Market Intelligence
by Oxbow Partners

COVID-19 insurance update – 16 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.

16 October 2020

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Analysis

Return of the Macro

This week we have seen an increase in concerns around the wider macro environment. Interest rates are already at historic lows but could fall into negative territory if the economy doesn't show signs of recovering from the pandemic-induced recession. Negative interest rates will add further complexity to the industry capital positions and the PRA has reached out to firms to ensure they are ready. As we enter various local levels of lockdown the industry is continuing to review and edit the wordings of policies to ensure that there is neither unintended coverage nor unclear wording that could lead to confusion. Lloyd's has published a new report highlighting the need for even complex policies to be written in clear and understandable language to help customers understand exactly what is and is not covered.

The Oxbow Partners View

Local rules are the current new normal and as we enter the second wave of the virus, insurers may see a "postcode lottery" of car usage. Those with high geographic customer concentrations could see a return to lockdown claims levels. Though this assumes the public abide by the rules. Stay safe out there.

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Lloyd's sets out recommendations for building simpler products

Lloyd's of London has published a new report looking into the ways in which the industry can build insurance products in a clear and simple way for customers. The pandemic has brought into focus the fact that many customers do not fully understand the coverage that they have purchased leading to animosity between the insurer and customers at the point of claim. The report sets out three recommendations that the industry should implement:

1. Leverage and build on the application of existing leading practice, including a linguistics review of customer documentation - for both simple and more complex products.
2. Invest in continuous product design and delivery innovations, including data-led policies and digital contracts, as well as exploring more radical options like parametric or outcome-based insurance.
3. Involve customers directly in product design to build simpler, more relevant products for their changing needs and post-pandemic risk profiles.

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BoE reaches out to insurers over possibility of negative interest rates (Reinsurance News)

The Bank of England has reached out to all Prudential Regulation Authority-regulated insurers in an effort to understand firms' operational readiness for the possibility of zero to negative interest rates. This move comes after interest rates were cut to a historic low of just 0.1% in March during the initial COVID-19 lockdown. With slower GDP growth than expected in August and the new tiered lockdown system the UK's economy remains weak. Although no final decision has been made, the Bank of England is certainly considering the prospect of negative interest rates which will have complex consequences for both businesses and individuals alike.

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Inflation bad for non-life, good for life: Berenberg (Reinsurance News)

While examining the impact of inflation rates on the profit margins in life and non-life insurance, analysts from Berenburg Bank have found that deflation is a risk for life insurers and a positive for non-life insurers. Low interest rates are set to continue the transition of life insurers to more capital light products and Berenberg forecasts benign inflation rates in Europe and the US over the next two to three years. Conversely, high interest rates pose a credible risk for non-life insurers as claims are mainly set in real terms. This means areas such as liability claims and ensuing medical costs -which are paid years after the policy premium is received- are compounded by high inflation.

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COVID wordings gap could hurt some insurers: AM Best (Reinsurance News)

AM Best has warned that primary insurers could still be hit by gaps in policy wording around the COVID-19 pandemic, despite efforts to exclude coverage. While reinsurers have been able to tighten their policy wordings more easily, primary insurers have been driven by legislative timetables due to court cases over the COVID-19 business interruption debate. This could leave insurers with larger losses than anticipated which their reinsurance does not cover.

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Hospitality group looks to expand membership ahead of BI test case appeals (Insurance Age)

Following the recent business interruption High Court hearing (2nd October) which granted eight insurers and action groups permission to leapfrog appeals to the Supreme Court, the Hospitality Insurance Group Action (HIGA) has issued a fresh call for more members including those outside the hospitality sector. The group stated that it has expanded its membership to include businesses that have either the Marsh Resilience policy wording or the QBE1 25mile disease clause policy wording. According to the High Court judgement handed down on 15th September, which broadly favoured policyholders, both these policy wordings should result in pay-outs.

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Survey claims FCA business interruption case reduced trust in insurance (Insurance Business)

According to the latest survey by the Chartered Insurance Institute (CII), two-thirds of insurance professionals believe that the FCA's business interruption case has reduced trust in the industry. Of a survey of 142 CII members 29% felt it had definitely reduced trust in the industry while 39% believed it had somewhat reduced public faith that insurers would pay claims when needed. In response the CII is calling for product governance processes, including greater clarity on policy wordings and defining the scope of government intervention in systematic risks such as pandemics.

