PCS Information Bulletin #6: COVID-19 Review

Wednesday April 1, 2020

We're still in the early days of COVID-19. I know that lots of people are saying this, but it bears repeating here. In the United States and around the world, the specific issues that the property/casualty re/insurance industry will face are only likely to emerge later in the cycle, and it will take even longer than that for any sort of clarity to emerge. The problem that comes with this knowledge lag is missed opportunity. And with this being the reinsurance renewals for Japan and Florida, the main opportunity that comes to mind – and which could be missed – is around risk transfer.

Specifically, the more time we take to understand how COVID-19 will affect the availability of risk-transfer alternatives, the more we constrain those alternatives. The erosion of uncertainty reveals either the need to transfer risk or the fact that it doesn't need to be transferred. For the latter, cedents save time and expense, as no action is measurably better than any sort of hedge. However, if it turns out that certainty points to the need to move risk off the books, capital is less likely to be available. And the cost to transfer risk will presumably be higher.

And that's where we are today. As an industry, we're focused on getting through the coming renewal periods – ultimately ending with the midyears at July 1, 2020 – and then turning our attention to the most imminent problems of the day. By waiting that long, though, our industry runs the risk of running short of options. Even today, we're hearing that cedents are looking into parametric triggers and generally "any sort of cover they can find." If that's the state of play now, July will either be very challenging – or, if no hedge is needed, utterly civilized. We just won't know which until the time comes, and that in itself can be disconcerting.

If you aren't thinking past the first day of the third quarter, you may want to start. To learn more about how you can get started, please come by my webinar on "silent pandemic," which starts at 10am EDT. Click here to register: https://register.gotowebinar.com/register/4232084432894125835

*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.*

Business interruption developments

Lawmakers and regulators at the federal and state levels are continuing to pressure insurers to go beyond the legal language of policies to provide coverage for business interruption (BI) and related expenses amid the mounting cost of shutdowns from the coronavirus pandemic.

Robert Hartwig, of the Darla Moore School of Business that the University of South Carolina and former head of the Insurance Information Institute, referenced the Obligations of Contracts Clause found in Article 1 of the Constitution of the United States during a recent NAMIC webinar. The clause was intended to prohibit states from interfering with private contracts. In this case the contract is the policy between the insurer and the insured. For the global re/insurance industry, this is among the most important issues of the day – whether insurers will be allowed to rely on contracts as originally intended.

Charles Chamness, president of NAMIC, has stated, “If elected officials or courts require payment for perils that were excluded and for which no premium was ever collected, catastrophic results are likely to occur and we may deal with a second crisis: insurance insolvencies and impairments.” And this could be further extended to problems pricing reinsurance protection and generally in transferring risk for the foreseeable future. If protection sellers can’t count on the terms in the contract, then they may have to model and price for any contingency – or use treaty language so specific as to be much less valuable than the cover provided today (and hope that they don’t face having their language overturned in the future).

The costs lawmakers are attempting to place on insurers could run into the tens of billions of dollars each month in the United States alone, according to the American Property Casualty Insurance Association (APCIA). Additionally, David Sampson, president and chief executive officer of the APCIA has stated, “If policymakers force insurers to pay for losses that are not covered under existing insurance policies, the stability of the sector could be impacted and that could affect the ability of consumers to address everyday risks that are covered by the property-casualty industry.”

The National Association of Insurance Commissioners (NAIC)has stated policies were “generally not designed or priced to provide coverage against communicable diseases.”

What it boils down to is that there is a general consensus within the industry regarding the applicable conditions and exclusions for infectious and communicable disease in most policies however the current and additional forthcoming onslaught of litigation and legislation will have to be evaluated and examined carefully.

The property/casualty insurance industry has also joined a broad business coalition in supporting and crafting a new federal relief fund for businesses and workers affected by the quarantine and stay-at-home measures necessitated by the coronavirus crisis.

The COVID-19 Business and Employee Continuity and Recovery Fund, is meant to help businesses retain and rehire employees, maintain worker benefits and help cover operating expenses such as rent. It may also provide funds for payroll, lost income of sick employees, and lost business revenues but not profits.

Insurers and other private sector businesses would help create a streamlined process by reviewing and processing the applications from businesses seeking assistance. The hope is to use easy-to-file electronic forms and provide quick turnarounds of 15-to-30 days for applicants.

A special administrator within the Treasury would manage the fund and contract with third parties including insurers to assist with the application filing and review.

At the U.S. state level, many other state insurance departments have issued (and if not yet, soon should be issuing) bulletins and circular letters to insurers. In many cases, these bulletins and circular letters supplement declarations of public health emergencies by the states’ executive branches.

