

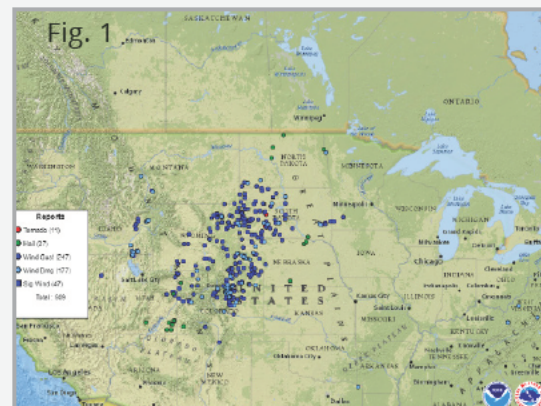
MID-YEAR CAT REVIEW



Slow-moving pandemic continues to complicate 2020

The first half of 2020 has been anything but quiet. After the covid-19 pandemic turned the global economy on its head, the atmosphere showed it is immune to stay at home orders. Multiple derechos dotted an otherwise quiet severe storm season. Three named tropical storms formed in the Atlantic by the end of the first week of hurricane season with many more storms predicted. After the death of George Floyd in late spring, unrest spread across the US in the form of protests and rioting throughout metro and rural communities alike. As the slow-moving pandemic continues to complicate everything in the background, let's examine what has been recorded so far in 2020.

Derechos – Easy to spot. Tough to define. Derechos are large and usually fast-moving damaging thunderstorm systems. Thunderstorms often organize around atmospheric boundaries, such as the leading edge of a cold front. Its not just that derechos are organized, its really about size. When a storm spans at least 250 miles of damaging wind gusts (58mph or greater), it can be classified as a derecho. Derechos often cause significant straight-line wind damage as evidenced by the storm reports from one of the recent Midwest Derecho on 6/6/2020. Damage spanned over 750 miles and was primarily all wind related (fig 1)

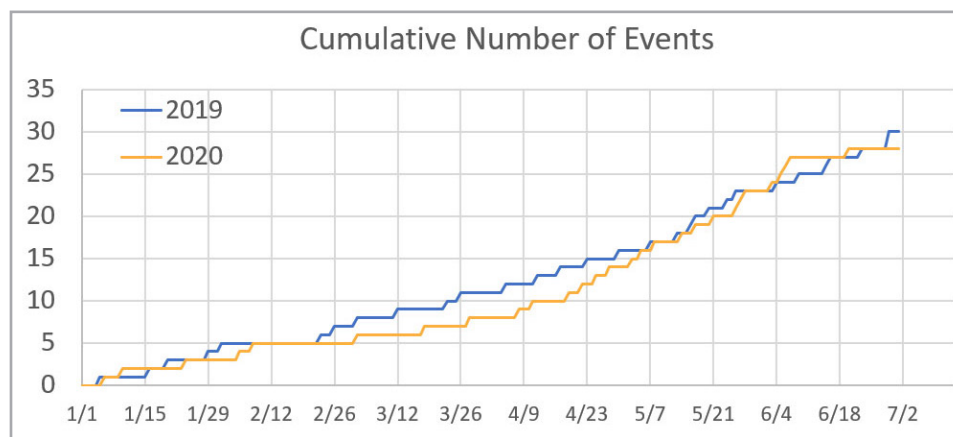


The pandemic of Covid-19 has affected everyone globally, individuals and industries alike. This crisis is ongoing, and the timing of a vaccine remains quite uncertain. The first wave of the pandemic took hold early in 2020 and in June it is still not thought to have peaked, with concerns of additional waves in the fall. To avoid spreading the disease, most retailers closed their doors during an extended period of stay-at-home policies, as ordered by their local governments. Contract language remains in the spotlight as insureds look to stem economic losses via business interruption claims.

In wake of the death of George Floyd on May 25th in South Minneapolis came a period of protests surrounding police brutality and the racial issues present in the American justice system. While the protests were and continue to be mainly peaceful, rioting broke out across the country. These riots resulted in enough damage to warrant PCS tracking.

Losses from the riots are currently being estimated with initial values ranging 0.5 – 1.5B from both property damage and business interruption. In many metros, the incident echoes the riots of 1992, where the losses totaled to \$1.42B in today's dollars. However, with many retailers already facing business interruption losses from the pandemic, insurers now must consider the added riot losses on top. The riots came at a time where some cities were beginning to tentatively reopen businesses that were closed for the pandemic. The complexity of business interruption in the face of simultaneous pandemic driven business closures and civil unrest is going to cause difficulty in claims processing as to which situation was the root cause of business interruption.

The pandemic and riots of the spring fall outside of the typical scope of cat modeling. Focusing now on natural catastrophes, while 2019 was a steady march of tornados and events throughout the spring, 2020 has featured fewer tornado outbreaks and more large scale SCS activity interrupting otherwise quiet periods (see fig 2). For example, significant derecho activity around Philadelphia created a large event in the Northeast. The derecho spanned from Pennsylvania to New Jersey with wind gusts reaching over 90 mph. There were two instances of derechos that occurred within the same week as one another at the end of April/beginning of May, and three more that occurred all during another week in early June. Because of these derechos and other derecho like activity, 2020 has had 8 events impacting 10 or more states in the first half compared to only 3 such events in 2019.



*Based on count of cat codes YTD as of 6/29

For the sixth year in a row, we experienced an early kickoff to the hurricane season, with a total of two named tropical storms, Arthur and Bertha, produced before June 1st. Tropical Storm Cristobal followed June 2nd, with its impacts spanning from Florida to Wisconsin in heavy winds, rain and flooding events. We certainly are seeing [strong signs of an above average season of Hurricane activity in the Atlantic](#) so far.

In 2020, the re/insurance industries are facing unprecedented levels of uncertainty from never before seen sources. When it comes to catastrophes, recognizing, accounting for, and mitigating uncertainty is always the name of the game. All of this activity is fueling a focus on terms and conditions and some tightening capacity within the property cat market and mid-year renewals. Reinsurer concerns regarding adverse loss development from 2017 and 2018 events, availability of retrocession capacity, and exposures to lesser or non-modeled perils, including communicable disease, have driven meaningful changes to both pricing and terms and conditions. In taking action to reduce uncertainty, we've seen reinsurers request accelerated premium schedules, mandatory co-participations, and a prevalence of communicable disease and cyber exclusions.

Each event that unfolds in the next several months will undoubtedly unfold with covid-19 in the background. With a more active than usual hurricane season forecast, here are some recommendations for carriers as we look ahead to the next several weeks:

- Establish a pandemic task force and schedule frequent meetings with your company's hurricane task force to uncover unforeseen risks
- Develop communications programs that encourage earlier-than-usual hurricane prep for policyholders
- Create and dispatch prep teams in advance of storms
- Lean on Technology and Innovation to drive efficiencies. Brainstorm simplification of claims processing and limit the need for adjusters on site as much as possible
- Strengthen existing drone and remote claims support
- Run sensitivities around peak risk zones where both HU risk and populate density / COVID impacts are high
- Review and clarify wordings and exclusions in your current and future contracts.

Understanding risk is the first step in risk management. Considering previously unimagined perils and their implications together with well-understood catastrophe events beforehand can improve post event response efforts and potentially reduce losses.