Market Intelligence
by Oxbow Partners

COVID-19 insurance update – 12th February

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.

12 February 2021

Summary

- Zurich UK reveals 73% drop in business operating profit due to COVID-19
- Lancashire sees massive profit slump in 2020 (Insurance Business)
- Tokyo Olympics cancellation could blow up the insurance industry (Insurance Business)
- ACSO calls for immediate £35 car insurance premium rebate (Insurance Business)
- COVID-19 dealt huge blow to Britons' financial resilience (Insurance Business)
- Irish High Court rules FBD Insurance must compensate for COVID-19 BI losses (Reinsurance News)
- Insurance firms must adopt a people-centric approach to beat lockdown fatigue (Insurance Times)
- Lockdown should mitigate claims from the Beast from the East II (Insurance Times)
- Salesforce expects most of its staff to work flexibly post-pandemic

Analysis

From Zurich to Lancashire, COVID impact felt throughout the results landscape

Results season has well and truly kicked off this week with some of the world's biggest insurers revealing the true impact of COVID-19 on their 2020 results. A distinct pattern appears to be emerging in which insurers are reporting significantly reduced profits but strong underlying performance with continued growth of their gross written premiums. Zurich UK has reported a 73% drop in operating profits but top line growth of 11% in P&C GWP with similar results being seen as the group level. Lancashire has experienced similar results with GWP continuing to grow but a staggering 95% drop in pre-tax profits. While the hit to insurers' profits is concerning, the maintenance of underlying growth would indicate that insurers will not emerge from the pandemic in a weakened state.

The Oxbow Partners View

As results continue to come out, we would expect these trends to be repeated with the ones to watch being those insurers who have still managed to increase profits, likely personal lines insurers who have benefited from reduced claims. Throughout the season we will be delivering on-the-day results analysis to our paid subscribers. If you would like to know more about our regular research notes and insights services, please contact our Market Intelligence team.

As ever, stay safe out there.

Paul De'Ath (Head of Market Intelligence)
pdeath@oxbowpartners.com
+44 7799 416 704

Jake Harrison Woods (Analyst)
jharrisonwoods@oxbowpartners.com
+44 7375 401 873

Chris Sandilands, ACII (Partner)
csandilands@oxbowpartners.com
+44 203 947 8624

Oxbow Partners is a specialist management consultancy for the insurance industry spanning strategy, operations, technology and M&A. Our Market Intelligence team provides data, analysis and tools to the management teams of global reinsurers and UK insurers in various formats to keep them be better informed and make superior strategic decisions.

Zurich UK reveals 73% drop in overall business operating profit due to COVID-19

Zurich UK has reported its results for FY 2020 with significant impact from COVID-19 but strong underlying performance. Despite top line growth of 11% in P&C GWP, COVID-19 has caused P&C operating profits to fall 75% since 2019 with a combined ratio of 97.8% (up 6.8%). The increases in GWP have been primarily driven by improved rates and retention in both the commercial and retail spaces. In commercial, Zurich achieved an 89% retention and its ETrade platform has helped achieve a 50% increase in new business. Improved satisfaction rates were also noted with the UK seeing the strongest increase in customer net promotor score of any region. This is impressive considering the difficulties insurers have faced with business interruption disputes and Zurich's participation in the original FCA Test Case ruling.

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Lancashire sees massive profit slump in 2020 (Insurance Business)

Global speciality re/insurer Lancashire Holdings Limited has seen a steep fall in its pre-tax profits from $119.5 million in 2019 to just $5.9 million in 2020. Despite this fall, GWP has grown to $814.1 million, but the group's underwriting profit declined from $186.5 million to $77 million with a combined ratio of 107.8%. On a more positive note, chief executive Alex Maloney reported that the group's change in FCBVS (formerly termed 'return on equity') was 10.2% for the full year. COVID-19 has clearly had a large impact and the group's net losses from the pandemic, as well as natural catastrophe and large risk loss events for the year, reached US$149.5 million.

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Tokyo Olympics cancellation could blow up the insurance industry (Insurance Business)

Despite talks of cancellation or postponement arising in late January, Tokyo 2020 President Yoshiro Mori said that Japan would hold the Summer Olympics regardless of the situation, even as the country faces its third wave of infections. According to Reuters, cancelation would cost insurers $2-3 billion and be the largest ever claim in the market. Even with new assurances, cancellation remains an integral threat to insurers 2021 results though reinsurers may be most at risk with Munich Re allegedly having a $500 million exposure to the Tokyo Olympics. The Olympics is simply the most high profile example in the event cancellation market, the future of cancellation insurance is likely to be in flux for some time to come after COVID-19.

