Market Intelligence
by Oxbow Partners

COVID-19 insurance update – 5 June

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.

05 June 2020

Summary

- FCA launches next phase of legal clarification over BI claims
- FCA publishes final guidance on assessing insurance value
- AXA faces €1.4bn of claims due to Covid-19
- Markerstudy to make 478 staff redundant due to crisis (Insurance Times)
- Motor claims down 57% year on year (insurance Times)
- Direct Insurance committed to flexible working post-Covid-19
- Covid-19 to turbocharge pricing trends (Reinsurance News)
- Pandemic-Hit Re/insurers Expect a Costly Hurricane Season – and Rates Are Rising (Insurance Journal)
- SMMT data shows car sales in May 89% lower than in 2019

Analysis

Counting the cost

It has been a week of largely bad news for insurers with the cost of Covid-19 continuing to rise from all sides. The FCA is progressing its court action to decide whether insurers will be on the hook for BI claims on policies with ambiguous wording and AXA has announced a huge €1.4bn of expected claims. Even in areas where insurers have been doing well, the outlook is getting worse. With lockdown easing and more people on the roads, claims are likely to be ticking back up again in motor. The FCA are also keen for insurers to ensure customers are still getting value from their policies during the pandemic which may require some payouts over the next six months.

The Oxbow Partners View

For the most part, insurance has been relatively shielded from the impacts of Covid-19 and the drastic government measures to contain it. The majority of businesses have remained open and staff have swiftly been moved to working from home. Excluding travel and event insurance (and assuming insurers are right on BI claims), the costs have not yet been too large. Despite this, we have news this week of Markerstudy having to make nearly 500 staff redundant. Even if the majority of these staff are in the leisure part of its group, the fact remains that the economy is going to take a massive hit from this and the real effects of that are yet to be seen thanks to the government intervention. It feels like things are going to get worse before they get better for a large part of the industry. Stay safe out there.

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FCA launches next phase of legal clarification over BI claims

The FCA has provided an update on its court action on business interruption cases. The regulator has contacted 56 insurance companies and reviewed over 500 relevant policies from 40 different insurers. From this it has identified [17 different policy wordings] that cover the majority of issues that are in dispute. The FCA has highlighted [16 insurers] that use at least one of the policy wordings that will form part of the test case. This is not expected to be an exhaustive list and other insurers are required to check their own wordings against those being used in the test case. The FCA aims to publish a full list of impacted companies by early July and for the court hearing itself to take place in the second half of July.

A selection of insurance companies (Arch Insurance (UK) Limited; Argenta Syndicate Management Limited; Ecclesiastical Insurance Office plc; Hiscox Insurance Company Limited; MS Amlin Underwriting Limited; QBE UK Ltd; Royal & Sun Alliance Insurance plc; Zurich Insurance plc) have been asked to assist by taking part in the court proceedings.

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FCA publishes final guidance on assessing insurance value

The FCA has issued final guidance to insurance companies regarding the need to review products to ensure they are providing the value customers expect given the impact of Covid-19. This new guidance comes into effect immediately. Insurers have six months to review and implement any measures they feel are appropriate to better reflect the value customers have been receiving during the pandemic. The guidance specifically mentions motor insurance as something largely outside of this guidance as although the risks may have been greatly reduced, the customer is still receiving cover from fire and theft etc as part of the policy.

The final guidance only made minor changes from the initial draft, with clarification on a number of points including:

- Firms should consider the value of products where, due to the impact of coronavirus, there has been a material reduction in risk so that they are providing little or no utility to customers, and not just where claims are no longer possible
- Firms are not expected under this guidance to assess value on an individual customer level, but should consider our guidance on helping customers in temporary financial difficulty as a result of coronavirus
- Firms can assess the longer-term impacts of coronavirus on their insurance products on an ongoing basis beyond the 6-month period the FCA has set out for product reviews resulting from this guidance.

