Market Intelligence
by Oxbow Partners

COVID-19 insurance update – 9 October

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.

09 October 2020

Summary

- FCA test case appeal – here's what you need to know (Insurance Business)
- UK economic growth slows despite restaurant boost (BBC)
- Moody's warns of ratings downgrades for life re/insurers (Reinsurance News)
- Fitch employee survey suggests long-term behavioural change from COVID
- Credit hire costs increasing due to COVID (Insurance Times)
- Insurance brokers can be sued for denied BI claims (Asia Insurance Review)
- Pandemics are 'uninsurable risks' for the industry (Asia Insurance Review)
- 21% of UK Workers Feel More Vulnerable to Cybercrime During COVID-19 (Info Security)

Analysis

Tiers for Fears

Do you know the rules where you live? A question that would not have made any sense pre-2020. As the government struggles with the demands of limiting transmission of the virus whilst also trying to keep businesses open, more individuals and businesses are feeling the localised impacts of rules on socialising both inside and outside the home. With schools and most workplaces remaining open, we would not expect the same level of reduction in traffic levels, though the return / continuation of working from home will continue to limit commuter traffic during this second wave. The more difficult question is around SME insurance for the hospitality industry. Just as many firms have reopened, there is the threat of additional forced closures. Indeed, it has already been announced in Scotland. Will this spark another wave of business interruption claims and will the industry pay out? As we have already seen this year, much will depend on the policy wordings. At least this time there is likely to be less debate over the localised nature of the impact.

The Oxbow Partners View

While it feels a bit like the country is regressing back to the lockdown of March and April, there are signs of recovery. It is just going to take a long time to get back to a situation that can be classed as 'normal'. There are likely to be lasting changes to society from COVID, with Fitch the latest to come out with views on what working might look like post-COVID. The difficulty for insurers is that so many unknowns still remain. Those with agile and flexible operations are likely to be best placed to move forward once we get through this. Stay safe out there.

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FCA test case appeal – here's what you need to know (Insurance Business)

As expected, on Friday 2nd the FCA test case appeal resulted in several parties being granted leapfrog certificates which will allow then to apply directly to the Supreme Court for permission to appeal. Apart from the FCA itself, Hiscox Action Group, Arch, Argenta Syndicate Management, MS Amlin, Hiscox, QBE and RSA were all granted permission. On the reverse of this, Ecclesiastical and Zurich, both touted as 'winners' in the test case outcome, have been the first to the break ranks and elected not to get involved in the fast-tracked appeals process. Meanwhile QIC, which is being challenged by the QIC Action Group, did apply for the right to appeal to the court but had its application denied.

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UK economic growth slows despite restaurant boost (BBC)

The UK economy continued its recovery in August, growing by 2.1%, as the Eat Out to Help Out scheme boosted restaurants. However, this figure is below expectations and the economy remains 9.2% smaller than before Coronavirus. Despite August representing the fourth month of consecutive expansion since the downturn began, this has been at a lower rate than both June and July. Although the UK is no longer technically in recession, these figures do not bode well for the rest of the year as August had comparatively few government restrictions and the Eat Out to Help Out and furlough schemes have now either ended or are winding down.

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Moody's warns of ratings downgrades for life re/insurers (Reinsurance News)

Ratings agency Moody's has warned that US life re/insurers face potential ratings downgrades in light of pandemic-related exposures to their fixed income investment portfolios. Moody's noted that the virus has particularly hit consumer sensitive areas and severely impacted the supply of quality investments available. While diversification may go some way to mitigating the risk of higher downgrades and defaults, no amount of diversification will combat the wide-ranging effects of COVID-19 on investments. Moreover, for US life insurers ratings transition risk is amplified by their tally of over $131 billion of total corporate bonds in oil & gas, which saw a surge in ratings downgrades during the first half of 2020.

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Fitch employee survey suggests long-term behavioural change from COVID

Fitch has conducted a survey of its global workforce to gauge opinions on some of the questions arising from the pandemic including short and long-term behavioural changes. The survey had over 1,000 anonymous responses. There was a general consensus around the desire to keep some aspects of home-working post the pandemic with nearly three quarters of the respondents believing that (for those who can work from home), working patterns will be structurally changed with most staff working from home 2-3 days a week even once a medical solution to the virus has been found. Interestingly, on the issue of living patterns 61% of respondents believe that there will be a material shift in living away from urban centres with those based in London and New York more likely to expect this trend than those is smaller office locations. The shift to more permanent work-from-home arrangements will impact the risk profiles of customers, but it is important for insurers to know their customers as a large part of the population will not have the option of working from home.

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Credit hire costs increasing due to COVID (Insurance Times)

Credit hire costs have been a cause for concern for motor insurers for some time now and have been exacerbated by the pandemic. Additional deep cleaning costs are being charged in order to disinfect the vehicles between hire periods, these are on top of the normal cleaning of the vehicles that would have taken place pre-Covid. Ian Davies, partner and head of motor law at Kennedys, told Insurance Times that the additional charge for COVID cleaning could be £50 per vehicle. There is also evidence of longer hire periods due to quarantining, increasing the cost of car hire costs for insurers even further.

Read more (requires Insurance Times subscription)

Insurance brokers can be sued for denied BI claims (Asia Insurance Review)

While high profile court cases continue to rage between insurers and policy holders, lawyers and specialists from S&P's Global Market Intelligence report have suggested that policyholders and their representatives may scramble to make accusations of negligence stick. As such, insurance brokers can expect to be sued if their clients' claims are denied. Manchester Underwriting Management CEO Charles Manchester -who's agency sells indemnity insurance to UK brokers- agreed with this assessment stating that, "there may well be mass claims against brokers and they may well go through the court system." This creates concern for both brokers and those indemnifying them; however, many are unconvinced that policyholders will have a good enough legal case to prove brokers breached their duties.

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Pandemics are 'uninsurable risks' for the industry (Asia Insurance Review)

Swiss Re's head of Middle East and Africa, Beat Strebel, has reportedly told *The Africa Report* that the reinsurer has 'no appetite' to insure or reinsure against pandemics in the future. Strebel stated that "We can't do it alone," but reaffirmed that the pandemic would not alter Swiss Re's long-term strategy, especially in Africa which has the largest protection gap in the world. In terms of pandemic cover this represents the latest in a long line of high profile calls for the creation of a public-private solution to pandemic cover modelled on existing examples such as Pool Re and Flood Re.

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21% of UK Workers Feel More Vulnerable to Cybercrime During COVID-19 (Info Security)

According to a new study by PwC, more than one in five UK workers feel more vulnerable to cybercrime since the start of the COVID-19 pandemic. This comes after lockdown has seen a spike in cyber-attacks including phishing and malware highlighting many firms' digital vulnerabilities while employees are working from home. In terms of insurance, these figures demonstrate both a growing area of risk but also one of potential opportunity as the demand for personal and commercial cyber insurance increases.

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