PCS Information Bulletin #42: 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, U.S. Presidential Transition, and the Upcoming Reinsurance Renewal

The media has predicted a winner in the U.S. presidential election with sufficient comfort to have transitioned to “president-elect” from “candidate.” Of course, nothing is final until the Electoral College has completed the process, but functionally, it seems most global institutions have moved from an election-based mindset to one more focused on a transition of power. While the United States has always enjoyed a peaceful transition of power from one president to the next (although not without some problems from time to time), it remains a period of risk and uncertainty. And that could be exacerbated over the next two months, ahead of the January 20, 2021, inauguration.

For the sake of simplicity, we’ll refer to the presumed winner’s incoming administration simply as the “incoming administration,” understanding that the election isn’t final yet and that there are scenarios where this could be subject to change.

Winter in much of the United States brings temperatures and weather that can slow economic activity, and this year, that may coincide with a resurgence of the COVID-19 pandemic. Supply chains continue to experience strain from a smaller or socially distanced workforce. Both demand and supply forecasting tools have been less than effective from time to time throughout the pandemic. And of course, political risk has become top of mind, even for natural catastrophe events. *Now, you need to add to that collection of risks a range of factors involved with a government in transition, particularly regarding COVID-19:*

- A possible lack of coordination – or late coordination – between the two administrations could result simply in lost time.
- Or, there could arise two parallel efforts for handling the pandemic (one for each administration), which may or may not inadvertently complement or conflict with one another.
- During the transition period, the difference between presumptive authority and actual authority (even if “lame duck”) could become evident.
- Depending on administrative measures, the inbound administration may not have sufficient access to data, people, or financial resources to facilitate effective planning and decision making.
- Without coordination, the inbound administration may be a step behind conditions on the ground, because of a lack of access to policy decisions still being made (and actions carried out).

With this in mind, the PCS team has brainstormed some issues we believe could be relevant to the management of the pandemic – and thus to the global re/insurance industry. We're just getting started, and we'd welcome your thoughts and contributions.

- First, the greatest concern is that the confluence of winter, uncoordinated government transition, the holiday season, and the onset of regular flu season could exacerbate an already high rate of transmission for COVID-19, as well as its knock-on effects across the U.S. healthcare system.
- Political polarization could reinforce state and local government policy on issues such as social distancing, curfews, and mask-wearing. In states that were already inclined not to implement such measures, the period between administrations could see the refutation of such guidance intensify, which would facilitate further virus transmission.
- With two U.S. Senate races (both in Georgia) set to go to runoff elections shortly after the new year – and with a majority hanging in the balance – there are still campaigns being run. The national implications mean that what happens in Georgia has implications far beyond the state. This could reinforce political polarization across the country and have an impact on policy related to COVID-19.
- PCS has raised questions around how political risk could affect natural catastrophe response (*reach out to us for a copy of the white paper we wrote recently*), and we could see the same issues arise as a result of COVID-19. The distribution of federal aid, personal protective equipment (PPE), medical equipment (e.g., ventilators), and other support could move slowly or quickly depending on the state in need. Re/insurers should watch for states with election-related litigation if this scenario comes to pass.
- Another natural catastrophe could result in the manifestation of political risk. While Tropical Storm Eta (which could become a hurricane) appears to be the last one for now, the risk of another remains. After all, "hurricane season" runs through November, and sea surface temperatures don't always align with the calendar. Since 1950, 13 tropical cyclones have formed between December 1 and January 20 (https://en.wikipedia.org/wiki/List_of_off-season_Atlantic_hurricanes#Chronology). Additionally, it's not unusual to see large severe convective storm (SCS) events in December. PCS has reported on nearly three dozen SCS events in December over the past 20 years.
- If unseasonably cold or stormy whether were to occur, production and distribution of goods could be affected (including PPE).
- Much has been reported in the press about burnout among essential workers. Yet, there hasn't been a lot of coverage (at least in the re/insurance news media) about strike risk. It's worth giving this some thought. Some essential worker professions are unionized, which would offer a mechanism for striking. There's also the possibility of non-union essential workers being approached by unions, or simply refusing to work on isolated or localized bases.
- Whether related to COVID-19 or natural catastrophes (or, for that matter, riot and civil disorder), there's the risk that federal funding may not be allocated because it's being used elsewhere to address any priorities of the outgoing administration.