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AXA faces €1.4bn of claims due to Covid-19

Following guidance from the Autorité de Contrôle Prudentiel et de Résolution ("ACPR") and EIOPA, AXA has made the decision to reduce its dividend payout for the year to €0.73 per share (from €1.43). In addition to the dividend decision the group has provided more detail on the expected claims from Covid-19. In the global P&C business these are expected to reach €1.2bn after tax and reinsurance (around €1.4bn pre-tax). The group expects the "most material impacts from Business Interruption and Event Cancellation, and to a lesser extent from other lines (e.g. D&O, Liability and Travel), partly offset by reduced claims in some areas, notably from Motor". The volume of claims is higher than analysts had expected and higher than seen at any other insurer so far but likely reflects the size of AXA's global commercial insurance book.

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Markerstudy to make 478 staff redundant due to crisis (Insurance Times)

Insurance Times reported on Wednesday that Markerstudy is set to make 478 of its 3,000 staff redundant due to the financial impact of the Covid-19 pandemic. The group has already put around 1,000 staff on furlough and asked the remaining employees to take a voluntary pay cut of 20% from April. The fact that the business is now consulting on making sweeping redundancies suggests that the impacts of Covid-19 will be longer lasting than the government is hoping for and the economy my take a long time to recover. It is worth noting, however that It is not clear at this stage how many of the affected staff work in the insurance business rather than the Markerstudy group's leisure and hospitality operations.

Read more (requires Insurance Times subscription)

Motor claims down 57% year on year (Insurance Times)

Insurance Times has reported that Gallagher Bassett's low value injury claims portal has recorded the lowest level of daily claims since 2020 during April 2020. The claims service provider recorded a 57% drop in claims between April 2019 and April 2020 in motor due to an overall 25% drop in motor use. Despite the drop in frequency, Gallagher Bassett have seen evidence of increased severity of claims with a dramatic rise in the number of traffic signal collision because people are missing red lights and not being as attentive as they would normally be. In addition to the motor statistics, Gallagher Basset has seen a 46% year on year decrease in employers' liability claims influenced by social distancing measures and staff being furloughed.

Read more (requires Insurance Times subscription)

Direct Insurance committed to flexible working post-Covid-19

Direct Insurance Group is the first specialty (re)insurance group to publicly announce that it will allow all of its staff flexibility in how they work post-Covid-19. Staff will be offered the opportunity to work from home, in the office or a mixture of the two on a permanent basis post-crisis. The company acknowledges that staff need to feel comfortable coming back into the office and having a flexible policy should help with that.

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Covid-19 to turbocharge pricing trends (Reinsurance News)

WR Berkley leadership anticipate prior hardening rate trends and Excess & Surplus growth to become 'turbocharged' due to the COVID-19 pandemic. They go further to say the P&C industry was in a period of transition before COVID-19 with acceleration in insurance rates primarily driven by the low interest rate environment, an 'emboldened/empowered' plaintiff's bar, and discipline returning to the re/insurance industry. WRB see parallels to the 2000-01 insurance environment which saw pricing strengthen before and then accelerate further subsequent to the 9/11 terror attacks.

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Pandemic-Hit Re/insurers Expect a Costly Hurricane Season – and Rates Are Rising (Insurance Journal)

The high claims experience due to the COVID-19 pandemic and recent years of significant hurricane damages mean property rates at the key 1st June renewal date are expected be pushed up by as much as 50% to provide re/insurers with an income boost. The rate rises could sweeten the pill for re/insurers which anticipate significant underwriting losses from the pandemic and face $100 billion in investment losses this year, according to Lloyd's' estimates.

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SMMT data shows car sales in May 89% lower than in 2019

The new car market shows strong decline in May due to the consequences of the coronavirus pandemic and the lockdown creating a barrier between potential buyers and car dealerships. The Society of Motor Manufacturers and Traders (SMMT) found new cars registrations down 89% year-on-year in May (following 98% decline in April), with only 20k sales made once 'click and collect' services were allowed midway through the month allowed some movement in the market.

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