Market Intelligence
by Oxbow Partners

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COVID-19 insurance update – 3 April

Oxbow Partners Coronavirus Coverage

We have introduced a weekly note consolidating all Coronavirus-related news relevant to the UK insurance industry. The note will be published Friday mornings for the foreseeable future. Click here to sign up to the mailing list.

03 April 2020

Summary

- Munich Re cancels 2020 profit guidance and buyback
- SAGA suspends dividend and draws down £50m of short-term debt
- A solvent insurance industry is vital for all (FT)
- UK insurers tighten terms to explicitly exclude coronavirus (FT)
- Moody's maintains a negative outlook on European insurance
- US insurers face new legislation to pay COVID-19 claims in Boston (Insurance Business)
- Carrot Insurance encourages young drivers to stay at home (Insurance Business)

Analysis

Batten down the hatches

The full impact of the COVID-19 pandemic is yet to be seen by the insurance industry but as each week passes, we are seeing an increasing trend of caution from the industry. This week SAGA and Munich Re have both reduced capital returns to shareholders due to heightened risk over capital in the longer-term (although we note that both remain well capitalised). In each case, there are specific circumstances that have made the businesses more susceptible to financial impacts from the virus but a poor public perception of the industry is likely if it is seen to be making shareholders rich while remaining resolute on BI claims during this crisis.

Continued pressure on claims payments

The pressure from governments and legislators in the UK and US continues to build on the industry with several attempts in the US (Boston) to force insurers to pay-out on virus-related claims for smaller businesses, even where this is excluded in the policy wording.

The Oxbow Partners View

While the option of paying claims for uncovered risks could cause irreparable damage to the industry, the closing of virus-related loopholes does not make it look like we are all in this together. One option that we believe could be used is for the government to use insurance companies as a conduit for getting help to businesses, after all they already have the systems and processes in place to get money where it is needed in a crisis. Stay safe out there.

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Munich Re cancels 2020 profit guidance and buyback

Munich Re has announced that claims relating to cancellation and postponement of large events will be significant in Q1 2020 and profits for the quarter will be in the low three-digit millions (Q1 2019: €633m). Given the uncertainty around COVID-19, Munich Re no longer expects to reach its profit guidance for the year of €2.8bn and has cancelled its planned share buyback. The dividend for 2019 will still be paid and the group's solvency ratio is "still comfortably within the communicated optimal range of 175-220%".

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SAGA suspends dividend and draws down £50m of short-term debt

COVID-19 has had a significant impact on SAGA's business with the company suspending its dividend and drawing down £50m of additional funding from its revolving credit facility. Most of the impact, however, has come in the non-insurance operations of the business. AICL, SAGA's underwriting business, had a solvency ratio of 160% (Solvency II) as at the end of January 2020. The group estimates this has reduced to 140%, given the current market conditions. This is in-line with the assumed starting position of the solvency within the company plans and therefore should not change the timing of the dividends up to the group.

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A solvent insurance industry is vital for all

The FT editorial board believe that changing the rules of policies would set a dangerous precedent for the industry. While the payment of claims where there clearly is not cover could threaten the industry's viability but where policy wording does not exclude coverage, insurers should pay out.

Read more (requires FT subscription)

UK insurers tighten terms to explicitly exclude coronavirus

The FT has reported that insurers are tightening the terms of business coverage to specifically exclude anything related to the coronavirus pandemic. With many renewals up at the start of April, insurers are keen to ensure that there is no exposure to future costs.

Read more (requires FT subscription)

Moody's maintains a negative outlook on European insurance

The coronavirus outbreak has exacerbated existing solvency and profitability pressures. The rating agency highlights that the financial market volatility has already reduced insurers' solvency levels and the outlook for UK and Italian life insurance has been downgraded to negative from stable. Moody's expects claims related to the pandemic to remain manageable for both life and non-life insurers but notes the risk of government intervention.

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US insurers face new legislation to pay COVID-19 claims in Boston

Sen. James Eldridge, D-Acton, has filed a bill in Boston mandating that insurers cover business interruption claims for companies with less than 150 employees, even if the policy excludes losses caused by a virus. If the bill passes, insurers will be able to apply for reimbursement from the Commissioner of Insurance but would have to eventually pay the costs back. This is a worrying step that has been described by some as unconstitutional and could bankrupt some insurance companies if the bill is passed.

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Carrot Insurance encourages young drivers to stay at home

Telematics-focused car insurer Carrot Insurance is offering double rewards to all customers with a 'New Driver by Carrot' policy if they don't drive their cars at all over the week from 6 to 13 April 2020. Carrot has already seen a significant reduction in daily miles driven (down 38% in the first 24 hours after the lockdown was announced) but is keen to incentivise its younger customers to stay at home.

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