

COVID-19 insurance update – 7 August

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.

07 August 2020

Summary

- UK Commercial insurers hit hardest by Covid-19
- Hannover Re's COVID-19 reserves hit €600m
- Munich Re adds €700m if COVID-19 losses in Q2
- Aviva plans 10% of staff in offices come September (Insurance Times)
- Aviva pays COVID-19 BI claims despite 'not covering pandemics' (Insurance Times)
- Irish regulator mirrors FCA with publication of framework to clarify COVID BI claims (Insurance Times)
- Parametric insurance the future of pandemic cover (Insurance Times)
- FCA may intervene in BI payouts (Insurance Business)
- Chubb work remote study shows signs of strain (Insurance Business)

Analysis

IBNR

Another week of H1 reports has been filled with updated COVID claims estimates on travel, event cancellation and business interruption. There have also been positives with lower claim frequency (as expected) on motor policies – both in personal and commercial lines. Most companies are remaining cautious on the outlook whether they have seen higher or lower claims so far in the crisis. The outlook is unknown, and many insurers have bolstered their reserves to give some wiggle room on what the actual outcome is for the year. As we have seen in previous results, much of the claims total relates to IBNR where insurers are trying to estimate both the likelihood that they will have to payout and the amount that ultimately become payable. In normal circumstances such a flooding, this can be done with relative accuracy as the insurer know which areas have been flooded and how much it costs to repair a damaged property. For Covid claims – particularly around BI – the insurer may not have to pay anything. Or they might have to pay damages on top of the original claim for lost income. This leaves significant room for error and it may be that the reality is a long way from the amounts we have seen reported so far.

The Oxbow Partners View

The easing of lockdown feels a little like two steps forward, one step back at the moment. The regular introduction of local restrictions and / or delays to further easing are how life might be for some time. This makes pricing and product development difficult for all insurers as the situation keeps changing every day. We are not at the new normal yet, this is still the transition. Stay safe out there.

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UK Commercial insurers hit hardest by Covid-19

This week saw [Hiscox](#), [DLG](#), [Hastings](#), [Allianz](#), [Aviva](#), [AXA](#), announce their 2020 H1 results. Subscribers to our core Market Intelligence product would have received our detailed on-the-day analyses for UK insurers and we will be providing a summary of the overall market themes towards the end of the reporting period. So far, insurers have predominantly reported resilient results with revenues holding steady or marginally declining due to a fall in the wider economic environment. When looking at profitability, insurers with a heavy focus on commercial lines have seen the worst impacts from COVID-19. Those which cover a broad range of product-lines have managed to minimize impacts as reduced claims-frequency in product lines such as Motor have offset increased costs in other areas.

Hannover Re's COVID-19 reserves hit €600m

Hannover Re reported its 2020 H1 results this week. The group saw operating profit decline 47% year-on-year in 2020 H1, largely driven by additional €380m (€600m total) of reserves for COVID-19 claims in the P&C business. The firm notes the bulk of its COVID-19 losses are incurred but not yet reported. Within the groups' P&C reinsurance segment, GWP grew 17% year-on-year to €9.2bn in 2020 H1. The unit reported an underwriting loss of €161m with a COR of 102% reflecting a 5.6%pt deterioration on the same period last year.

[Read more](#)

Munich Re adds €700m if COVID-19 losses in Q2

Munich Re published its 2020 H1 results this week. The group added c. €700m of COVID-19 losses in 2020 Q2, causing profits to decline 42% year-on-year to €579m for the same period. This brings the total COVID-19 losses to €1.5bn of which c. €1.4bn is related to P&C reinsurance and c. €0.1bn is from L&H reinsurance. Reinsurance GWP was up 13% year-on-year over 2020 H1, however the combined ratio on the P&C business deteriorated 10.9%pts to 103%. This was partially offset by an increased investment result (up 10% year-on-year) but the reinsurance business reported overall profits down 60.5% for 2020 H1.

[Read more](#)

Parametric insurance could be the future of pandemic cover (Insurance Times)

In a post-Covid world parametric insurance could see a surge in demand, according to the Insurance Times. The issues faced around business interruption insurance during the pandemic have highlighted that the process for traditional insurance and claims assessment may not be right for either the insurers or the customers. The use of a simple parametric trigger (is there a pandemic or not?) leading to a pre-agreed claim payout makes the whole process quicker and more straightforward. The fact that the risk is limited will also attract capital and make pandemic risks more insurable in the future. The difficulty is educating customers and brokers around the existence of parametric cover.

[Read more \(requires Insurance Times subscription\)](#)

FCA may intervene if BI payouts are not fairly assessed (Insurance Business)

Although the FCA test case trial has concluded the regulator is continuing to come to the defence of BI policyholders. Insurance Business has reported that the FCA is ready to intervene in cases where the insurance company has agreed liability but deductions to payouts are being made to take account of government support received by policyholders. The FCA has stressed that it expects insurers to consider individually the precise details of the policy, the claim and the use of government support before applying any deductions to claims payments.

[Read more](#)

Chubb work remote study shows signs of strain (Insurance Business)

US insurer Chubb has conducted a survey of 1,200 American workers to assess the impact of working from home during the pandemic. The results suggest that most have managed to maintain productivity and are working the same or more hours each day. 74% of respondents said they would like to work from home more frequently in the future. Even though many people have enjoyed the freedom of working from home, the survey highlighted two areas of increased risk from the new behaviours. Cyber risk has increased due to the work from home movement but less than half of respondents were concerned about cyber security and 49% said that they have used their personal devices and emails to conduct work related tasks. The second major risk highlighted by the survey relates to ergonomics as 41% of people working from home are reporting elevated levels of back wrists or shoulders but have done nothing to change their work from home environment.

[Read more](#)

Aviva plans 10% of staff in physical offices come September (Insurance Times)

Aviva chief executive Amanda Blanc confirmed that she expects a 10% capacity of the insurer's staff to return to its office sites in September, with the intention to increase this number over time. However, Blanc also suggests it's unlikely Aviva will return to pre-COVID capacity levels working in its office sites as it explores 'better ways of working' after being 'pleasantly surprised' at the success of remote working since the introduction of lockdown restrictions.

[Read more](#)

Aviva pays COVID-19 BI claims despite 'not covering pandemics' (Insurance Times)

Aviva UK's chief executive for GI, Colm Holmes, has confirmed the insurer has been paying out on COVID-19 BI claims that have been insured using wordings written by brokers, despite previously stating 95% of Aviva's policies do not cover pandemics. Aviva has paid out on a portion of the policies where the outcome is clear, while others are dependent on the outcome of the FCA's test case.

[Read more](#)

Irish regulator mirrors FCA with publication of framework to clarify COVID BI claims (Insurance Times)

This week, the Irish regulator for financial services, The Central Bank of Ireland, published its framework for clarifying the coverage problems surrounding BI claims linked to COVID-19 and the associated lockdown. The framework mirrors that of the FCA and covers three areas:

- The Central Bank's approach to the identification of potentially systemic issues of customer harm
- The Central Bank's expectations of insurers to address those issues where identified
- Details the escalation strategy for intervention by the central bank where necessary

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