Market Intelligence
by Oxbow Partners

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COVID-19 insurance update – 27 March

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.

27 March 2020

Summary

- ABI estimates industry travel insurance claims of at least £275m
- Insurance industry would be in jeopardy if forced to pay BI claims (FT article quoting Lloyd's Chairman)
- Fitch downgrades reinsurance sector to negative on Coronavirus concerns
- Zurich UK reassures customers over unoccupied property
- Cyber risk could increase during crisis (CBI)
- AA and Sabre results announcements delayed on FCA guidance
- Auditors are taking a hard line on accounts sign-offs (Insurance Insider)
- Small insurance brokers eligible for government loan scheme (Insurance Business UK)
- Airline industry revenues could fall by $252bn (Insurance Insider)

Analysis

Travel insurance claims set to be highest on record

As expected, the travel insurance industry has been hard hit by the global restrictions on international travel and the level of cancellation claims is expected to be the highest on record. While many carriers will have reinsurance in place, the pure travel focused operations will be under intense pressure.

Insurance industry standing firm on BI claims

Despite pressure from the government in the UK and the US, the insurance industry has so far held firm on the payment of business interruption claims relating to the pandemic. If insurers are forced to pay claims where they have no contractual liability it sets a difficult precedent that will be impossible to factor into risk models.

The Oxbow Partners View

The industry is being more flexible than ever on terms and conditions given the scale and impact of the virus, however paying for uncovered risks could set a perilous precedent for the market. It is worth remembering that many will have deliberately chosen not to buy pandemic cover when selecting their insurances. The industry will face some agonising choices over the next weeks and months as it seeks to do the right thing, as Zurich is doing with its reassurances over unoccupied property coverage for example. Stay safe out there.

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ABI estimates industry travel insurance claims to be at least £275m

The ABI has announced that UK travel insurance companies expect to pay out more than £275m to travellers due to the Coronavirus outbreak. The vast majority of payments are due to cancellations. This is expected to be twice as much as the amount paid for cancelations in the whole of 2019 and significantly more than the highest ever year of cancellation payments (£148m in 2010).

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Insurance industry would be in jeopardy if forced to pay BI claims

The Financial Times reported comments from the chairman of Lloyd's of London stating that the industry would be in jeopardy if it had to pay claims for business interruption due to the Coronavirus pandemic, even if the policy did not include the specific coverage. There is pressure from the Governments in the US and UK for insurers to pay claims despite most policies not including cover for closures due to pandemics. However, the industry is currently standing firm in its response.

Read more (requires FT subscription)

Fitch downgrades reinsurance sector to negative on coronavirus concerns

Fitch ratings has revised its outlook for the underlying fundamentals of the global reinsurance sector to negative on the back of concerns over COVID-19 and the related impacts on the credit quality of reinsurers. Despite the downgrade, Fitch believes that the ratings of reinsurers will be less impacted by COVID-19 than the life and health insurers.

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Zurich UK reassures customers over unoccupied property

Zurich UK has issued a bulletin to update customers on its stance regarding the temporary closure of buildings due to the pandemic. The insurer has stated that where customers are making appropriate provisions to mitigate their unoccupied risk, the temporary closure should not prejudice any claim made. This applies to all property business across its commercial, municipal and retail business lines.

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Cyber risk could increase during crisis

The CBI has published a webinar focused on the increased risk of cyber attacks during the crisis. The main driver of increased risk is the fact that many businesses have moved to remote working wherever possible, increasing the opportunities for cyber criminals to exploit weak points in IT systems.

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AA and Sabre results announcements delayed on FCA guidance

The FCA has requested that listed companies observe a moratorium on the publication of preliminary financial statements for at least two weeks from 21 March 2020. Both Sabre and the AA were due to report results during this period and have delayed reporting their results as requested. The FCA has asked for the delay to allow companies and auditors sufficient time to give due consideration to the current events within their reporting.

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Auditors are taking a hard line on accounts sign-offs

The Insurance Insider has reported that in response to the FCA guidance on preliminary results reporting highlighted above, leading audit firms are encouraging firms to accept delays to sign-offs on full year accounts where possible or asking for additional safeguards due to the fast-moving nature of the crisis.

Read more (requires Insurance Insider subscription)

Small insurance brokers eligible for government loan scheme

Insurance brokers with annual turnover of less than £45m can apply for a loan from the Coronavirus Business Interruption Loan Scheme (CBILS) for financing of up to £5m with the loans 80% guaranteed by the government. These loans are not available to insurers or reinsurers.

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Airline industry revenues could fall by $252bn

The airline industry association (IATA) has estimated that the industry could lose $252bn of revenue due to the impact from COVID-19. The knock-on impact for aviation insurers could be significant with Insurance Insider reporting that many carriers are working with their airline customers to renegotiate contracts, particularly with those airlines that may be facing insolvency or government bailouts.

Read more (requires Insurance Insider subscription)