State insurance regulators are evaluating concerns regarding exclusions from coverage under business interruption and travel insurance policies for viruses, extension of insurance coverage while some insureds are enduring financial distress.

Surplus lines insurers are largely exempt from these regulatory pronouncements because surplus lines insurance policies are generally exempt from policy form and rate filing and approval requirements, except that some states impose their notice of insurance cancellation and non-renewal statutes on surplus lines insurers.

New York has become one of the latest states to introduce a bill that would force carriers to pay business interruption losses from the pandemic regardless of any exclusions. While in Texas, the first coronavirus business interruption lawsuit has been filed in which a Houston area wig store has filed suit after its claim was denied.

In Illinois, a group of Chicago movie theater and restaurant owners are taking their insurance carrier to court, alleging the insurer has wrongfully denied them coverage for work interruptions resulting from a state-mandated shutdown of their businesses to help slow the spread of COVID-19.

In California, a pair of Napa Valley-based French restaurants owned by prominent chef Thomas Keller have filed suit in California state court, seeking a ruling that their insurer must cover the eateries' losses due to government-mandated closures tied to the outbreak of the novel coronavirus.

Additionally, a group of celebrity chefs including Wolfgang Puck and Thomas Keller, backed by the James Beard Foundation calling themselves the Business Interruption Group (B.I.G.) has formed with a goal to force insurers to pay for COVID-19 losses in the restaurant industry as part of business interruption insurance.

These cases, along with legislative cases and bills in New Jersey, Ohio, Massachusetts, Louisiana and others are setting the stage for a discussion that will not come to a quick resolution.

Claims perspectives

As insurers contend with unexpected expenses and potential Federal and state directives regarding liberalization of coverage regarding business interruption and other challenges insureds are facing, they also have to assess how their organization is going to react to the landscape of diminished return on investment income which many in the industry have used as a mechanism to offset underwriting losses.

Potential rate increases and tightening underwriting guidelines are only parts of the discussion to stope the bleeding for insurers. As financial challenges become more pronounced in coming quarters, claims departments may receive the question, again as it is not a new question, what can be done from a claims perspective to reduce LAE and overall expenses.

PCS has recently surveyed many of our partners in the industry and from the responses we produced our bulletin, *How COVID-19 Could Impact Catastrophe Claim Handling*. Along with the feedback that provided the background for that piece, additional feedback was received with some opinions that could be a factor in reduction of claim expenses in a world with decreased investment income.

Embracing technology, whether it be expanded utilization of AI on claims or other technologies which may relieve the need for human involvement in the claims process while also reducing claims cycle time. Claims departments need to develop compelling ways to encourage customers to want to utilize the technologies that are being developed. The 2020 JD Power U.S. Property Claims Satisfaction Study

recently reported 27 percent of customers still prefer the entire claims process to be handled offline. Claim cycle time is a significant metric in most organizations. Each day a claim is open, expense is generated. A compelling online platform, which is even more relevant today than ever with traditional adjusting being stymied by COVID-19, is a win for expense management and for customer service.

Strategic use of independent adjuster resources is another consideration. Many independent adjusting firms continually prepare for major events and are capable of providing a scalable resource for internal adjusting needs. Utilizing IA's to handle and assist with incoming claims volumes remotely is an expense however when calculated against decreasing cycle time as well as the potential increased customer satisfaction using this scalable resource now to assist with reducing pending claims loads on staff adjusters, particularly before hurricane season could pay additional dividends.

Pandemic Parametric Triggers

Parametric risk transfer opportunities in pandemics is a point of many discussions and will be moving forward. An article in Artemis, featuring Tom Johansmeyer of PCS, provides insights to six significant questions around robust data rand reporting. The full article can be accessed via the link below.

https://www.artemis.bm/news/pandemic-parametric-triggers-qa-with-tom-johansmeyer-pcs/

UK motor claim trends

UK motor claim activity is trending downward according to data from Verisk. Since March 16, 2020, new claim activity is down significantly (at least 40 percent) from the same working day in 2019.

A review of historical data going back to the beginning of 2019 shows that claim volume can vary from one month to the next by as much as 18 percent. Many factors can contribute to these swings, including:

- Holiday and vacation time
- The number of days in the month being reviewed
- Public holidays in the month

For the first two months of 2020, activity was consistent with the numbers reported to Verisk in the first two months of 2019.

Presumably, based on the decline in motor activity, there will be an attendant decline in personal injury claims from motor accidents. PCS believes – based on Verisk's UK motor data – that reduced motor claims will remain the norm through the lifecycle of COVID-19 (to include any resurgence of the pandemic after an initial wave). When travel restrictions, quarantines, and the general public health risk have eased, we believe that regular vehicle use will resume, and that claim activity should return to past levels.

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.