PCS Information Bulletin #28: COVID-19 Review

Wednesday, August 5, 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.

Cyber Activity during COVID-19

It's impossible to say if there's a true causal connection, but PCS has noticed an uptick in cyber activity since companies moved largely to working remote back in March 2020. Since then, PCS has designated 2 events in PCS Global Cyber, which has an insured loss threshold of US$20 million (affirmative cyber only). Garmin is the latest to be designated. Additionally, we are evaluating several other losses, such as Blackbaud, ADT Security, MGM and CWT, to see if they will ultimately reach that threshold. In 2020, companies with aggregate limit of US$500 million have sustained losses that reached the PCS Global Cyber threshold.

An increase in cyber activity during COVID-19 was expected in the first quarter. Although cyber risk is generally independent of pandemic, it's been noted that there's the possibility that cyber attacks could increase as a result of the chaos and instability that favor bad actors. And the potential for work-from-home tools to yield exploits has been discussed as well. Of course, the current wave of cyber activity could be the natural extension of the trajectory the market was on already.

U.S. Data Quality Deterioration

The movement away from CDC data collection for COVID-19 has reportedly had a tangible impact on data quality already. In fact, the nature of the data collected is changing, which could have implications for claims professionals, underwriters, and analytics across the global re/insurance community.

In the United States, the CDC was disintermediated and replaced with a private contractor, which would ultimately collected data related to COVID-19. Key issues include:

1. The data collection contractor is reportedly untested (https://www.npr.org/sections/health-shots/2020/07/31/897429054/covid-19-hospital-data-system-that-bypasses-cdc-plagued-by-delays-inaccuracies?ft=nprml&f=1001)
2. Data isn't being posted in a timely manner
3. The data publication cycle has been reduced from the CDC's three times a week to only once a week
4. Data is being collected for fewer elements
5. Data is posted "as received" rather than being vetted for accuracy
6. The vendor has not achieved 100 percent submission compliance

You can take a look at the new data source at https://protect-public.hhs.gov/pages/hospital-capacity#download-data.

In addition to data quality issues, the movement of data reporting in the middle of the pandemic could have a wide range of impacts on the global re/insurance industry:

1. Any parametric ILWs used for pandemic risk transfer would need to account for the movement of a reporting agent. In this case, language that automatically named the new HHS Protect Public Data Hub as the backup reporting agent would be important. Alternatively, the use of a commercial reporting agent would solve this problem.
2. Basis risk could increase with the reduction in data reporting frequency. ILW language should address that – at least with extension language in the event that a reporting agency change is necessary, particularly if accompanied by a change in methodology.
3. As to a change in methodology, the HHS hub reportedly doesn't project cases and only provides "as is" reports, which is a substantial change from the CDC. As a result, the risk of underreporting relative to modeling done on CDC data could become problematic.
4. Given that the vendor is untested, there's an increase in the risk of reporting agency failure. A tertiary reporting agent would be important (again, unnecessary if a commercial reporting agent is engaged).
5. Further political risk arises (beyond what we've seen already), as the reporting function could move back to the CDC in Q1 2021, depending on the outcome of the U.S. presidential election in November 2020. In fact, there could be a period of time (at least eight weeks) where operating risk increases, as well. An outside vendor could show a degradation in performance if it believes it will lose the contract based on the outcome of the election.

As a result, re/insurers looking to use publicly available sources of data for analysis or risk transfer encounter issues of consistency, reliability, timing, and future availability. Some of these risks have to be addressed – such as future availability.

There's no realistic mechanism for ensuring that U.S. COVID-19 data will be available in the future. If the collection of data were to be ceased – unlikely, but still worth contemplating – the only alternative would be some approximation of the original collection process, which would have to be done on a voluntary basis by the hospitals currently engaged. It seems unlikely that that infrastructure could be replicated commercially, particularly on short notice.

The other risks, though, might be more manageable. Projection throughout the week could provide some interim results between weekly publication cycles (for example: https://www.air-worldwide.com/models/Life/verisk-covid-19-dashboard/). Forecasting and estimation could be used to address issues of reliability, as well. Consistency becomes an input issue for any models, though, and while some amount of analytics could address it, ultimately, the models become impacted by the availability of inbound data and differences in methodology for collecting that inbound data.

Back to back weeks with tropical events making landfall in the U.S.

Hurricane Hanna, PCS Catastrophe Number 2043 last week is the first of back to back weekly landfalling hurricanes for the U.S. followed this week by Isaias. Isaias vacillated between tropical storm and hurricane status as it was a tropical storm when it brought heavy rains and strong winds to Puerto Rico and skirting Florida before gaining additional strength to become a category 1 hurricane and making landfall in the area of Ocean Isle Beach, North Carolina.

