Market Intelligence
by Oxbow Partners

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COVID-19 insurance update – 20 March

Oxbow Partners Coronavirus Coverage

We are introducing 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.

23 March 2020

Summary

- Direct Line stops buyback due to virus impact on capital
- Aviva solvency ratio estimated at 175% (13 March 2020), down from 206% at year end
- Swiss Re indicates global event cancellation risk could be $6.3bn
- FCA provides guidance to insurance companies on treatment of customers

Analysis

Solvency ratios will be lower

It is early days in the fight against the virus but the decline in the financial markets has been swift and uncompromising. This will inevitably have an impact on solvency ratios for all insurance companies. During the last week, Direct Line and Aviva have both updated the market with estimated solvency ratios markedly lower than their year-end position.

Event cancellation and travel insurance suffering immediate impacts

Two aspects of the insurance world that have seen the most immediate impact from the spread of the virus have been travel and event insurers. Direct Line has increased its gross travel insurance claims from £1m to £5m and expects further claims now that the FCO guidance has expanded to limit all foreign travel. Swiss Re has estimated that the global cost of event cancellations for insurers could be $6.3bn with Fitch indicating that the Tokyo Olympics alone could have $2bn of cover.

The Oxbow Partners View

The insurance industry remains well capitalised and, so far, the claims impact has been limited to certain business lines. The situation is changing all the time and we will aim to keep you up to date with how the insurance industry is responding. Stay safe out there.

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Direct Line stops buyback due to virus impact on capital

On 19 March, Direct Line issued a press release stating that it would suspend its planned £150m share buyback with immediate effect due to the uncertainty around the impact of the COVID-19 pandemic. The Group's solvency ratio of 163% (18 March 2020) was only 2%points lower than the estimate as at 31 December 2019, although this included the full impact of the £150m buyback rather than only the £28.8m that had been repurchased before the suspension.

In the release, Direct Line also updated its view on claims trends with an indication that the short-term trends in motor insurance is likely to be lower claims due to lower customer activity. In travel insurance, the report claims related to COVID-19 have increased from £1m on 3 March to £5m on 15 March. A further increase is expected to come from the change in guidance from the FCO on foreign travel.

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Aviva solvency ratio estimated at 175%

Ahead of its appearance at the Morgan Stanley Financial Services Conference, Aviva updated the market on its solvency position. After allowing for its planned dividend, the solvency ratio of the group was 175%, down from 206% as at 31 December 2019. This estimate is based purely on the impact from capital markets and does not allow for any increase in insurance claims or changes in assumptions that may arise from COVID-19.

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Swiss Re indicates global event cancellation risk could be $6.3bn

Swiss Re has disclosed estimates of its exposure to the potential cancellation of the Olympic Games of $250m and also has exposure to other event cancellations around the world of 'mid-triple digit millions'. Extrapolating this based on Swiss Re's market share of around 15% suggests in a worst-case scenario the global insurance industry exposure could be $6.3bn (source: Insurance Insider).

Read more (requires Insurance Insider subscription)

FCA provides guidance to insurance companies on treatment of customers

The FCA has set out its expectations of general insurance firms amid the COVID-19 pandemic. The regulator has clearly set out the areas in which it expects firms to apply more flexibility than in normal situations due to the unprecedented nature of the outbreak. This includes operational strength during the crisis.

The FCA expects that customers are treated fairly in all dealings with their insurer. For travel insurance this involves taking individual circumstances into account, specifically around those customers who have booked travel after the renewal date of their annual policies if they had been given a reasonable expectation that cover would continue. Equally in motor and home insurance, if customers have to change the location from which they carry out certain activities or keep certain items then this should not be reason to exclude them from insurance coverage.

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Hannover Re expects only a small impact on Life and Health result

Hannover Re has provided information on its sensitivity to increased mortality. A 5% increase in mortality over a one-year period would imply additional claims of €130m. This would assume an increase in deaths significantly in excess of those seen so far as part of the crisis.

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Insurers instigated business continuity plans

Insurance Business UK has provided a summary of what a number of insurance companies have done in order to keep operating while protecting their staff and ensuring customers can continue to receive a service. The plans, as you might expect, include significant amounts of staff working from home.

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Zurich expects BI claims to be very manageable

Zurich Insurance has seen some COVID-19 related business interruption claims but believes that its exposures are manageable. The main influx of claims has been in travel insurance, but the size of individual claims is relatively small and therefore should not have a significant impact on the group.

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