

COVID-19 insurance update – 17 April

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.

17 April 2020

Summary

- Hiscox customers set to take legal action over unpaid claims (The Guardian)
- Hiscox continues to believe the claims are not valid
- OBR base scenario expects a swift recovery
- Reinsurers on notice for C\$400-C\$800m Aviva loss (Insurance Insider)
- Hastings cautious on outlook but intends to pay final dividend
- Aviva offers customers premium deferrals
- FCA asks insurers to pay valid claims quickly (but only valid claims)
- ONS data shows significantly higher deaths in 2020
- Allianz CEO says virus hit insurers like a meteorite (Bloomberg)
- QBE raises capital to bolster its balance sheet (Reuters)
- President Trump believes insurers should be paying out (Business Insurance)
- S&P says P&C insurance least likely to default during crisis (Insurance Journal)

Analysis

Where do we go from here?

It has been another week full of coronavirus news and yet we don't seem to be any closer to where the eventual outcome might be. In the UK we have seen the lockdown extended for another three weeks and there is still no evidence of a valid plan of how things get back to normal. The uncertainty is echoed in the insurance industry with Hiscox having to defend its position on BI claims while the political factions in the US, including President Trump, line up to push for insurers to shoulder more of the economic burden.

How bad is this going to get? The various commentators can't agree. The OBR has published a scenario assuming a V-shaped recovery, but the CEO of Allianz sees it differently, with significant potential for business defaults.

The Oxbow Partners View

What is clear to us is that, much like the virus itself, the impact is likely to be mild for some and severe for others in the industry. The winners and losers at the end of this may not be defined by the simple maths of profitability but by the damage or benefit done to reputations over the course of outbreak and recovery, however long that is. Management teams need to be prepared for every eventuality to ensure they survive and even thrive in the new world. Stay safe out there.

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

Oli Stratton (Analyst)
ostratton@oxbowpartners.com
+44 203 947 8622

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

Oxbow Partners is a boutique advisory firm exclusively serving the insurance industry in Europe. We provide our clients with management consulting services as well as market-leading insights products. Our consulting engagements span strategy, operations, technology and M&A.

To subscribe to the Oxbow Partners' Market Intelligence service please contact the team.

Oxbow Partners Ltd is a company registered in England and Wales.
Registered number: 09863607
Registered office: 15 Bishopsgate,
London EC2N 3AR

Hiscox customers set to take legal action over unpaid claims (The Guardian)

Over the Easter weekend a number of news outlets (The Sunday Times and the Guardian) reported that a number of Hiscox's UK business clients have formed the Hiscox Action Group and are seeking a legal opinion on the validity of claims having had their claims for business interruption refused by the insurer.

The claims of the customers centre around the wording of the policies that seem to suggest that cover should have been triggered by the pandemic. In the "Non-damage denial of access" section the wording apparently allows for a claim if "an incident occurring during the period of insurance within a one mile radius of the insured premises which results in a denial of access or hindrance in access to the insured premises, imposed by any civil or statutory authority or by order of the government or any public authority, for more than 24 consecutive hours". In the "Public authority" section claimants believe that the cover has been triggered as they are unable to use their premises "due to restrictions imposed by a public authority during the period of insurance".

[Read more](#)

Hiscox continues to believe the claims are not valid

In an unscheduled update to the market on 15 April, Hiscox stated that "Hiscox's core policy wordings do not provide cover for business interruption as a result of the general measures taken by the UK government in response to a pandemic."

However, in light of market speculation, the company also provided more guidance on its potential exposure to business interruption claims around the pandemic. Hiscox estimates *ca.* 10,000 of its customers have been directly impacted by the government closures due to COVID-19 and over 70% of those customers have monthly revenues below £40,000 per month and many below £10,000 per month. The business also has 'substantial' reinsurance in place.

[Read more](#)

OBR base scenario expects a swift recovery

The Office for Budget Responsibility (OBR) has published details of its Coronavirus reference scenario in which it expects the impact of the virus to significantly raise public sector borrowing and debt. The base scenario set out by the OBR assumes three months of severe restrictions followed by a further three months of gradual return to normal activity. In this scenario the OBR expects real GDP to fall 35% in the second quarter followed by a quick bounce back, a V-shaped recovery.