As we mentioned in our PCS COVID-19 Informational Bulletin Number 27 regarding the challenges faced by states with COVID-19 having a significant effect on emergency response planning, the threat of Isaias making landfall in Florida would have been significantly problematic. Florida, similar to Texas as mentioned in our bulletin last week, has been one of the top three U.S. states with confirmed COVID-19 cases for the past several weeks. The number of confirmed cases in Florida is approaching 500,000 and the number of deaths is approaching 7,500.

Although this past weekend when it appeared that Isaias' impact on Florida would not be severe, the storm provided local emergency management with a "real-world scenario" of what extreme weather preparation and response could look like in the midst of a public health emergency as the states battles the coronavirus pandemic.

Counties across the state altered their hurricane protocols in the wake of the pandemic. More space in shelters, enacting plans earlier and adjustments to evacuation zones are among the new standards. Counties were ready to stand up COVID compliant shelters if they were necessary, with social distancing, regular cleaning and other measures in place. Florida Governor Ron DeSantis announced that Uber activated free rides to shelters in counties responding to Tropical Storm Isaias. Residents could use the code "IsaiasRelief" to receive up to $25 off up to three trips to or from state-approved shelters. He also announced that more than 11,400 power restoration personnel are pre-staged in anticipation of impacts from Tropical Storm Isaias.

The Joint Information Center on COVID-19 for the State of Florida published a set of protocols and guidelines outlining the response protocols and agencies that would be providing assistance, mitigation and relief, http://www.floridahealth.gov/newsroom/2020/08/080120-1810-covid19.pr.html.

While Florida was spared the brunt of the storm, North Carolina enacted its own emergency response as the storm approached and made landfall. North Carolina Governor Roy Cooper declared a state of emergency and received a federal declaration of emergency for 25 counties. He urged residents to follow local evacuation orders and make a plan to seek shelter outside of the danger zone. Governor Cooper said shelters in the state would screen people and direct those with symptoms to other locations accordingly.

At the time of our reporting on this event, Tropical Storm Isaias is still moving northward and inland in the Mid-Atlantic of the U.S. As cities such as Philadelphia, New York and Boston are within the cone for receiving effects from this storm and further PCS catastrophe event extensions on this storm will follow.

Isaias currently has the potential to have an effect on the eastern Canadian provinces as well which may warrant a separate PCS Canada catastrophe designation. We will have further updates on Isaias in our forthcoming bulletin next week.

Hurricane Risk and Testing Sites

While Hurricane Isaias had vacillated between a tropical storm and a hurricane by the time it made landfall, measures taken to prepare for potential impact are instructive. Miami-Dade County had planned to shut down all COVID-19 testing sites (https://wsvn.com/news/local/all-covid-19-testing-sites-in-miami-dade-to-close-for-tropical-storm-isaias/), with similar measures reported in other parts of the state as well.

The absence of testing, of course, facilitates the transmission of COVID-19, and Florida is among the worst affected states in the United States right now. Miami-Dade County is particularly high for reported cases and population (unsurprising correlation). The inability to test due to natural catastrophe, therefore, poses greater pandemic risk. A similar situation occurred with Tropical Storm Fay. It made landfall in the part of Texas that has reported one of the state's highest rates of COVID-19 infection. However, the population isn't as high or as dense it is in other parts of the state.

Had Hurricane Isaias had a greater impact, the issue of social distancing in shelters could have arisen, as well – in addition to shortages of volunteers, transmission to and from relief workers and first responders, and further supply chain impairment. With Isaias, as with Hanna, we may have the opportunity to see how claims professionals are deploying new technology and adjusting practices – which PCS reviewed prior to hurricane season
https://pcs.iso.com/globalnews/pcs_how_covid_19_could_impact_catastrophe_claim_handling.pdf.

Upcoming PCS Webinar

Over the past couple months, a lot of discussions we've had about COVID-19 and silent cyber have centered around implications for pricing, exposure management, and, importantly in this environment, capital modelling. Join us on Friday, August 7, for **"Silent Cyber: Useful Tools to Challenge Your Understanding,"** when we'll continue the conversation and spend some time talking about how to assess your cyber exposure from both your cyber and non-cyber policies — and what you can do to manage it. We're excited to be joined by Simon Cartagena, actuary and risk manager, SCOR UK and Channel Syndicate; Visesh Gosrani, director, Cydelta; and Jasvir Grewal, actuary, Arcus 1856.