Market Intelligence
by Oxbow Partners

COVID-19 insurance update – 19 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.

19 June 2020

Summary

- Insurers watch and wait as rusty drivers return to the roads (FT)
- PRA stress test indicates the biggest concern from Covid-19 is BI claims
- FCA holds first case management conference on BI claims test case and issues final guidance to firms
- Hiscox Action Group formally launches arbitration claim (Insurance Business)
- Insurers set to use Swedish experience to reduce BI claims liability (Insurance Business)
- SAGA, Staysure and the Post Office reintroduce travel cover including Covid-19 illness
- Broker consolidation set to continue despite the pandemic (Insurance Business)
- Lloyd's of London set to re-open its office in September (Reuters)
- Fitch review of rating actions highlights the resilience of the insurance sector

Analysis

Opening up to the unknown

As the lockdown restrictions are gradually eased across the UK, the country is heading back to a new normal that remains largely unknown. Drivers are returning to the roads but what level of driving will be seen over the rest of the year? It could easily be higher than pre-lockdown as more people decide that their own cars are safer than getting on public transport. Equally, the fact that offices will be working at lower capacity for some time (Lloyd's only has capacity for 45% of staff in its underwriting room) could mean more working from home and less driving. That is assuming there are no more lockdowns from here on.

The Oxbow Partners View

Scenario planning will be the order of the day at most insurance companies, in our view. There are so many unknowns at the moment, not least the outcome of the various BI claims litigations. Management teams will need to plan for multiple different eventualities and be agile enough to switch strategy on a wholesale basis in a short space of time. This is not something most of the industry is used to doing. Some will fare better than others and we expect those with up-to-date, flexible digital processes will be best placed to win, no matter what the future holds. Stay safe out there.

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Insurers watch and wait as rusty drivers return to the roads (FT)

The FT has looked into the UK motor insurance market and the difficulty insurers have in predicting what will happen over the rest of the year. The easing of lockdown restrictions means more drivers out on the roads. The combination of more traffic, drivers being 'rusty' and repair networks still not operating at full capacity could see an increase in claims inflation over the rest of the year. The difficulty for motor insurers is the unknown element of how the rest of the year looks. It could be that people continue to drive less as they work from home more, or the aversion to public transport could mean more driving. Pricing for two divergent scenarios at the same time is impossible and therefore means companies are being cautious until more data is available.

Read more (requires FT subscription)

PRA stress test indicates the biggest concern from Covid-19 is BI claims

During April 2020, the PRA conducted additional resilience testing of firms to some of the stresses that could come from the Covid-19 pandemic. This week, the PRA issued a letter to all insurance company CEOs giving a brief update on the results of the stress testing. The overall outcome was that the sector is 'robust to downside stresses' but that the highest uncertainty comes from general insurers with exposure to Covid-related BI claims. The letter also reiterates that the PRA expects companies to maintain a close monitoring of the situation and take appropriate management actions as and when necessary.

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FCA holds first case management conference on BI claims test case and issues final guidance to firms

On Tuesday, the FCA held the first case management conference regarding the BI claims test case. At the conference, Mr Justice Butcher made an order regarding how the test case is to proceed. The case will now go ahead as planned by the FCA in that it will be expedited, the Financial Markets Test Case Scheme will apply, and the second case management conference will be live-streamed. The second case management conference will take place on 26 June and the final hearing (also live-streamed) will start on 20 July. The regulator has also issued final guidance to firms. Any non-party to the case wishing to make an application must do so before 5pm on 24 June.

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Hiscox Action Group formally launches arbitration claim (Insurance Business)

Mishcon de Reya, the firm representing the Hiscox Action Group has this week formally launched its arbitration claim against Hiscox for the non-payment of business interruption insurance. The group is seeking £40m in payment from Hiscox though this amount could increase significantly once all of the losses for the parties to the arbitration are taken into account. Hiscox commented that "We can confirm that we have received a letter on behalf of a group of policyholders with UK property insurance policies. We shall carefully consider it and respond accordingly".

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Insurers set to use Swedish experience to reduce BI claims liability (Insurance Business)

Insurance Business has reported that at the FCA's first case management conference this week, a number of the insurers involved in the test case have indicated that they will use the experience of Sweden to argue that not all of the losses suffered by businesses are directly related to the lockdown. In some cases, the policies concerned cover customers for losses incurred by government action but not pandemics. The lawyers for the insurance companies will argue that businesses in Sweden have seen decline in income despite the government there taking significantly less stringent measures regarding lockdown.

[Read more]

SAGA, Staysure and the Post Office reintroduce travel cover including Covid-19 illness

With lockdown restrictions easing some people are likely to be looking at booking travel again and this week at least three companies have returned to the travel insurance market. SAGA, Staysure and the Post Office have all started to offer travel insurance again despite the ongoing risks of Covid-19. The policies will not cover travellers for cancellation costs due to Covid, however, and will only be valid if the destination of the trip is to a country deemed safe by the FCO. The policies do cover you for illness related to Covid-19 and include policies for the over 50s.

Broker consolidation set to continue despite the pandemic (Insurance Business)

Insurance Business has interviewed Mike Bruce, the CEO of broker consolidator Global Risk Partners (GRP). The business has continued to complete M&A transactions during lockdown as the majority of the work had already been done in most cases. The group is also now back to 'full throttle' in terms of new deals and expects to see a steady stream of acquisitions no matter what happens in terms of Covid-19. This is just one player in the broker consolidation space, but it suggests that the pandemic will not stop the market trend of creating larger broker groups.

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Lloyd's of London set to re-open its office in September (Reuters)

The underwriting room at Lloyd's was shut for the first time in its 330-year history in March but it is set to re-open in September. The space will be physically quite different on the return, however, with plastic screens and one-way systems to ensure social distancing. Staff capacity will also shrink to 45% of pre-lockdown levels meaning many will still need to be working remotely as they have been during the crisis so far. The question will be for how long the business will need to operate in this half-way state and whether it will ever fully return to the face-to-face market it has traditionally been known for.

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Fitch review of rating actions highlights the resilience of the insurance sector

Over the last two months Fitch ratings has completed a full review of its ratings in the global insurance sector looking at the key issues related to the coronavirus pandemic. The rating agency has summarised and recapped the findings from its reviews. Overall, 30% of insurance ratings had a negative impact (negative outlook, negative watch or downgrades). Fitch believes that this highlights the resilience of the sector ahead of the pandemic with strong capital buffers. Looking at the detail of the review, 67% of the 270 insurance groups rated by Fitch were affirmed with a Stable outlook, 21% affirmed a Negative outlook and 9% were either downgraded (8%) or put on rating watch negative (1%). Within the sub-sectors the life sector had the highest level of Negative outcomes at 35% while the non-life sector was at the other end of the scale with 21% negative outcomes.

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