- Riot and civil disorder remains an issue. The passing of the election has resulted in at least some perceived de-escalation of sentiment, but the underlying social issues remain. As a result, the risk of riot and civil disorder should persist for a while. It could be escalated again by election-related issues, confrontations among protesters, any number of investigations being carried out locally, or a range of other factors (including incendiary public statements from authority figures). In addition to the social and human cost, riot and civil disorder remains an important catastrophe risk for re/insurers.
- In the event of escalated riot and civil disorder risk, some parts of the company could experience lumber shortages because of the need to board up windows.
- Short of riots, there's a continued risk of "lone wolf" violence and mass shooting s(similar to El Paso, Dayton, and Pittsburgh).
- The holiday season presents several challenges. First, it generates crowds, whether for shopping or for celebration. That alone increases the risk of COVID-19 transmission. Additionally, crowds do increase the risk of riot and civil disorder, particularly in the existing political, social, and economic climate – and with the general stress of the holiday season added to the mix.
- Further, the holiday season creates a surge of economic activity (most of the busiest shipping days of the year range from the day after U.S. Thanksgiving through Christmas). With even more shopping expected to transition to online from in-store this year as a result of the pandemic, supply chain strain could become exacerbated. It could take longer for packages to arrive. There could be shortages of key goods, particularly those featured in "hot gifts of the year" news coverage – always a staple of the annual holiday season media cycle.
- Any pandemic-related lockdowns or other restrictions on movement could impede the supply chain even more.
- Economic malaise could continue to threaten businesses, and there's the risk that more consumer-focused businesses (such as retailers and fast and casual dining establishments) could continue to suffer or even close. This would also affect holiday season consumer spending.
- Financial market volatility could provide asset-side concerns for re/insurers, which could also impact the availability of capital at the renewal.

For the global re/insurance industry, many of the risks above are indirect, but if they persist and grow over time, they can result in broad economic changes that can require strategic shifts, as opposed to isolated market conditions that could recede more quickly. For underwriters, there are plenty of direct risks to consider, but perhaps the wider issue could be one of capital availability. The combination of continued prior year loss creep, a busy 2020 catastrophe year that's still developing, financial market volatility, political risk, and a pandemic resurgence could result in the more conservative deployment of capacity, which could have salient market implications.

COVID-19 hospitalization situation

Cases in Europe have been exponentially spreading for the last few weeks and hospital capacity is filling up quickly with the influx of patients. Multiple countries have implemented curfews and various measures to try to control the spread of the virus and not overburden the medical system. Several countries have done an analysis on when they would reach a critical point at which hospitals would be at capacity and they would need to take emergency measures:

- For Germany, the overstain could be felt in December, even though they increased their intensive care number of beds by a quarter during the summer. Despite the increase, the fact that they are receiving patients even from the neighboring countries could soon put them in a situation to choose which needy patient should get a bed.

- Spanish emergency room doctors enjoyed a respite, after being hammered in March and April, but the situation is turning around and the foreseeable weeks could overcrowd the system to full capacity.

- France and Switzerland might reach capacity by mid-November as daily records are being reported since the start of the pandemic in both countries. A week ago, half of French intensive care beds were occupied. Now, 70 percent are occupied, with more than 3,500 coronavirus patients and at this rhythm, nearly 9,000 patients will be in intensive care by mid-November, which is almost the entirety of French capacities.

- Belgium is one of the first countries that reinstated the lockdown measures at the end of October, and it seems to have had an effect as the number of daily cases is stationary. Otherwise concerns would have been raised regarding overcapacity in the coming weeks.

- In Britain, coronavirus-related hospital admissions have doubled in two weeks, and top public health advisers have warned that hospitals could be overwhelmed within six weeks “The virus is doubling faster than we can conceivably add capacity. Even if we double capacity, the gain would be consumed in a single doubling of the virus.”

- In the Netherlands, staffing shortages are leading nursing homes and hospitals to ask doctors and nurses to keep working if they have tested positive for the virus but are asymptomatic, because so many other medical workers are sick or quarantining. Some Dutch hospitals are full enough that the country has started transferring a handful of patients by helicopter to Germany. Coronavirus patients in Dutch intensive care beds have doubled in three weeks.

- Italy has announced new restrictions on some of the nation’s most populous regions, including the city of Milan, in an effort to curb surging coronavirus cases. With infections, hospitalizations and deaths linked to Covid-19 rising exponentially, hospitals in Milan are running out of beds even after having converted wards and suspended nonurgent procedures. Health experts warned on Monday that the coronavirus situation has the potential to escalate in certain areas and doctors called for a new national lockdown to counter the surge in new cases.

