Market Intelligence
by Oxbow Partners

COVID-19 insurance update – 27 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.

27 November 2020

Summary

- Aviva downgrades Covid-19 impact due to lower frequency in Q3
- Extent of decline in UK home insurance claims revealed (Insurance Business)
- Lloyd's and KPMG on one of the most valuable intangible assets (Insurance Business)
- Santam to appeal COVID-19 ruling (Insurance Business)
- Government can't continue as "insurer of last resort" (Reinsurance News)
- Broad optimism over second wave losses, reinsurers could take bigger hit (Reinsurance News)
- Reinsurers must brace for mounting Covid-19 disputes (The Insurer)
- Brokers need to become SME business partners to succeed post-COVID (Insurance Times)
- ECB warns of economic hit if pandemic-support is phased out (Reuters)
- Germany to double net borrowing for 2021 to fight COVID (Reuters)

Analysis

2020 likely to end in tiers

As England braces to come out of lockdown and into a new Tier system and Northern Ireland enters another lockdown it seems that the rest of 2020 is going to be a combination of tight restrictions with a brief release over Christmas. While it is frustrating for those looking to do Christmas shopping in person (why would you?) or meet up with friends over the festive period this is not a bad situation for the insurance industry. We have seen evidence of this from Aviva in its Q3 update this week. On the commercial business side, the majority of BI claims have either been agreed (and now passed on to Reinsurers) or successfully denied. In personal lines, the lower frequency recorded in Q3 is likely to continue into Q4 to make 2020 overall a very light year for motor and home claims. HelloSafe have estimated that home claims are likely to be 12% lower over the course of 2020. We would expect motor claims to be down even further.

The Oxbow Partners View

With the majority of any further business interruption losses likely to fall on the shoulders of the reinsurance industry rather than primary insurers, there could be more litigation on the cards around the definition of catastrophes and whether the various lockdowns are multiple separate events on one ongoing catastrophe. Whoever has to foot the bill, it at least seems that changes to policy wordings should reduce the cost of claims versus the first lockdown. Stay safe out there.

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Oxbow Partners is a specialist management consultancy for the insurance industry spanning strategy, operations, technology and M&A. Our Market Intelligence team provides data, analysis and tools to the management teams of global reinsurers and UK insurers in various formats to keep them be better informed and make superior strategic decisions.

Aviva downgrades Covid-19 impact due to lower frequency in Q3

At its Q3 results update Aviva downgraded its COVID-19 impact estimate from £165 million to £100 million owing to reduced claims frequency during Q3. Although the group maintained that trading impacts from the Q4 lockdown remain uncertain, it announced that it expects no significant increase in business interruption claims in Q4. CEO Amada Blanc also asserted that Aviva has not been forced to change its BI policy wordings as a result of the pandemic.

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Extent of decline in UK home insurance claims revealed (Insurance Business)

According to a study by the insurance comparison platform HelloSafe, home insurance claims across the UK are forecast to fall 12.4% for the entirety of 2020. This comes after significantly reduced claims as the UK population stayed at home during the March 23rd to May 31st coronavirus lockdown. London saw the biggest decrease in claims during the first lockdown (19.32%) with insurers expected to save £54.1 million in London pay-outs alone. Despite these savings, insurers have not yet made any moves to return this to policyholders as seen with the likes of Admiral's car insurance rebate.

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Lloyd's and KPMG on one of the most valuable intangible assets (Insurance Business)

A report by Lloyd's and KPMG has concluded that reputation is one of the most valuable intangible assets to global businesses. The report, entitled "Safeguarding reputation", found that brand and reputation account for 25.3% of the market capitalisation of the world's leading equity market indices. Lloyd's highlighted how resilience during the COVID-19 pandemic has been key to safeguarding reputation especially as exposure to reputational risks has increased. In response, KPMG and Lloyd's expect that new reputation-oriented products will become a staple in the next five years and measure more nuanced triggers tailored to specific industries and companies' needs.

