Market Intelligence
by Oxbow Partners

COVID-19 insurance update – 22 May

Oxbow Partners Coronavirus Coverage

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

22 May 2020

Summary

- Aviva results show £160m net impact of COVID-19 claims
- Sabre trading update highlights 25% drop in new business quotes in motor
- Brokers in talks with Hiscox, FCA on BI part-payments deal (Insurance Insider)
- ABI believes that BI compensation payments could threaten insurer solvency
- Insurers commit to £100m COVID support fund (ABI)
- World Economic Forum report indicates a prolonged recession as largest post-COVID risk
- Admiral report reveals that 87% of people are afraid to take underground trains or buses (Insurance Business)
- Hiscox Action Group gets funding to launch legal case against Hiscox (Insurance Business)
- Increased demand for pandemic reinsurance cover but limited capacity (Reinsurance News)
- AM Best stress tests show the insurance industry remains well capitalised
- FM Global has received $410m of COVID-19 BI claims (Insurance Insider)

Analysis

BI concerns continue to dominate

This is the 10th edition of our weekly COVID-19 updates and we are still talking about business interruption claims, as they dominate the news again this week. Aviva expects to pay £200m of BI claims, a large figure given that the vast majority of commercial policies do not cover COVID-19. The question, as it has been for some time, is whether the courts and regulators agree with the insurer's definition of COVID-19 coverage. This week we have seen a potential step forward from brokers trying to negotiate partial payments in return for customers dropping their claims. This approach has been taken in other parts of Europe and could be a way out that doesn't incur huge amounts of unnecessary legal fees if all parties can agree to it.

The Oxbow Partners View

Part payments to those customers really struggling during the crisis (and whose policies are not clearly worded) would help the image of the industry but is a big ask as it requires a large number of stakeholders (not least the reinsurers) to come to a compromise that doesn't open the floodgates for more court battles further down the line. Stay safe out there.

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Aviva results show £160m net impact of COVID-19 claims

Aviva released its Q1 2020 trading update on 21 May. The group has seen growth in both its Life and General Insurance businesses and maintains a strong Solvency II ratio of 182%. In the life business, new business (PVNBP) sales increased by +28% year-on-year. In General Insurance, net written premiums increased by +3% with slower +1% growth in premiums in the UK.

The impact from COVID-19 has been significant in terms of both the balance sheet and General Insurance claims costs. The Solvency II ratio has decreased from 206% as at the end of 2019, mainly driven by the widening of corporate bond spreads and declines in equity markets. The group has also assumed 12-15% falls in property values and adjustments for potential future downgrades of corporate credit. In General insurance, Aviva estimates a net increase in claims of £160m. This includes £200m of business interruption claims across the UK and Canada, partially offset by favourable impacts in other areas, such as motor claims.

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Sabre trading update highlights 25% drop in new business quotes in motor

Ahead of its AGM, Sabre provided a trading update to the market on 21 May. Trading conditions are generally in-line with the update given at the time of the full year results on 7 April. Gross written premiums in the first quarter were -5% down year-on-year as the business focused on profitability rather than volume. Since late March, Sabre believes that market wide new business quotations are down around 25%, predominantly driven by the lack of car sales and premiums as at the end of April were down around 15% on 2019 levels. Sabre has been offering new and renewal customers discounts to reflect the lower miles being driven. The business remains confident that it can deliver a combined ratio for the year within the target corridor of 70-80%.

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Brokers in talks with Hiscox, FCA on BI part-payments deal (Insurance Insider)

The Insurance Insider has reported that a group of the largest insurance brokers in the UK is developing a framework for part-payments to SME firms with BI claims as a way of settling the legal disputes around business interruption claims. The group of brokers is said to be in talks with Hiscox and the FCA regarding the approach and that regulatory blessing from the FCA is a make-or-break issue for the plan. If this could be agreed, it could pave a way forward for the industry and its customers that does not involve expensive legal action.

Read more (Insurance Insider subscription required)

ABI believes that BI compensation payments could threaten insurer solvency

In a response to a group of associations representing the beer, pub and hospitality sectors, the Director General of the ABI has stated that 'goodwill gestures' of paying BI claims where no liability exists could run into billions of pounds of costs and risk the solvency of the industry. Where businesses are covered, the ABI believes they should and will pay (the ABI estimates the cost of BI claims will be £900m) but this should not extend to those who have not bought the specific pandemic cover.

