Market Intelligence
by Oxbow Partners

COVID-19 insurance update – 26 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.

26 June 2020

Summary

- Insurers set out defences in FCA test case
- Admiral sees 39% increase in accidental damage claims as lockdown eases
- ABI responds to the BMA regarding protection for healthcare workers
- London Market terms and conditions likely to be tightened following COVID-19 (Insurance Business)
- New capital is flowing into the insurance industry (S&P Global)
- CII reports many insurance professionals have been furloughed (Insurance Business)
- Berenberg analysts believe that Lloyd's estimate of COVID-19 losses may be too high (Artemis)
- Brokers may face exposure as a result of the pandemic (Insurance Business)
- Markerstudy confirms that board directors have taken a 50% pay cut (Insurance Times)
- Cashing out could speed up claims process (Insurance Times)

Analysis

No summer holiday for BI defendants

With the heatwave causing pandemonium on the beaches and the government opening up tourist accommodation for the summer, one could be forgiven for thinking that the summer holidays have started already. One group that will not be taking any holidays in the near future will be the FCA and the defendants in the BI claims test case. This week we have seen the insurers set out their defences with a response from the FCA due next week. With the timeline being expedited to ensure swifter payouts for customers if the insurers are found liable, there will hopefully be some resolution before the end of July.

The Oxbow Partners View

The rush for the beaches seen this week presents many challenges for the authorities but it also highlights the increase in activity caused by the easing of lockdown restrictions. This will see more cars on the roads and more accidents. With the potential for a backlog in repairs due to continued restrictions around working conditions in repair shops and limited availability of parts, the industry may need to look to alternative solutions for customers with minor claims. Cash goes down well with most people. Stay safe out there.

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Insurers set out defences in FCA test case

In the latest stage of the FCA test case into business interruption claims, the defendants in the case have set out their defences. This comes in response to the FCA's Particulars of Claim. The insurers defences are all published on the FCA's website below and include details from Arch, Argenta, Ecclesiastical, Hiscox, QBE, RSA and Zurich. The FCA is inviting policyholders, insurance intermediaries, other stakeholders and their legal advisers to comment on the defences. Comments need to be received by Monday 29 June. The FCA will then provide a written response to the defences by 3 July.

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Admiral sees 39% increase in accidental damage claims as lockdown eases

Admiral has seen a steady rise in motor accidental damage claims in England as lockdown restrictions have been eased. The insurer reported claims were up 39% as motorists returned to the roads, attributed to the general increase in traffic, motorists getting back behind the wheel after a sustained break from driving, and pedestrians & cyclists who have been taking advantage of quieter roads being unprepared for increased traffic. The current overall claims experience remains below pre-lockdown levels, but the insurer expects the steady increase to continue as restrictions are eased.

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ABI responds to the BMA regarding protection for healthcare workers

The ABI has addressed questions raised by the British Medical Association (BMA) about life insurance and income protection applications for healthcare workers during the Coronavirus pandemic. The two organisations have made a joint statement, "Each application for life insurance and income protection will be assessed on an individual basis, regardless of profession … A positive test for COVID should not delay an application as long as the individual has recovered and been back at work for the required period".

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London Market terms and conditions likely to be tightened following COVID-19 (Insurance Business)

Gavin Coull, member of London FOIL's executive committee and partner at Birketts EC3 Legal, gives his view on how the pandemic may impact the London insurance market through new post-crisis laws and regulations. Coull expects few changes in regulation, other than the potential bringing in of new vehicles such as Pandemic Re. The largest impacts will predominantly be hardening of terms and conditions in both direct and reinsurance categories due to the inbuilt grey area of policy wordings.

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New capital is flowing into the insurance industry (S&P Global)

Catastrophe losses, casualty reserving holes and the coronavirus pandemic are creating fertile ground for capital raising and new insurance companies. Since the beginning of May, Hiscox, Beazley, RenaissanceRe and Lancashire have raised roughly $2bn between them from share issues. This activity could tempt more firms to raise capital and there is emerging talk of plans for new insurer start-ups. However, unlike previous instances where the industry has seen significant catastrophe losses, there has not been a string of failing companies, indicating current capital-raising efforts would focus more on scaling up and repurposing existing companies, rather than building new ones.

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CII reports many insurance professionals have been furloughed (Insurance Business)
Upon analysis of the Charted Insurance Institute's discount scheme for helping members and non-members continue their studies and further their careers amid the outbreak, 82 of the 203 members who received the discount code have either been furloughed or had their income materially reduced. The remaining 121 requested the discount for any number of reasons including a loss of income as a self-employed individual, a new job had been withdrawn, job termination, or because their employer's business had collapsed.

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Berenberg analysts believe that Lloyd's estimate of COVID-19 losses may be too high (Artemis)
Artemis has reported on research by analysts at Berenberg Investment Bank highlighting the potential impact of COVID-19 on the insurance industry. The analysis from Berenberg suggests the total bill for the industry will be between $50bn and $70bn, significantly lower than the previous estimate from Lloyd's of London of $107bn. At this lower level the claims are expected to be manageable for the industry, though clearly still a significant loss event. So far estimated and reported losses total around $15bn, according to Berenberg, some way below the $50bn to $70bn estimate. This allows for substantial increases in claims costs due to several unquantifiable factors such as the length of lockdowns, impact of a potential second wave etc.

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Brokers may face exposure as a result of the pandemic (Insurance Business)
Insurance Business recently held a Broker Connect event to discuss how the industry is being impacted by pandemic related litigation. While the event also highlighted how brokers should be focused on providing expertise and knowledge as risk advisers, this role itself could be a driver of litigation against brokers. Depending on the result of the various business interruption cases, brokers could come under the spotlight for not advising clients to taken on additional cover when there was an opportunity to do so. In the cyclical nature of the industry, this could lead to E&O claims against brokers who will then look to their own insurance cover to pay the claims.

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Markerstudy confirms that board directors have taken a 50% pay cut (Insurance Times)
Markerstudy has already been reported to have reduced the pay of most of its staff by 20% and placed a third of its staff on furlough due to the impact of COVID-19 on the business. The company has now confirmed that the board of directors have taken a 50% pay cut in order to help the business to survive the crisis. This also comes as Insurance Times reported that 478 staff would be made redundant. The group has wide-ranging interests that are not all focused on insurance, with some in the leisure and hospitality industry which is likely to have been more impacted than the insurance operations.

Read more (requires Insurance Times subscription)

Cashing out could speed up claims process (Insurance Times)
Sam White, CEO of broker Freedom Services Group, MGA Pukka and motor claims business Action 365 has told Insurance Times that she is exploring cashing out programmes as an alternative to providing repairs for cars. The combination of COVID-19 and Brexit has the potential to limit the ability of repairers to get parts in a timely manner and therefore offering customers a cash alternative could be a much quicker and cheaper solution for insurance companies. If a customer faces the prospect of a long wait for a small repair then the option of taking cash might be more appealing to them as well.

Read more (requires Insurance Times subscription)