Market Intelligence
by Oxbow Partners

COVID-19 insurance update – 23 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.

23 October 2020

Summary

- Insurers drop appeal against UK COVID-19 pay-out ruling on three policies (Reuters)
- Swathe of UK hospitality firms see risk of insolvency (Reuters)
- AXA XL confirms market withdrawal (Insurance Business)
- Car insurance premiums revealed – COVID-19 impact continues (Insurance Business)
- Munich Re adds €800mn of COVID-19-related losses in Q3 (Reinsurance News)
- COVID-19 to drive near term D&O losses (Reinsurance News)
- Crystal Ski offers customers additional Covid cover from AXA
- Ecclesiastical finds brokers are not using social media to talk to clients (Insurance Times)
- Half of financial services staff want to shift to flexible working (City AM)

Analysis

Hospitals and Hospitality

The incessant rise of cases continues with more and more of the country entering differing levels of local lockdown. As the government attempts to stop the hospitals being overrun over the winter months the hospitality industry is being hit hard with more than a third of firms at risk of going bust (ONS survey). Even in areas of England in Tier 2, the picture is not good. Pubs and restaurants allowed to stay open but where customers are not allowed to meet with anyone outside their household are arguably in a worse position than those in Tier 3 who have been forced to close. It is going to be some time before we return to normality and it may be that many of the bars and restaurants will not be there any longer when we do. Insurers with exposure to the hospitality industry are likely to be hit both with claims in the near term and reduced market premiums in future.

The Oxbow Partners View

Home, office or home and office? That has been the question for many individuals and businesses over the last few months. Two surveys this week suggest there could be a need for compromise once we are post-pandemic as a large number of people (half of financial services staff) would like to continue working flexibly even when it is safe to return to the office full time. At the same time, the majority of firms have no plans to make home working permanent. The outcome could affect many aspects of insurance provision and product design but when and how this crystalises is still up in the air. Stay safe out there.

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Insurers drop appeal against UK COVID-19 pay-out ruling on three policies (Reuters)

In the latest development of the FCA's business interruption test case saga, six insurers have decided not to appeal against some of the aspects of the High Court ruling. RSA, QBE, Hiscox, MS Amlin, Argenta and Arch were all expected to appeal the decision after being granted permission to leapfrog their appeals to the supreme court, however all have now accepted the ruling for some of the policy wordings to which the ruling applied. A spokesman for RSA, which came unstuck over its RSA4/Resilience wording, said it would now work with broker Marsh to make interim payments where appropriate. The news has been welcomed by the Hospitality Insurance Group Action (HIGA) and their legal representation Mishcon. However, Mischon has warned that while this is a step in the right direction, insurers may still not be forthcoming with payments given their approach to policyholders' claims so far.

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Swathe of UK hospitality firms see risk of insolvency (Reuters)

More than a third of British hospitality companies are at risk of going bust, according to a survey on Thursday that suggested more support will be needed for businesses amid a resurgence of the COVID-19 pandemic. Data from the ONS has revealed that 17% of food and accommodation businesses reported a "severe" risk of insolvency, while a further 21% said the risk was "moderate". The data also showed 29% of manufacturers reported at least a moderate risk of insolvency. This comes after the Chancellor, Rishi Sunak, announced a new support package for businesses hit by Tier 2 rules on Thursday. British companies have borrowed more than £60 billion through government-backed COVID-19 financial support programmes as of the start of this week.

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AXA XL confirms market withdrawal (Insurance Business)

As COVID-19 has led many insurers to rethink their strategy in the face of hardening market, AXA XL has confirmed that it will be withdrawing from the management liability and financial institutions business in the London market. In a statement AXA XL cited claims levels, pricing and profitability as their main reasons to cease underwriting management liability (ML) and financial institutions (FI) business. This comes after Marsh revealed that the average increase in directors' and officers' (D&O) insurance premiums for FTSE 350 companies in Q2 2020 was nearly 200%. This was caused by insurers becoming increasingly concerned not just with historic sources of D&O claims, but also with new exposures that may result from COVID-19.

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Car insurance premiums revealed – COVID-19 impact continues (Insurance Business)

In one of the few positive impacts from COVID for motorists, average car premiums have fallen in Q3. According to the latest Confused.com Car Insurance Price Index, issued in association with Willis Towers Watson, drivers are now paying an average of £50 less than they were at the start of the year. Prices in Q3 stood at an average of £765, down 1% over the previous quarter and down from £815 in the fourth quarter of 2019. Scotland saw the largest fall while London premiums actually increased against the wider trend. This reflects the relatively positive experience of motor insurers during the year to date; however, with the introduction of further government restrictions and the FCA's pricing review there still remains great uncertainty around premium levels.

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Munich Re adds €800mn of COVID-19-related losses in Q3 (Reinsurance News)

Global reinsurer Munich Re has added a further €800 million of COVID-19-related losses in its reinsurance operation in Q3 2020; this brings its total for the first nine months of the year to €2.3 billion. At the same time, Munich Re has warned that high losses from natural catastrophes, most notably severe hurricanes and wildfires in the U.S., as well as man-made losses, including the Beirut port explosion, resulted in the firm experiencing an above-average claims burden from major losses not related to the pandemic for a single quarter. Despite these impacts, Munich Re is still expected to post quarterly profit of around €200 million though this does represent a significant decline from the €865 million profit reported in Q3 2019.

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COVID-19 to drive near term D&O losses (Reinsurance News)

Analysts from Fitch ratings agency expect underwriting losses to continue over the near term for the US directors & officers (D&O) liability insurance. It's estimated that the D&O segment has reported statutory underwriting losses for three consecutive years from 2017 through 2019, including a 106.6% direct combined ratio in 2019. COVID-19 claims, such as those against organizations that failed to protect employees or customers from exposure to the virus, have added to these woes but will likely take several years to full pay out

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Crystal Ski offers customers additional Covid cover from AXA

Ski holiday operator Crystal Ski (part of Tui) is offering customers a package of additional travel cover as standard to cover some of the risks related to Covid-19. Customers are covered under a group travel insurance policy that Tui has with AXA UK. Customers are automatically covered for overseas medical assistance is contracting Covid-19 including testing costs and repatriation to a hospital at home if needed. The cover also extends to providing additional accommodation and flights home if you are required to quarantine while away and free amendments if you fall ill before your trip. As the winter holiday season kicks off, we expect that these group policies with the holiday provider rather than individual customer policies may become the norm in the new world.

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Ecclesiastical finds brokers are not using social media to talk to clients (Insurance Times)

A survey of 200 brokers by Ecclesiastical has found that 79% have not used social media to talk to clients during lockdown, potentially missing an opportunity to connect with new and existing customers. The survey found most brokers relying on telephone (93%) and email (80%) as a method of communicating with clients with only 29% using video conferencing facilities to talk face-to-face virtually with clients. Ecclesiastical has produced guidance for brokers on how and when to use social media effectively.

Read more (requires Insurance Times subscription)

Half of financial services staff want to shift to flexible working (City AM)

A survey by KPMG and the Financial Services Skill Commission has found that 78% of financial services staff have been able to work effectively from home during the pandemic. Half of those surveyed said that they would like to continue to work from home at least part of the time once the world returns to normal. The question is whether they will be allowed to. In a survey of businesses by the ONS 67% of British firms do not intend to keep home working as a permanent business model. These are changing times and it could be a very different working environment for many in the post-pandemic world.

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