Market Intelligence
by Oxbow Partners

COVID-19 insurance update – 4th December

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.

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Summary

- P&C aggregate COVID-19 reserve disclosures rose by around $4bn during the most recent reporting period (The Insurer)
- Munich Re expects €2.8bn of profit in 2021, €1.2bn in 2020
- AXA expects hit to 2020 results (Insurance Business)
- Insurance markets resilient in the 'face of adversity' (Insurance Business)
- After a tough year, insurance sector has positive outlook (Insurance Business)
- Carrot believes telematics is reaching mainstream 'tipping point' (Insurance Times)
- Schemes premiums seeing huge increase due to pandemic (Insurance Times)
- Why COVID-19 has left the UK especially vulnerable to flooding this winter (The Conversation)

Analysis

Here come the vaccines

The UK is the first country to approve the use of a COVID-19 vaccine. A week to celebrate for certain but it may be wise wait before breaking out the champagne. It is still going to take some time for a vaccine roll out to take full effect. We have already heard from government spokespeople that the timeline has been extended from 'Easter' to 'Early Summer'. The reality seems to be that things will not be 'normal' for some time to come and travel and event insurers will continue to see losses in 2021 – Munich Re is planning for €600m of COVID losses next year. Along with the continued losses, Munich Re has highlighted a reduction in premiums in 2021. While this is the case in some areas, other parts of the market are seeing a pandemic-induced surge in demand. This week we have seen reports from the telematics industry, pet insurance, cyber cover and caravan insurance that changing customer demands are producing a spike in premiums in 2020. How much of this will continue once the vaccines have been rolled out remains unclear.

The Oxbow Partners View

As has been the case throughout this most turbulent year, the outlook for different parts of the industry are poles apart. With the prospect of only a few more months of uncertainty around the virus itself, the new normal is coming ever closer and we expect to see continued product development in the market to capitalise on any of the trends that prove to be longer term than the pandemic. 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.

P&C aggregate COVID-19 reserve disclosures rose by around $4bn during the most recent reporting period (The Insurer)

After recent company announcements P&C reserve disclosures now total around $21.5bn for COVID-19, significantly below the bottom end of forecasts for the overall industry bill. However, it is difficult to get a complete picture of the impact due to re/insurers reporting their COVID-19 losses in different ways. For instance, Lloyds has reserved £2.4 billion but there is likely be significant overlap between this and the reserves accounted for by company disclosures. Event cancellation reserving among European reinsurers was a major driver of reserving in the recent reporting period with Munich Re adding €700 million to its COVID-19 P&C reserves. However, BI and event cancellation impacts are expected to slow in coming quarters. Overall, the P&C cost of COVID-19 is still significantly below early market estimates which predicted total industry losses of between $50bn and $100bn.

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Munich Re expects €2.8bn of profit in 2021, €1.2bn in 2020

Despite expecting further COVID-19 related losses in 2021, Munich Re has announced profit guidance of €2.8bn for the year. This estimate takes account of lower premiums across the group due to the pandemic plus specific provisions for additional COVID claims in reinsurance (€500m) and ERGO (€100m). In addition to the 2021 guidance, the group has announced its expectations for 2020, with overall profit expected to be €1.2bn with a €200m profit in Q4. The results for 2020 are expected to have been impacted by €3.4bn of COVID losses.

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AXA expects hit to 2020 results (Insurance Business)

AXA announced on Tuesday that it expects to see a hit to its 2020 results due to the impact of COVID-19 but hopes its new strategy will help improve results in the future. AXA reportedly hopes to have underlying earnings per share at a compound annual growth rate of 3% to 7% between 2020 and 2023, as well as an underlying return on equity between 13% and 15% over the same period. Although AXA did not give detailed projections for its 2020 performance, it did project the growth of its health business by at least 5% between 2020 and 2023. The company also announced on Monday that it had agreed to sell insurance businesses in the Gulf region to Gulf Insurance Group for $269 million.

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Insurance markets resilient in the 'face of adversity' (Insurance Business)

According to the latest study from reinsurer Swiss Re, global insurance premiums are expected to grow by 3.4% in 2021 after contracting by around 1.4% in 2020. The Swiss Re institute also noted that global insurance markets had been more resilient than expected in the face of the economic shock from COVID-19 and premiums are now seeing "a V-shaped recovery." The Institute had anticipated a 2.8% drop in total premium volumes in 2020, but now estimates that global non-life premiums will grow by 1.1% this year and recover to an average annual 3.6% growth in 2021 and 2022 with volumes returning to pre-pandemic levels by the end of 2021. In terms of demand, China remains the fastest growing market worldwide with premiums up an estimated 10% annually and advanced markets have also fared better than expected over the first half of 2020.

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After a tough year, insurance sector has positive outlook (Insurance Business)

HX, the data and analytics division of Howden Group Holdings, has announced the release of its Q3 2020 insurance earnings. The update's key findings were that COVID-19 losses are increasing sector risk premiums, driving higher rates across most lines. Moreover, due to rising prices and increased volume, premiums have grown in every quarter in 2020 despite reduced economic growth expectations. Despite COVID-19 claims contributing $26 billion in catastrophe losses this has only somewhat elevated the total for 2020 which currently stands at $95 billion to date. HX also noted that reserving trends seen early in the year have eased as confidence grows and it is now likely that the peak of COVID-19 losses has been accounted for, enabling capital deployment for growth.

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Carrot believes telematics is reaching mainstream 'tipping point' (Insurance Times)

Norrie Erwin, MD of telematics business Carrot, believes that there has never been a brighter future for telematics and that the Covid-19 pandemic has focused the minds of insurers and customers. Telematics is now seen as more central to future strategy for many people in the industry as customers are increasingly considering work life balance the possibility of driving less miles and getting lower premiums because of it.

Read more (requires Insurance Times subscription)

Schemes premiums seeing huge increase due to pandemic (Insurance Times)

The Insurance Times Schemes index has highlighted significant increases in premiums across a number of policy types due to the heightened risk environment caused by COVID. Average premiums for event insurance have unsurprisingly increased, but the average premium increase from £92 up to £804 is even more dramatic than we might have thought. Other significant jumps in premiums have been seen in cyber liability (up to £1,026 from £407) and Excess of Loss Liability where premiums have more than doubled to £1,241. Cyber, Caravan, Pet and Mobile insurance have all seen 170% growth in demand across the schemes space as customers look to protect what they value most and take more staycations.

Read more (requires Insurance Times subscription)

Why COVID-19 has left the UK especially vulnerable to flooding this winter (The Conversation)

According to Gabrielle Powell of the University of Reading, the effects of the COVID-19 lockdown has increased the UK's risk of flooding this winter. Due to the lockdown measures, integral maintenance of many flood prevention measures has either been unable to take place or has been dialled down as many workers have been redeployed. To make matters worse, the UK is predicted to experience a wet winter making the risk of flooding all the more likely. With the floods costing each affected house an average of £30,000 this may be unwelcome news to insurers who cover these risks. Insurers may well see an uptick in flood claims this winter the handling of which will stretch well into 2021.

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