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Insurers commit to £100m COVID support fund (ABI)

On Monday 18 May, the ABI announced that the insurance and long-term savings industry has launched a fund to help support some of the people hit hardest by the COVID-19 crisis. The fund aims to raise £100m with £82.5m already pledged. Firms that have already committed donations are: Aviva, Zurich UK, RSA, AXA UK and AXA XL, Allianz Insurance, Lloyd's, Hiscox, Direct Line Group, Admiral, Pension Insurance Corporation, Rothesay Life, American International Group UK Limited, Ageas Insurance, LV= General Insurance, Phoenix Group, Chubb, Ecclesiastical, Aon, Just Group, NFU Mutual, PIB Group, Brokerbility, Canada Life, Chesnara, Sabre, Standard Life Aberdeen, Unum, Ardonagh and Esure.

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World Economic Forum report indicates a prolonged recession as largest post-COVID risk

The World Economic Forum (WEF), in partnership with Marsh and Zurich, has published a report looking at the key global risks stemming from the COVID-19 pandemic. The results are based on the perceptions of 350 of the world's top risk professionals along with analysis and knowledge of the global risk team at the WEF. The top ten most likely risks are dominated by economic concerns. The most feared risk is that the world enters a prolonged recession of the global economy, closely followed by bankruptcy, industry consolidation, failure of industries to recover and a disruption of supply chains.

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Admiral report reveals that 87% of people are afraid to take underground trains or buses (Insurance Business)

Admiral has surveyed over 1,400 drivers in the UK to establish their driving habits during the lockdown and also gauge their views on transport once more freedom returns. 87% of respondents said that they were afraid to take underground trains or buses whereas only 27% feared using their own car. It is also interesting to note that during lockdown 14% of people said they had used their car for non-essential journeys. Speeding is also an issue with nearly a quarter of those surveyed saying they are more likely to speed while the roads are quieter.

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Hiscox Action Group gets funding to launch legal case against Hiscox (Insurance Business)

Litigation funder, Harbour, has agreed to underwrite the Hiscox Action Group (HAG) through any necessary legal proceedings as the group of over 400 UK policyholders take on Hiscox over pandemic exclusions to its commercial business interruption policies. The law firm *Mishcon* will be representing HAG in its court battle against the global specialist insurer over the rejected coronavirus-related business interruption claims. Claims currently total £40m, a number that is expected to rise as more claimants join the group.

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Increased demand for pandemic reinsurance cover but limited capacity (Reinsurance News)

There has been a notable rise in demand for pandemic re/insurance and a subsequent increase in rates as there is limited capacity in the marketplace. Pandemic cover carries global risks and global exposures and a lack of geographic segregation means re/insurers have a single global aggregate they can deploy. While there are some established pandemic underwriters, new players are expected to enter the market to address demand, but restrictions on deploying multiple aggregates means it is unlikely there will be enough capacity to meet demand.

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AM Best stress tests show the insurance industry remains well capitalised

Analysts at AM Best ratings firm say their initial stress tests of insurance companies globally have found most insurers' capital levels provide an adequate buffer against the shock from COVID-19 pandemic impacts. The analysis found Life & Health insurers have a higher sensitivity due to their higher asset and mortality risks, while P&C insurers predominantly experience negative impacts in the form of a decline in earnings and reputational risks as legal disputes become visible.

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FM Global has received $410m of COVID-19 BI claims (Insurance Insider)

The Insurance Insider has reported that FM Global has been advised of $410m of coronavirus claims by clients as of last week. The Insider believes that this is well below the trigger for its CAT excess of loss programme. FM Global has been a concern for the reinsurance industry as it offers property policies with affirmative BI cover for pandemics, though the sub-limit is typically $1m. FM Global is just one of many insurers feeling the pressure to pay out on BI claims but the fact that it has an affirmative clause in its policy documents there is an implication that the rest of its products exclude pandemic cover and therefore it may be better protected against future legal challenges facing the industry.

Read more (requires Insurance Insider subscription)