Market Intelligence
by Oxbow Partners

COVID-19 insurance update – 11 September

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.

11 September 2020

Summary

- FCA business interruption test case verdict date set
- Lloyd's reports net loss of £438m in 2020 H1 results
- Coronavirus lockdown causes 0.3% decline in home insurance premiums (Insurance Times)
- Zurich uses live chats to communicate with brokers (Insurance Business)
- Australian regulator warned of pandemic risk in 2006 (Insurance Business)
- Swiss Re sees positive outlook for renewals
- Admiral sends staff home following confirmed case of COVID (Insurance Business)
- COVID shows potential for damage from cyber-attack (S&P Global)
- SCOR very positive on hardening P&C market as it absorbs COVID-19 impacts (Reinsurance News)
- Munich Re endorses state-backed pools for pandemic risk (Reinsurance News)
- Etihad Airline offers COVID wellness insurance

Analysis

It's a date

The high court verdict on the FCA test case will be announced next week, on Tuesday 15 September. This will be a big day for the insurance industry and the 370,000 policyholders hoping that this will give them the payout that they need to keep their businesses running. Unfortunately, this is likely to just be another step towards the end, rather than the actual end of the process as whoever loses may appeal the decision.

While the FCA test case will have a significant bearing on the COVID losses in the UK market, Lloyd's of London has confirmed this week that it expects to pay out £5bn in COVID-related claims on a gross basis (£3bn net). This is in line with its estimate in May of a net loss in the range of £2.5-£3.5bn. It is worth remembering that the May estimate also came with an industry expectation of $107bn of losses, at the upper end of the range in the market. If Lloyd's was right about its own losses, perhaps the industry has started to underestimate the scale of the ultimate losses.

The Oxbow Partners View

False dawns are the new normal, for now. Just ask Admiral. This week it had to shut one of its offices soon after reopening as a staff member tested positive. During this transition period, expect this to be a common occurrence. Stay safe out there.

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FCA business interruption test case verdict date set

The schedule has been set for the judgement in the Financial Conduct Authority's COVID-19 business interruption test case: the outcome of the eight-day trail in July will be revealed on 15th September at 10:30am. The result will legally binding on the participating insurers in respect to the interpretation of the representative sample of policy wordings considered by the High Court.

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Lloyd's reports net loss of £438m in 2020 H1 results and expects gross COVID-19 claims of £5bn

Lloyd's of London published its 2020 H1 results this week. A reported loss of £438m was driven by £2.4bn of COVID-19 claims incurred which contributed 18.7% impact on the 110.4% combined ratio. Lloyd's expects an ultimate COVID-19 loss of £3bn by the end of 2020 (£5bn on a gross basis; of which £2bn is recoverable from reinsurance). The specialist re/insurance market also notes that positive rate momentum accelerated in H1, with the market achieving risk adjusted rate increases on renewal business of 8.7%.

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Coronavirus lockdown causes 0.3% decline in home insurance premiums (Insurance Times)

Data from Consumer Intelligence shows average premiums for buildings and contents policies have decreased by 0.3% over the last three months, partly driven by the national lockdown influencing a steep drop in recorded crime. Despite the three-month dip, average premiums have increased 3% over a 12-month period, costing policy holders £150 on average.

Read more (requires Insurance Times subscription)

Zurich uses live chats to communicate with brokers (Insurance Business)

Zurich UK has been proactive in helping it brokers to use its live chat functionality. It has received positive feedback from its broker partners who have responded very favourably to the speed with which Zurich adjusted to the operational changes of the Pandemic. In the three months from April to June, the insurer completed over 9,200 digital live chat with brokers.

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Australian regulator warned of pandemic risk in 2006 (Insurance Business)

The Australian Prudential Regulation Authority (APRA) questions whether the COVID-19 pandemic was "impossible to predict". Having released guidance on pandemic preparedness as far back as 2006, it recognised the very real risk of an outbreak which could heavily disrupt BAU. APRA's 2006 document called the scenario 'unlikely' but urged financial institutions to be "as prepared as practically possible for a potential pandemic".

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Swiss Re sees positive outlook for renewals

Swiss Re has announced that its growth outlook for the re/insurance industry remains positive, despite COVID-19, as exposures and risk awareness continue to grow. It expects price increases across all segments to continue, driven by low interest rates, large claims and growing risks. While low interest rates have been affecting the industry's profitability since the global financial crisis, further rate cuts aimed at fighting the economic impact of COVID-19 will only exacerbate this.

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Admiral sends staff home following confirmed case of COVID (Insurance Business)
Admiral Group Plc's Llansamlet offices were closed on the 4th September after an employee had been diagnosed with COVID-19. The staff member is reportedly self-isolation and the site had to be deep-cleaned but reopened on 8th September

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COVID shows potential for damage from cyber-attack (S&P Global)
Munich Re Chief underwriter, Stefan Golling, has warned of the renewed dangers of cyberattacks during Coronavirus which can cause widespread business interruption' without physical damage. Cyberattacks have increased sharply since the start of lockdown with ransomware attacks up 150%. Despite this, the ambiguity of policy wording has left many businesses exposed highlighting a 'significant protection gap' for non-damage business interruption.

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SCOR very positive on hardening P&C market as it absorbs COVID-19 impacts (Reinsurance News)
Global reinsurer SCOR sees current P&C market conditions as very positive and is anticipating growth with solid pricing dynamics, as the company absorbs the impacts of the COVID-19 pandemic. In the Life side of the business, SCOR has revealed that claims are emerging better than expected on the U.S. reinsured portfolio, with €85 million paid as of 31st August, which translates to an actual over expected claims ratio of 62%. On the P&C, the reinsurer notes that claims from COVID-19 are developing as expected, with €3 million in claims paid as of 28th August.

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Munich Re endorses state-backed pools for pandemic risk (Reinsurance News)
Munich Re has argued that pandemic risks are too great to be insured by the private sector alone and has therefore endorsed the use of state-backed risk pools to mitigate their impact. The simultaneous effect of the virus on economic sectors across the world has created significant pressure on the private insurance sector. COVID-19 has highlighted just how vulnerable the world is to large risks and new methods of prevention will be needed to ensure resilience in the future.

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Etihad Airline offers COVID wellness insurance
Etihad Airways, the Abu Dhabi-based airline which services the UK among other regions, has announced that it will provide COVID-19 insurance to its passengers. Coverage will be provided automatically with every ticket purchased and includes medical and quarantine costs for passengers who contract the virus after taking an Etihad flight.

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