Market Intelligence
by Oxbow Partners

COVID-19 insurance update – 1 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.

01 May 2020

Summary

- FCA seeks legal clarity on business interruption
- ABI estimates over £1.2bn of Coronavirus claims
- Irish insurers commit to providing rebates to customers
- UBS estimates COVID-19 insured losses at up to $60bn (Reinsurance News)
- Aon cuts pay of directors and staff
- Swiss Re reports $776m impact from COVID-19
- Allianz withdraws profit target for 2020
- Sidetrade analysis indicates a 41% increase in unpaid invoices

Analysis

Under pressure

The move this morning by the FCA to step into the legal battle around business interruption claims is both unprecedented and somehow not surprising. The debate around whether certain policy wordings trigger cover during the pandemic has been rumbling on for some time already and the regulator is clearly concerned that individual, protracted legal cases may take too long to save the insured businesses from going under, even if they are in the right. The FCA's action could bring some clarity that will be good for the industry as a whole, if not for those insurers who may end up being on the hook for a greater level of claims.

Not content to just put pressure on insurers debating BI claims, the FCA has also set out guidance that insurers should be considering value for customers. There are obvious examples where customers (individuals and businesses) are no longer exposed to the same risks for which they bought insurance (public liability at a closed business). Equally some services offered (e.g. boiler servicing) cannot take place during the lockdown. The FCA is keen that customers are not paying for things for which they are receiving no value.

The Oxbow Partners View

In a note to our subscribers this week, we set out our views on whether other insurers could benefit from following Admiral in providing rebates to customers. While the economic benefit from better renewal rates is debatable given the price-focused nature of the market, it feels that the regulator is now increasing the pressure for insurers to step up and give back to customers. This might be the tipping point for the UK to follow the US. 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

FCA seeks legal clarity on business interruption

The FCA has announced today (1 May) that it intends to seek legal clarity on business interruption insurance to resolve doubt for businesses who are facing uncertainty on their claims. It is highly unusual for the regulator to effectively step into the legal proceedings on specific commercial insurance cases and this is likely to put more pressure on insurers to settle claims quickly where there is a valid case to answer.

The FCA has reiterated its view that business interruption insurance will not cover the current pandemic in the majority of cases but it is taking legal action to clarify the position where there is a difference of opinion between the insurer and the insured in order to speed up the resolution process.

In addition to the legal action on business interruption, the FCA has also set out further guidance for insurance companies regarding the consideration of whether their products still offer value to customers in the current situation. The guidance specifically references areas of the market directly impacted such as boiler servicing and public liability insurance for closed businesses, but we expect this will put more pressure on motor insurers to address the fact that many of their customers are driving significantly less or not at all.

Read more

ABI estimates over £1.2bn of Coronavirus claims

The Association of British Insurers has issued updated estimates of how much its members may need to payout in claims due to the COVID-19 pandemic. The estimate includes the previously announced £275m of expected travel insurance claims. The majority of the claims (£900m) are expected to come from business interruption for those businesses who have purchased the relevant cover, which is only a small minority.

Read more

Irish insurers commit to providing rebates to customers

AXA Ireland has announced a €33 per policy rebate to its 600,000 Irish motor customers in recognition of the reduced level of motor usage during the COVID-19 crisis. This forms part of a wider initiative from a number of players in the industry including Allianz, FBD, RSA and Zurich in addition to AXA. In total, the insurers that have signed up to providing rebates to customers cover 75% of the Irish motor market.

Read more

UBS estimates COVID-19 insured losses at up to $60bn (Reinsurance News)

Analysts at UBS have estimated that global insured losses from the COVID-19 pandemic could be $30-$60bn up from a previous range of $20-$40bn. Outside of the US, UBS expects business interruption claims to total $7-$22bn.

Read more

Aon cuts pay of directors and staff

Aon has announced that it will temporarily cut the pay of its executive officers by 50% in response to the COVID-19 crisis. In addition, 70% of staff will take a 20% reduction in salary in order to help protect jobs through the crisis. The level of reduction in salary for staff is limited by a cost-of-living floor that means that approximately 30% of staff at the lower paid levels will see no reduction in salary. Despite the actions to reduce salary costs, the company still intends to complete the combination with Willis Towers Watson.

Read more

Swiss Re reports $776m impact from COVID-19

In its Q1 2020 earnings release, Swiss Re reported a group net loss of $225m reflecting the impact of $476m of pre-tax losses in the property and casualty business. In addition, the group reported a $300m hit to its investment result for the quarter. Despite the high level of losses related to COVID-19, Swiss Re has maintained a solvency ratio (based on the Swiss Solvency Test) 'comfortably above 200%' as at 31 March 2020.

Read more

Allianz withdraws profit target for 2020

Allianz has announced that its preliminary results for Q1 2020 expect an operating profit of €2.3bn (1Q 2019: €3.0bn). Given the fall in operating profit and the uncertainty surrounding the current pandemic, the group no longer assumes that it can meet its target operating profit for the year of €11.5bn – €12.5bn. As we have seen from a number of other insurers, the impact of the pandemic has been significant and the ability to forecast the long-term outcome remains impossible at this time.

Read more

Sidetrade analysis indicates a 41% increase in unpaid invoices

Automated cash collection provider, Sidetrade, has undertaken a study of 26 million invoices across the UK, France, Belgium Spain, Italy and the Netherlands monitoring the proportion of invoices that remain unpaid more than ten days after coming due. The study shows that the level of unpaid invoices has increased significantly since the start of the pandemic and particularly after lockdown measures have been put in place. The increase is most notable in France (+71% above pre-crisis average) and Italy (+70.2%) however both countries come from a low pre-crisis average. The UK has seen a +20.3% increase in the percentage of unpaid invoices but has the highest level of unpaid invoices overall at 36.6%. The higher level of invoices going unpaid provides a lead indicator of the financial state of businesses during the crisis and suggests the number of business failures or trade credit claims could increase.

Read more