- The medical systems of Poland and some of their neighbors have fewer resources than do the countries to the west. Polish hospital cases have doubled in two weeks, and authorities are just now building a 1,200-bed field hospital in the National Stadium in Warsaw.

- Czech Republic is one of the worst affected from the resurgence in cases. The Czech Medical Chamber and the health minister have called on Czech doctors living abroad to return home to help fight the virus. Medical students and people with medical training have also been encouraged to come forward. More than 1,000 qualified nurses who've left the profession have offered to come back to help.

- The United States surpassed 10 million coronavirus cases Monday, just 10 days after hitting 9 million. For the fifth consecutive day, the United States has reported more than 100,000 infections and hospitalization numbers are not any better: there are nearly 59,000 people battling the virus in hospitals in the United States. In Texas, the hard-hit county of El Paso has six mobile morgues and has asked for four more trailers. In Ohio, all parts of the state are affected by an unprecedented spike in hospitalized patients while in Utah the governor is preparing to declare a state of emergency. The rising numbers have begun taking their toll on American communities and additional measures are being taken to address the inflow of patients.

Countries throughout the world are considering how better to control the spread of the virus and stagnate the increase in case numbers so that medical systems are not overrun during the upcoming holiday season. All of this without considering the routinely ill patients which require urgent care and the strained and exhausted staff that are taking care of the surging number of patients.

COVID-19 and the new normal for Independent Adjusters

COVID-19 has presented a unique set of challenges for independent adjusters (IAs). With property losses historically being heavy on physical site inspections, especially after hurricanes and wildfires, social distancing has made the move to virtual inspections and other methods of inspection (MOI) a necessity.

Insurers are balancing the need to quickly respond and settle the claims of their insureds while also managing the safety of their staff and managing the safety of their insureds during the course of the claim lifecycle while we are still in threat of a surging Coronavirus. Usage of other MOI such as drones or insured assisted inspection using mobile devices has been integrated into the claims process for many companies, however there are still claims where physical inspections are still warranted and necessary.

While it has been reported to us that some insurers are still using their own staff to inspect claims, it has also been reported to us that there are a substantial number of companies that are either minimally sending their own staff out selectively only on major large losses and some that are no longer sending staff adjusters at all on occupied dwelling or building losses. In the case of the latter two scenarios, we have received feedback from within the realm of independent adjusters that this is where they have picked up the ball and have filled a void that has become even larger than originally anticipated at the beginning of the COVID-19 scourge. Independent adjusters have taken on much of the substantial risk of encountering COVID-19 in the field and while the risk is there, they have utilized precautions as outlined by the U.S. Centers for Disease Control (CDC) and many have reaped the reward of noticeably increased revenue for 2020.

With respect to LAE, IA's are being used in varying ways. The traditional IA inspecting the physical damages and writing a scope and estimate of course still exists in tis pre-COVID form, however more flexible usage of IA's to act as "scopers" or the eyes and ears in the field of a staff adjuster who works remotely has become more of a regular occurrence. In fact, there are also non-adjuster "scoping" companies that have evolved in the current market being utilized by some insurers that have been performing in the same capacity.

IA firms have also provided a significant lift to insurer staff with handing inside claims, claims that are usually desk adjusted, as well. In the midst of the tremendous volume of claims from tropical storms, hurricanes, hail storms and wildfires this year, IA firms have further diversified their resources to staff Inside Catastrophe Units (ICUs) to relieve insurer resources from being further strained and allowing insurers to continue focusing on non-cat day to day claims activity. While some IA firms have built clean rooms and new facilities to securely conduct insurer business in a controlled environment, some insurers have IA's staff desks within the insurer's own offices to handle claims and have direct contact with their insureds.

The scalability of the finite pool of IA's has fared quite well in 2020, with some firms reporting significant growth in new adjusters entering the pool. This growth and the flexibility of these firms to continue to quickly evolve is a welcome dynamic as the number of catastrophe events continues to grow year over year.

Upcoming SRCC Webinar

PCS will be participating in the Verisk "Real Talk" webinar series on Monday, November 16, 2020, at 10am EST – covering the U.S. riots and global re/insurance industry implications. If you'd like to attend, register at https://www.verisk.com/insurance/insights/real-talk/ or at https://register.gotowebinar.com/register/4896548999978700559. Please feel free to share this link with colleagues and clients!