to deliver an experience instead of efficiency.

Increased risk of SRCC beginning of August in the US

We have been talking about civil commotion and unrest around the world throughout this pandemic – and in particular in the United States. In fact, changes that could be coming August 1, 2020, could further increase the risk of riots and civil unrest across the country.

Throughout United States, protests are beginning to resume, as long-standing grievances resurface. Organizers of a national workers strike said tens of thousands were set to walk off the job Monday, July 20, 2020, in more than two dozen U.S. cities to protest systemic racism and economic inequality. Among the strikers will be essential workers: nursing home employees, janitors, and delivery service employees. Protesters gathered outside the Federal Reserve in Manhattan's Financial District, while in Detroit, they rallied in front of a McDonalds. Nursing assistants, dietary workers, housekeepers and janitors went on strike outside Cerenity Humbolt Care Center in St Paul, and in Boston, they gathered in front of the Massachusetts Statehouse. Protests in Portland Oregon have been ongoing throughout the weekend and continued early morning on Monday, with a conflict against federal agents outside the city's U.S. courthouse. Fast food, ride-share, and airport workers were also expected to take part in planned events. Strikers were demanding sweeping action by corporations and government to confront systemic racism and economic inequality.

Although peaceful so far, these protests could have the potential to escalate given that the measures from the CARES (Coronavirus Aid, Relief, and Economic Security) Act expires at the end of July. The act provides US$600 a week in federally funded unemployment insurance on top of state-level benefits for laid-off workers. To make this situation of even greater concern, eviction relief ends July 25, 2020. Urban planners and housing advocates thus anticipate a national housing crisis as a result of expected evictions. So far, no replacements for those protections on a national level have been put in place.

The U.S. labor market showed signs of improvement in May and June, with an increase in employment in sectors previously hard-hit from the downturn caused by COVID-19-related lockdowns. Companies cut 21 million jobs in March and April, while 7.5 million were created in May and June, with strong gains in the leisure and hospitality, retail, education and health, and manufacturing sectors. As the summer months and the relaxations measures have been taking effect, the labor market seems to have been recovering a bit. There is however the question if this is just a temporary relief, as COVID-19 infection rates are rising sharply in states where the relaxation measures first took effect (Florida, Texas, California, Georgia, etc.). Seasonal employment could have provided a bit of lift, as well, although only briefly.

If, as many believe, the May/June economic bump is temporary, then it's realistic to expect further economic malaise of longer duration. In addition to the sheer mechanics of flattening the curve and getting people back to work, political risk factors could make it more difficult for consumers to reenter the market. First, economic strain would likely put downward pressure on spending. Further, the increase in COVID-19 transmission could keep consumers at home. While there's some resilience to be expected in essential and near-essential goods, with a bit of relief to online outlets, as well, traditional non-essential brick-and-mortar establishments and restaurants could bear the brunt of the trend.
The deadline for small businesses to apply for forgivable loans is in August. Since a condition of receiving support under the program is that a business be open, there's a tension in the commercial space right now. To receive the non-reimbursable loan, a business would have to be open for eight consecutive weeks and have staff on the payroll. On the other hand, the rapid spread of infection provides a set of risks for businesses that remain open, which could also become existential threats.

The current climate of economic uncertainty in the United States has potentially profound implications for re/insurers around the world. First, of course, is the likely increase in SRCC risk if U.S. citizens aren't satisfied with any ultimate government response to the looming deadlines (e.g., eviction protection). When people see direct risks to their homes and basic needs, it's safe to assume that SRCC risk ticks higher. Eviction, uncertainty about additional stimulus payments, and questions about the extension of unemployment benefits increase strain on consumer spending while also pushing up the potential for unrest. A housing crisis would only magnify such sentiments.

The ongoing protests across the country could give way to another wave of riots, if deteriorating economic conditions are mixed with a clear cause (as we saw in the May/June riots in the United States). Economic malaise and concern about government response may not be enough to turn protests violent, but they could provide an accelerant for another cause.