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Santam to appeal COVID-19 ruling (Insurance Business)

South Africa's largest non-life insurer, Santam, has announced that it will be appealing a court decision after a ruling found it liable for a client's claim relating to a COVID-19 lockdown. On Tuesday Santam was judged to be liable for hotel company Ma-Afrika's business interruption claim which Santam has decided to appeal after discussions with its lead reinsurers. The appeal will delay payment of the claim until March/April 2021 at the earliest which Ma-Afrika said would do further harm to the South African hospitality industry. According to Reuters, Santam has already paid 1 billion rand in interim relief (around $65 million) which will be deducted from any further payments.

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Governments can't continue as "insurer of last resort" (Reinsurance News)

A survey conducted by the Chartered Insurance Institute of 476 members has found that 54% do not feel it is economically sustainable for the government to "step in as an insurer of last resort." The CII's Chief Membership Officer summed up findings that the government cannot have a 'zero failure' regime that prevents every business from closing. In response, the CII is urging insurance professionals and the government to reduce the need for legal proceedings similar to those seen during the FCA's business interruption test case. However, the CII did note that even if governments should not be the lender of last resort it can still offer a wider safety net than insurers can alone.

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Broad optimism over second wave losses, reinsurers could take bigger hit (Reinsurance News)

Barclays analysts have revealed they expect the second wave of COVID-19 to incur less cost for European insurers than was initially seen during the first half of 2020. Business interruption losses from second lockdowns in Europe are expected to be considerably smaller than those from the first half of 2020 especially due to new policy wordings excluding pandemic losses. However, analysts have highlighted uncertainty over how much of the gross claims from second lockdowns will be covered by reinsurers. This is due to many primary insurers having purchased and/or reinstated aggregate covers after the first lockdown, which would make extra net impact minimal in 2020.

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Reinsurers must brace for mounting Covid-19 disputes (The Insurer)

As the FCA test case for business interruption waits for the final ruling from the Supreme Court, DCThree Services' Damian Cleary has spoken to The Insurer about the growing disputes between insurers and their reinsurance partners. The wording of reinsurance policies will vary between contracts and close attention needs to be paid to exactly what the terms of the policy are. One key aspect is whether Covid-19 can be classified as a catastrophe in property cat/XOL covers.

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Brokers need to become SME business partners to succeed post Covid (Insurance Times)

Insurance Times hosted a webinar in association with Markel entitled "How commercial brokers can succeed and grow post pandemic". The expert panel on the webinar agreed that post-pandemic brokers need to become business partners to SMEs and offer more services than just insurance placement. Many small firms do not have the capacity to deal with a myriad of emerging risks and brokers are well placed to be able to of emerging risks such as how to shift their business model or furlough staff during the pandemic. Brokers are well placed to be trusted advisers around lots of areas of the business, not just insurance.

Read more (requires Insurance Times subscription)

ECB warns of economic hit if pandemic-support is phased out (Reuters)

The European Central Bank has warned of painful "cliff effects" if governments and regulators phase out the economic support they have provided to cushion the impact of the coronavirus pandemic. The ECB estimates the euro zone's five largest economies will lose between 2% and 4% of their GDP if these measures are allowed to expire at the end of 2021. Board member Fabio Panetta also warned that the ECB must keep borrowing costs low to enable governments to spend their way out of a pandemic-induced recession.

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Germany to double net borrowing for 2021 to fight COVID (Reuters)

Germany has today announced that it plans to almost double the borrowing it had planned for next year to finance emergency aid for businesses during the second wave of the COVID-19 pandemic. The parliamentary budget committee suspended the constitutional debt limit of 0.35% GDP and has agreed to a debt figure of almost €180 billion ($215 billion) making it the second largest net borrowing in Germany's post war history. This comes in light of expectations that the country's economy will shrink by a calendar-adjusted 5.9% in 2020 and rebound by 4.4% in 2021.

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