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ACSO calls for immediate £35 car insurance premium rebate (Insurance Business)

The Association of Consumer Support Organisations (ACSO) has called for an immediate reduction of insurance premiums by £35, as injury claims have reduced significantly due to the COVID-19 lockdowns. Data from the government's Compensation Recovery Unit showed injury claims down by almost 50,000 in 2020 compared to 2019. Claims across all categories have fallen 47% in 2020 benefitting insurers considerably; the ACSO pointed to Admiral's £25 rebate as a good example of insurers returning savings to consumers. ACSO executive director Matthew Maxwell Scott noted that ABI data showed that car insurance premiums had fallen by just 1% (to £465) from 2019 to 2020 and "consumers should expect a much more substantial reduction in their premium than £4.65."

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COVID-19 dealt huge blow to Britons' financial resilience (Insurance Business)

According to a study by the Financial Conduct Authority (FCA), over a quarter of UK adults were found to have "low financial resilience" due to the effects of COVID-19. Results from the Financial Lives Survey show that there are now 27.7 million adults in the UK with characteristics of vulnerability such as poor health, low financial resilience or recent negative life events, this is up 15% from the survey in February 2020. Among other findings, one third of households expected income to fall in the next six months and reported that they were likely to cut back on essentials or use food banks.

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Irish High Court rules FBD Insurance must compensate for COVID-19 BI losses (Reinsurance News)

The Commercial Court in Ireland has ruled that FBD Insurance must compensate four pub owners for the disruption caused to their businesses as a result of the COVID-19 pandemic. The ruling, made by Justice Denis McDonald, will be welcome news to more than a thousand pubs and restaurants which have similar policies with FBD insurance and follows in the footsteps of the recent judgements made by the UK High and Supreme courts. The high-profile Irish case has also reportedly sparked fierce debate in its Parliament with member Pearse Doherty criticising the Central Bank of Ireland for not intervening on behalf of policy holders in the same way the FCA did in the UK.

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Insurance firms must adopt a people-centric approach to beat lockdown fatigue (Insurance Times)

The insurance industry has always been a people driven business as so much depends on personal relationships. The industry has been tested during the various lockdowns in the last year but has generally continued without too much disruption. The issue now is making sure that employees' mindsets are in the right place and recognising that there is fatigue caused by lockdowns. A survey by the CII showed that 60% of insurance professionals have suffered depression, anxiety, or other metal health issues due to the crisis. Those in the insurance industry need to take steps to ensure the fatigue of lockdown does not leave staff unable to take advantage of the opportunities once the pandemic is over.

Read more (requires subscription)

Lockdown should mitigate claims from the Beast from the East II (Insurance Times)

As much of the country suffers from freezing temperatures and drifts of snow, the silver lining for insurance firms is that the level of home insurance claims could be reduced due to lockdown. The first Beast from the East – in 2018 – caused around £350m in additional claims. Much of this was caused by escape of water claims from frozen pipework. The fact that many people are stuck in their homes with the heating on should significantly reduce the risk of frozen pipes in the first place and any leaks that do occur should be spotted much sooner. The lack of winter breaks and ski holidays means that less properties will be empty for any extended period and therefore should be better protected from the elements.

Read more (requires subscription)

Salesforce expects most of its staff to work flexibly post-pandemic

Global CRM company Salesforce has posted a blog about how it sees its offices working in the post-pandemic world. Following employee feedback the business has set out three ways that it sees people working going forward:

1. **Flex** – When it's safe to return to the office, most of our employees around the globe will work flex. This means they'll be in the office 1-3 days per week for team collaboration, customer meetings, and presentations.
2. **Fully Remote** – For employees who don't live near an office or have roles that don't require an office, they will work remotely full-time.
3. **Office-based** – The smallest population of our workforce will work from an office location 4-5 days per week if they're in roles that require it.

The group believes that this will help with better equality and diversity across the group as more people will be able to work flexibly around their personal life responsibilities. The changes will also see office spaces reconfigured to include more collaborative working spaces and less rows of desks.

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