Market Intelligence
by Oxbow Partners

COVID-19 insurance update – 20 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.

20 November 2020

Summary

- FCA test case latest: Appeal hearing completed – ruling to be announced as soon as possible
- Insurers argue that paying out BI claims would be 'reverse engineering' (Reuters)
- Pandemic is insurable, government actions are not: Prospectus 2021 (Reinsurance News)
- Brokers under fire for Covid preparation (Insurance Business)
- QBE: One in four employees are hiding mental health challenges from their employers (Insurance Business)
- Clarity of coverage is critical at January renewals (Guy Carpenter)
- Lloyd's expects Covid losses to be higher than $107bn (Insurance Times)
- Vaccine could accelerate the return to the office (City AM)

Analysis

Life is a rollercoaster

There have been so many ups and downs for most people this year and the last week has been no different. We have heard of a second vaccine that could be even better than the first, and improved results in over 65s from the Pfizer vaccine. An end could be in sight. But we are not there yet and there are still going to be a number of hard months ahead for everyone to get through the winter. Businesses of all types are having to adjust to the constantly changing rules on an almost daily basis which will also have a knock-on impact on insurers. This week we have seen a further circuit breaker (Short Circuit 2?) announced in Northern Ireland, before the first breaker has finished. In Scotland, travel restrictions are being brought in tonight at 6pm. Insurers will need to continue to do all they can to support customers through these changes but cannot 'reverse engineer' coverage where it hasn't been taken out.

The Oxbow Partners View

Much of the news this week has been about whether there will be a relaxation of Covid restrictions over Christmas. Not wanting to play the role of Scrooge but if the UK governments can all agree on relaxing restrictions over the Christmas period insurers need to be braced for an uptick in claims. Cold, dark, wet, nights and a little Christmas merriment is a recipe for higher motor claims in a normal year, let alone one where everyone has spent a large part of the year in some form of lockdown. Stay safe out there.

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FCA test case latest: Appeal hearing completed – ruling to be announced as soon as possible

After being granted a 'leapfrog' appeal to the Supreme Court, the FCA and the appealing insurers have had another few days in court this week. The hearing lasted from Monday to Thursday. The FCA is posting transcripts of each day of the hearing on its website and for those who missed the action live can re-watch the video on the Supreme Court website at https://www.supremecourt.uk/cases/uksc-2020-0177.html. The Supreme Court Justices recognise the need for an early judgement for all those affected but could not say whether this will be before Christmas or in January 2021. The FCA will publish any updates to the timing of the judgement on its website.

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Insurers argue that paying out BI claims would be 'reverse engineering' (Reuters)

Reuters reported this week on the Supreme Court business interruption appeal and the arguments of some of the insurers involved in the case. Gavin Kealey, representing MS Amlin, stated that if insureds had wanted pandemic cover, they could have bought it. To say that the local cover they actually bought covers them for a national pandemic is reverse engineering and simply cannot be done.

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Pandemic is insurable, government actions are not: Prospectus 2021 (Reinsurance News)

During the opening panel session of the Prospectus 2021 online conference, panel members discussed the insurability of pandemics. David Flandro from Hyperion X Analytics described how the insurance industry is capable of insuring pandemic risks but not the government actions that have been taken to try and contain the spread. It is the losses driven by individual government actions that would require some kind of publicly funded backstop in order for pandemic business interruption and property damage products to work in the future.

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Brokers under fire for Covid preparation (Insurance Business)

Insurance governance specialist Mactavish has published research based on the reporting of FTSE 100 companies indicating flaws in their assessment of risk, specifically around pandemic risks. The report found that only 13 of the FTSE 100 included pandemic risks as material to their business in their annual reports published during 2019. This increased to 82 out of 88 companies that had published reports in 2020. However, one company, as late as March 2020, made no reference to the pandemic in its report but was forced to follow up in April stating that the pandemic would impact previous guidance. Mactavish are of the view that insurance brokers and other advisers are to blame for not sufficiently highlighting the potential risk from pandemics given the recent high-profile examples such as SARs.

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QBE: One in four employees are hiding mental health challenges from their employers (Insurance Business)

Research conducted by QBE has found that one in four UK employees has been hiding mental health challenges from their employers. Nearly one third of employees would not feel comfortable disclosing a mental health issue. The Covid-19 pandemic has been having a dramatic impact on mental health and employers need to be even more aware of the pressures their employees are facing and making an environment where they can come forward and talk to someone about it. QBE sets out four tips for benefitting employee wellness during the pandemic: Listen; Acknowledge that staff have varying circumstances; Communicate regularly; and Be flexible.

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Clarity of coverage is critical at January renewals (Guy Carpenter)

With the important January renewals coming up, the industry is seeing pressure from rising rates, economic uncertainty and disputes over Covid wordings. All of this is testing the relationships between insurers and their reinsurance partners. Greater clarity around coverage wordings is essential to the renewal process working smoothly and the industry are still some way off agreeing standardised exclusionary language, according to Guy Carpenter.

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Lloyd’s expects Covid losses to be higher than $107bn (Insurance Times)

In an interview with Reuters, Lloyd’s of London Chairman Bruce Carnegie-Brown has indicated that the market losses from Covid could be significantly higher than the last estimate from Lloyd’s of $107bn. Mr Carnegie-Brown suggested the losses would be closer to the impact of the Atlantic hurricanes in 2017 which cost the industry $144bn with firms facing claims from 16 different business lines. There has also been no engagement from the government on Lloyd’s proposal for a ‘black swan’ reinsurance scheme for future pandemics.

Read more (requires Insurance Times subscription)

Vaccine could accelerate the return to the office (City AM)

A survey of 700 UK employees by Publicis Sapient discovered that 47% of employees would feel more comfortable returning to the office if an effective vaccine were in place. Health concerns are the primary reason for employees not wanting to return to their offices with concerns over catching the virus in the office or on the commute. The majority of those surveyed would not like to return to the office full time, no matter whether there is a vaccine or not, however, with only 10% wanting a full return to the office environment. The hybrid model of flexible working is what most employees want but it is yet to be seen if the employers will be willing to deliver this post-pandemic.

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