[Read more](#)

Reinsurers on notice for C\$400-C\$800m Aviva loss (Insurance Insider)

The Insurance Insider has reported that Aviva has notified its reinsurers of a potential loss from COVID-19 related business interruption claims of Can\$400 – Can\$800m, mainly stemming from its Canadian dentist cover TripleGuard. It is understood that some of the loss may also come in the UK. The BI element of TripleGuard includes pandemic cover and as such should pay out.

[Read more \(requires Insurance Insider subscription\)](#)

Hastings cautious on outlook but intends to pay final dividend

On 15 April, Hastings announced a trading update for Q1 2020 with gross written premiums down 1% year on year while live customers policies increased by 4%. Despite increases in rates, the lower premiums were due to a change in risk mix towards lower risk customers and insuring fewer younger drivers.

Hastings has seen a reduction in accident frequency in March which it expects to continue throughout the lockdown period. Offsetting this, the company has seen an uptick in accident severity and inflation due to disruption in the repair networks and supply of parts. The business is also cautious around the outlook for mid-term adjustment income and any actions the business may take to support policyholders. Despite this caution, however, the group is still planning on paying its final dividend once approved by shareholders at the AGM on 21 May 2020.

[Read more](#)

Aviva offers customers premium deferrals

Aviva has announced a number of measures to support the NHS and its customers feeling financial pressure during the crisis. NHS workers will receive free breakdown cover, enhanced home insurance for personal belongings, free courtesy cars and priority repairs as part of their Aviva policy.

Other customers who pay premiums monthly and are either self-employed and unable to work, have been furloughed and have yet to receive payments or made unemployed since 1 March 2020, can defer up to 3 monthly premium payments and spread the cost of the policy over the remaining term.

[Read more](#)

FCA asks insurers to pay valid claims quickly (but only valid claims)

The FCA has sent a letter to insurance CEOs setting out its expectations regarding SME business interruption claims. The FCA highlights that most policies have basic cover that do not cover pandemics and therefore have no obligation to pay out in relation to COVID-19 and states that “While this may be disappointing for the policyholder we see no reasonable grounds to intervene in such circumstances”.

However, where there is a valid claim under the policy wording, the FCA believe that it is important for the industry to assess and settle claims quickly so that the financial pressures on policyholders are not exacerbated by slow payment.

[Read more](#)

ONS data shows significantly higher deaths in 2020

The ONS has released provisional death figures for the week ending 3 April 2020. The data shows a significant spike in deaths with 6,082 more deaths than the five-year average for the same week. 21.2% of all deaths mentioned COVID-19, with 46.6% of deaths in London registering some involvement from the disease. The deaths are weighted towards the older, male population which is highly relevant for annuity writers which would likely have a similar weighting. Outside of the COVID-19 related deaths, the underlying death rate was also 18% higher than analysts at RBC Capital Markets expected. This could be due to a number of reasons including an underreporting of coronavirus deaths or a higher death rate due to the strain on the NHS.

[Read more](#)

Allianz CEO says virus hit insurers like a meteorite (Bloomberg)

In an interview with Bloomberg TV, Allianz CEO Oliver Baete warned that the coronavirus has upended insurers' business models and will cause massive losses across the industry. Baete said "There will be huge losses for the industry coming, it just takes a while for those to materialise". The interview came as the German government unveiled a plan to backstop losses at commercial credit insurers to help prevent bankruptcies.

[Read more](#)

QBE raises capital to bolster its balance sheet (Reuters)

QBE has announced plans to raise ca. \$825m of additional capital from the sale of additional shares in the company. CEO Pat Regan said "The capital plan we have outlined positions us to navigate this period of extreme uncertainty with demonstrable strength and gives us the flexibility to pursue organic growth opportunities that may arise over the medium term,". The capital raised should lift QBE's rating to above S&P's AA level.

[Read more](#)

President Trump believes insurers should be paying out (Business Insurance)

In a White House briefing, President Trump has said that where a specific pandemic exclusion doesn't exist, he believes that insurers should be paying out on business interruption claims. These comments put additional pressure on US insurers already set for legal battles with policyholder and legislators in a number of states.

[Read more](#)

S&P says P&C insurance least likely to default during crisis (Insurance Journal)

S&P Global Intelligence has rated different industries based on the potential for default due to impacts from COVID-19. P&C insurance is the sector least impacted in terms of increased probability of credit defaults. Multi-line insurance and Life & Health insurance are also in the top five least impacted industries.

[Read more](#)