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FCA proposes additional measures to help insurance policyholders (Insurance Business)

The Financial Conduct Authority (FCA) has today proposed a range of additional measures that firms should implement from 31st October to help insurance customers who may be facing financial difficulty due to the COVID-19 pandemic. This follows the FCA's temporary measures put in place in May 2020. The new measures are set to include:

- The reassessment of a consumer's risk profile to examine whether they could be offered reduced monthly payments.
- The consideration of whether other products might better meet a consumer's needs.
- The provision of help to prevent the cancellation of necessary cover.

The FCA reiterated that firms should make all available options clear to their consumers in all their communications and should encourage consumers to make contact if they are experiencing financial difficulties. The new guidance will be open for comment until 5pm on Tuesday, 20th October.

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Big Four' reinsurers faring well through COVID; keeping strong capital adequacy (Insurance Business)

Based the half year results of the "Big Four" -Swiss Re, Munich Re, Hanover Re and SCOR- European reinsurers have generally maintained strong capital adequacy through the pandemic with solvency ratios above 200% and well within pre-established target ranges. However, according to director of Insurance at Fitch, all four have suffered to varying degrees in terms of a reduction in return on equity, 2.7%-2.8% on average. This is also compounded by the varying exposures of each reinsurer to COVID-19 claims, especially in areas such as mortality. Swiss Re and SCOR, who have a large US market shares, have been hit most while Munich Re and Hannover Re saw comparatively lower mortality claims in H1. Overall, the "Big Four" have fared well through the first half of the year with no major reserve releases seen and three out of the four expanding their portfolios.

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Insurers extend COVID support for policyholders (ABI)

Members of the ABI have extended measures to support policyholders who are working from home during the pandemic as well as those who need to drive to work rather than getting public transport. Those required to work from home due to the pandemic do not need to inform their insurer. Equally those using their cars for volunteering purposes will not impact their coverage. The pledges from the insurance industry have been extended to the end of 2020 and will be reviewed again in December. The ABI does note, however, that customers that have longer-term changes to their insurance coverage requirements should discuss these with their insurer at renewal.

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Covid-19 and Vulnerable Customers: Pandemic brings FCA Guidance into Sharper Focus (ABI)

As Covid-19 continues to evolve in unprecedented ways, it is clear that protecting vulnerable customers will continue to be a key focus for the FCA. With the FCA publishing its *first guidance consultation* in July 2019 few would have imagined that a global pandemic was just around the corner with such devastating consequences for consumers. In response to the FCA's second vulnerable customers consultation (GC20/3) published in July 2020, the ABI has announced that its Annual Conference 2021 Conduct breakout session will focus on vulnerable customers. This will consider the potential impact of the FCA Guidance on vulnerable customers and how regulatory and consumer expectations of the industry have changed as a result of the current crisis.

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The Digital Transformation Reckoning Caused By COVID-19 (Info Security)

With many companies in the first half of the year executing "emergency digital transformations" to allow employees to work from home, there is now concern that firms may experience an impending security and compliance crisis due to such rapid transformations. According to study in May, 40% of respondents are fast-tracking their move to the cloud due to COVID-19; however, while these moves allowed companies to continue operating it has left them more vulnerable as security checks took a back seat to expediency. With cyber-criminals now targeting remote workers, Info Security highlights three areas of vulnerability and what can be done about them:

1. **Excessive access privileges** – Many IT teams hurriedly deployed broad access privileges to remote employees to get them up and running from home as quickly as possible. Companies should consider adopting a least-privileged-access strategy, which gives employees only the access they need to fulfil their job responsibilities
2. **Cloud misconfigurations** – To see if misconfigurations exist within your environment as a result of rushed digital transformation projects, consider using scanning tools
3. **Manual Processes** – The dynamic nature of the cloud makes it extremely difficult, if not impossible, to manage security manually. Evaluate your security processes to identify areas where you may be able to implement automation

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EU extends leniency towards COVID-19 support deep into 2021 (Reuters)

The European Commission announced on Tuesday that it would extend its flexible approach towards state aid and recapitalisation deep into 2021 in a bid to support companies struggling due to coronavirus restrictions. Since 19th March five types of aid have been allowed - direct grants of up to €800,000, guarantees for loans, subsidised public loans, safeguards for banks and short-term export credit insurance. This will now be extended by six months to 30th June 2021 and recapitalisation measures will extend to 30th September 2021. Also announced on Tuesday, countries will now be allowed to contribute fixed cost of up to €3 million to companies facing a year-on-year decline in turnover of at least 30%.

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