Market Intelligence
by Oxbow Partners

COVID-19 insurance update – 6 November

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.

06 November 2020

Summary

- FCA test case appeal date set
- FCA reminds insurers to review the value of products in light of coronavirus
- It would take P&C insurers 150 years to pay Covid BI losses if fully insured (Insurance Journal)
- Lloyd's of London moves to one-day opening during the latest lockdown (Insurance Business)
- Personal injury sector 'laying down arms' amid Covid crisis (Insurance Times)
- RSA reduces estimate for Covid claims
- Allianz cancels share buyback plans due to Covid
- Hiscox could see $30m- $40m further event cancellation claims in 2021
- Hannover Re adds €197m to Covid reserves in Q3

Analysis

No fireworks so far in Q3 results

With several global and UK insurers releasing Q3 results or trading updates this week we have been given some insight into how Covid claims have been developing versus initial estimates. For the most part, things seem to be going as planned with little uplift in Covid claims across the board. One area of concern is around event cancellation, with both Beazley and Hiscox highlighting the potential for further claims if things don't return to normal in 2021. Given the extension of the furlough scheme to the end of March, it feels like we may not be back to mass gatherings and other events for some time yet. This week has also seen the start of the second national lockdown in England which could produce another swathe of business interruption claims, though in several cases these are likely to be borne by the reinsurers rather than primary players as many have already reached their maximum retention levels.

The Oxbow Partners View

With the President of the US starting legal battles over counting votes, the biggest legal battle in UK insurance history (probably) is getting close to a final conclusion. The Supreme Court will hear the appeals on 16 November for those that are continuing to argue their cases. Hopefully this will be the final chapter and will bring resolution to both insurers and policyholders alike. Stay safe out there.

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FCA test case appeal date set

In the latest update to the FCA test case a date has been set for the Supreme Court to hear the appeals of the FCA and a number of the insurers that took part in the initial case. The Supreme Court will hear the case on the 16 November and the hearing is expected to last for four days. As RSA has confirmed that it will not be appealing the judgement on the RSA4 wording, Hospitality Insurance Group Action will not be seeking to intervene in the appeals process. The FCA has also published a number of documents to help policyholders, including a table detailing the appeal status of each policy type from the original judgement.

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FCA reminds insurers to review the value of products in light of coronavirus

The FCA has reminded insurance firms of the guidance released on 3 June 2020 regarding the need to review the value provided by their products given the impact of Covid-19 on customers' situations. The FCA highlighted that reviews should be completed by 3 December and firms are expected to provide alternative benefits, reduce premiums or partially refund premiums if they find that the changed circumstances mean that the products no longer provide value to customers.

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It would take P&C insurers 150 years to pay Covid BI losses if fully insured (Insurance Journal)

An investigation into the insurability of pandemic risk by the Geneva Association has found that business interruption claims due to Covid-19 (and future similar pandemics) are essentially uninsurable. The report highlights that global business interruption premiums are around $30bn, a fraction of the estimated $4.5trn of global output lost due to Covid. The actions of governments around the world to shut down the economy in order to slow the spread of the virus was not anticipated in pandemic insurance planning and is the major reason why pandemic risks are impossible for private insurers to cover alone.

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Lloyd's of London moves to one-day opening during the latest lockdown (Insurance Business)

Having reopened the underwriting room in September, Lloyd's of London has taken the decision to limit opening hours to Wednesdays only during the latest lockdown period. In order to maintain some face-to-face access during the crucial run up to the 1/1 renewals the business is remaining partially open.

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Personal injury sector 'laying down arms' amid Covid crisis (Insurance Times)

LV= claims director Martin Milliner has described greater collaboration within the personal injury sector during Covid. Mr Milliner has seen claimant lawyers and insurers sticking to protocols around not suing each other during lockdown which has been a pleasant change to the normal situation. As part of a motor claims panel at the ABI's virtual motor conference, it was reported that claims volumes have been increasing in Q3 after the 50% drop during the first lockdown in Q2 but are still 20-25% lower than normal volumes.

Read more (requires Insurance Times subscription)

RSA reduces estimate for Covid claims

RSA has updated on the status of the UK business interruption test case with confirmation that the appeal will go to the supreme court and a judgement is expected later this year. On a gross basis, RSA has reduced the estimate of losses on BI claims by £20m however the benefit of this will likely go to the reinsurers and not impact RSA's net estimate of £62m. So far there has been no material increase in claims activity from the second wave. The UK business has continued to see a reduction in premiums with a 6% drop in premium YTD, though this reduces to 2% when Covid impacts are removed. It is not entirely clear how the Covid impacts have been calculated but it is likely that much relates to the £156m of premium reliefs during the year so far. Despite the overall fall in premiums, the attritional loss ratio has improved, in part due to the ongoing reduction in (non-Covid) claims frequency which RSA reports as 8-36% lower than in 2019.

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Allianz cancels share buyback plans due to Covid

As part of its Q3 results release, Allianz has officially cancelled the remainder of its previously planned share buyback in 2020. Before the buyback had been postponed due to Covid, there was €750m of the program outstanding. This will no longer take place. The insurer has also confirmed €1.3bn of Covid claims in its global business for the first nine months of 2020, an increase of €100m in Q3. All of the increase in Q3 comes in the P&C business which now has reported Covid claims of €0.9bn.

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Hiscox could see $30m- $40m further event cancellation claims in 2021

Hiscox updated the market in its Q3 trading statement this week. There has been no change to the expectation of claims related to Covid which stand at $387m net of reinsurance. This includes $25m for event cancellation based on the assumption that current restrictions on travel and mass gathering continue to the end of 2020. If these were to continue into 2021 the business could be exposed to a further $30m-$40m of event cancellation claims. Hiscox has also commented on the potential for further business interruption claims due to the new lockdown measures. Hiscox's exposure has been running off at around 8% per month and will be fully run off by June 2021. Further claims in 2020 would be covered by reinsurance.

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Hannover Re adds €197m to Covid reserves in Q3

Hannover Re has increased its estimates for Covid losses in both the P&C and Life & Health businesses in Q3. In P&C the group has increased reserves by €100m, with total reserves for Covid losses now reaching €700m. In Life & Health loss estimates have increased €97m to €160m, mainly relating to life insurance policies in the US. Despite the Covid impacts in 2020, the group expects an uplift in earnings in 2021 with a range of €1.15bn-€1.25bn expected (2020e: €800m) in part due to significant premium increases driven by higher prices in many markets.

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