Market Intelligence
by Oxbow Partners

COVID-19 insurance update – 8 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.

08 May 2020

Summary

- LV= offers premium refunds to customers under financial difficulty
- Direct Line sees 70% drop in motor claims in April
- Hiscox raises capital and provides more clarity on potential BI claims cost
- RSA reserves £17m for BI claims due to COVID-19
- UK insurers in talks to create £100m charity fund
- Survey suggests one third of small businesses may stop buying BI cover (FT)
- Group action initiated against Allianz UK over BI claims (Insurance Business)
- Helvetia agrees to pay 50% of BI claims
- AXA expects a material impact on 2020 earnings from Covid-19
- Munich Re reports Covid-19 related losses of €800m
- AIG believes Covid-19 will be the single largest CAT event ever seen
- UK new car sales reduced by 97% in April 2020

Analysis

Bracing for the next wave

With the influx of company results this week we have seen a host of comments from management teams giving indications of how much Covid-19 has already cost in terms of claims and warning that this is just the start. The one overriding message is that things are going to get worse before they get better in a number of areas. Premium volumes are the latest 'known unknown' in the insurance world. The consensus of opinion seems to be that in many lines of business, premium volumes will be lower over the rest of the year, but the quantum is hard to predict as so much depends on customer behaviour. Hard to predict at the best of times, let alone during a global crisis.

The Oxbow Partners View

The actions of UK P&C insurers are largely based around a safety-first strategy at the moment. The companies are trying to maintain good relationships with customers while not yet feeling the need to give money back in the same way as Admiral. LV= has moved to a half-way house of paying back some premiums, but only to those most in need. Direct Line is not yet feeling the pressure to follow either Admiral or LV=. Many customers are suffering financially and public opinion is that insurers are refusing claims. It is unlikely that the proposed charity fund will do enough to make the public more favourable towards the industry, in our view. Stay safe out there.

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LV= offers premium refunds to customers under financial difficulty

LV General Insurance has joined Admiral in announcing premium rebates to customers due to the reduced level of claims under lockdown. However, while Admiral will be rebating all customers automatically, LV customers will need to apply for the rebates of £20-£50 and will only be eligible if they have suffered financial hardship due to Covid-19. This includes those who have not yet received 80% salary or earnings payments from the government or have lost their jobs since the start of March 2020.

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Direct Line sees 70% drop in motor claims in April

Direct Line (DLG) released a Q1 trading statement this week showing +5.6% growth in own brand premiums year on year. The majority of the growth in premium is due to price increases as policy count has increased only +0.7%. DLG also announced £70m of measures to help customers, the NHS and helping their own staff by pausing redundancies until at least the autumn. The net impact of travel losses is expected to be around £25m after £18.5m of reinsurance recoveries. The group reported that Motor claims notifications were down 70% in April 2020, but the average severity of claims is expected to increase.

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Hiscox raises capital and provides more clarity on potential BI claims cost

In its Q1 trading statement this week, Hiscox announced +2% growth in gross written premiums to $1.18bn. Alongside the announcement, the group also announced an equity placing for up to 19.99% of its issued share capital in order to "position the Group to respond to future growth opportunities and rate improvement in US wholesale and reinsurance markets". Hiscox reiterated once again that it believes the majority of its UK commercial customers are not covered for business interruption due to Covid-19. The business did, however, clarify the potential exposure from a 12-week lockdown at between £10m and £250m, net of reinsurance.

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RSA reserves £17m for BI claims due to COVID-19

RSA reported Q1 2020 results this week with little impact from Covid-19 in the quarter itself. Net written premiums for the group of £1.5bn were broadly in-line with the prior year. The group operating profit was up by 'double digit percentages' thanks to an improved combined ratio and better attritional loss ratios across all markets. Claims frequency in April was down 20-55% mainly due to Covid-19 with most impact in motor accident lines. The group followed others in the market by warning on the fact that some claims may be delayed, and severity is likely to increase. RSA has seen around £25m of additional claims costs due to the pandemic with a significant impact on its travel business but also a business interruption claims reserve of around £17m.

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UK insurers in talks to create £100m charity fund

Sky News reported this week that a number of UK insurers including Aviva, RSA and Hiscox have been holding talks about creating a £100m emergency fund to support a number of smaller charities. Talks are said to be at an early stage and the actual amount pledged may differ significantly from the £100m quoted, or the fund may not happen at all.

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Survey suggests one third of small businesses may stop buying BI cover (FT)

The FT has reported the results of a survey of 500 small companies and found that a third said they were likely to stop paying for business interruption cover. One fifth of the respondents said that they would stop paying for one insurance product and one quarter would stop paying for two. 60% of those surveyed also felt that their insurer had not been transparent about how Covid-19 would impact their policies.

Read more (requires FT subscription)

Group action initiated against Allianz UK over BI claims (Insurance Business)

Allianz UK has become the latest commercial insurer to face a group action court case regarding the business interruption claims. Law firm Edwin Coe LLP is leading the challenge on behalf of customers with the crux of the case based around whether the notifiable disease needs to be present within the vicinity of the customer premises for the insurance to be triggered.

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Helvetia agrees to pay 50% of BI claims

Helvetia has agreed to pay 50% of business interruption claims for its restaurant clients even though the epidemic insurance cover provided has a clear exclusion clause that the company has confirmed via a legal opinion. The final decision on whether the insurance policies should payout as part of the pandemic would have to come from the Supreme court and could take two years. Helvetia has reached a settlement to pay half of the claims in order to help the impacted customers now so that they can reopen once lockdown rules are lifted.

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AXA expects a material impact on 2020 earnings from Covid-19

AXA released a Q1 trading update this week showing +4% growth in revenues across its global operations. Within the UK and Irish business unit, revenues increased by +2% driven by +3% growth in P&C and flat revenues in Health. The P&C revenues showed strong growth in personal motor (+8%) and personal non-motor (+5%) partially offset by a decline in commercial lines. Both personal and commercial lines benefitted from price increases of c5%.

While the Q1 2020 results have seen little impact from Covid-19, the group expects the pandemic to have a material impact on its results for the year as a whole through a combination of lower revenues and higher claims (in some areas) but it is too early to quantify this at this stage.

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Munich Re reports Covid-19 related losses of €800m

Munich Re has reported a profit in Q1 2020 of €221m, -65% lower than in Q1 2019. The fall in earnings is largely due to €800m of Covid-19 related losses, particularly in event cancellation insurance. Despite the lower profits, the group saw April renewals +26% higher with an overall +3% increase in prices.

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AIG believes Covid-19 will be the single largest CAT event ever seen

AIG reported Covid-19 related losses of $272m in Q1 and has removed its profit guidance for the year due to the level of uncertainty around the impact of the pandemic. In addition, CEO Brian Duperreault was quoted as saying that AIG believes that Covid-19 will be the single largest CAT event in history once the full impact is known.

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UK new car sales reduced by 97% in April 2020

The SMMT has released figures for new car sales in April 2020 that show a -97.3% decline compared to 2019. The fall is particularly stark in private sales where only 871 new cars were registered in the month compared to 67,873 in April 2019. France (-89%) and Italy (-98%) also saw similar falls in new car registrations during April. While the lack of new car sales will inevitably impact insurance new business, the overall number of cars on the road (or mainly off the road at the moment) is unlikely to have changed very much so the overall level of insurance premiums earned should be much more resilient.

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