A wave of business closures as a result of economic conditions could also have profound implications for insurers – even if it's not via claims. Closed businesses would indicate a shrinking of the commercial insurance market and drive reductions in revenues to insurers. Riots and hurricane season have resulted in plenty of discussion about claims and claim handling practices, but we haven't discussed the revenue/income side of the equation as much. An insurance company can't increase top line through claims management – claims are a bottom-line exercise. As a result, the loss of potential (or existing) insureds could produce some additional strain on insurers. The same could be said for a housing crisis, which could have a commensurate effect on homeowners and renters insurance.

Hurricane season, not the only large cat event threat during the pandemic

With the height of the 2020 hurricane season upon us in several weeks, there has been plenty of discussion about what may happen if and when a hurricane or tropical storm causes significant damage to areas that are combating the continual rise of COVID-19. However, hurricanes and tropical storms are not the only perils our industry is facing in the coming weeks and months. Based on our PCS designated events, since 2015, wildfires have been the cause of more than $30 billion of insured loss with the bulk of the wildfire insured losses being in California and the majority occurring in the second half of each year.

The NOAA's Climate Prediction Center forecasts drought conditions for California through at least September, and the National Interagency Fire Center predicts this year's fire season, lasting from June through September, will see an above average number of fires in the Southwest and Pacific Northwest. This summer is also promising to be the hottest on record, and a large wildfire in Arizona has already scorched nearly 200,000 acres. Firefighters and emergency responders are now bracing for this danger amid concerns that the COVID-19 pandemic could drain their workforce and present an additional health risk to first responders and evacuees. In fact, the first COVID-19 firefighter case of the season was reported in mid-May, when a wildfire engine crew leader in Washington State who was supposed to start work on June 1st tested positive.

Wildland firefighters work shoulder-to-shoulder, sometimes using hand tools to dig break lines beyond which the fire cannot go, they crowd together in small vehicles, and sleep in close quarters near the fire. They stand in line for their meals and use communal bathrooms. Outbreaks of what is commonly called the "camp crud," an upper and lower respiratory infection accompanied by a cough, are an occupational hazard, and the continuous exposure to smoke-filled air aggravates any respiratory vulnerabilities that already make a person susceptible to COVID-19.

Even before wildfire season began, efforts to mitigate it had already been impacted. In April, citing concerns about social distancing and the respiratory danger of wildfire smoke, the U.S. Forest Service suspended a wildfire prevention method called controlled burns in several states. California, which had set aside billions to prepare for wildfires, had many projects put on hold after COVID-19's economic fallout forced the state to make significant budget cuts.

The basic techniques used to manage wildfires are antithetical to the behaviors that reduce transmission of the virus. For roughly 100 years, starting in 1904 when the U.S. Forest Service was founded, wildfires were managed using a direct-suppression model—put out every fire, no matter how small, as quickly as possible. With the recognition in the early 2000s that this was detrimental to a healthy landscape, firefighting moved toward allowing more acres of fire to burn to keep the land healthy.

COVID-19's potentially crippling impact on firefighting and the safety of firefighters is ushering in a major shift in how wildfires will be suppressed this season. In some ways, the new rules call for old-school techniques. For example, firefighters will respond quickly to suppress small fires quickly rather than letting them burn, using local resources instead of bringing in firefighters from other areas. Controlled burns, fires set intentionally to eliminate dead growth and pave the way for new healthy growth, will be reduced if not canceled for the 2020 fire season because the accompanying smoke can seep into surrounding communities and harm individuals who have acquired the COVID-19 virus.

At this point in 2020, there have not been any PCS designated wildfire events as none have reached the level of warranting a catastrophe designation. However, if the trend of wildfire activity in recent years remains constant, we may have to be just as concerned about further COVID-19 spread from these events just as much as from hurricanes and tropical storms.