Market Intelligence
by Oxbow Partners

COVID-19 insurance update – 29 May

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.

29 May 2020

Summary

- ABI defends industry response in another open letter
- Aviva and QBE join list of firms facing legal action over BI claims (Insurance Times)
- QBE confirms exposure limit of $75m to UK BI claims
- AXA loses court case on BI claims in France (Insurance Journal)
- Aviva issues T2 debt to bolster capital position during COVID uncertainty
- SCOR cancels dividend and cuts CEO pay by 30%
- Hard market expected in reinsurance (Insurance Business)
- By Miles secures additional funding
- Insurers may not have a good case to decline BI claims (S&P Global)
- US insurers may face additional bad faith litigation (S&P Global)

Analysis

Will there be any fundamental shift in behaviour post-COVID?

We have had another week of movement on the BI claims debates with Aviva and QBE joining the list of insurers facing legal action and AXA losing a case in France. The end point in this saga still seems a way off unless both sides can come to a compromise that does not involve lengthy legal battles. Looking ahead, it is worth considering whether there will be any lasting changes in insurance post-COVID. This week we have seen By Miles secure additional funding and achieve great sales success with its pay-by-mile motor insurance. The question is whether this is just a knee-jerk reaction to lockdown or a fundamental shift towards more usage-based insurance. We expect it to remain a niche market once miles driven return to pre-COVID levels, but providers may convince customers of other benefits during the lockdown 'test period'

The Oxbow Partners View

As we all come to terms with the new *status quo* brought about by COVID-19, our attention turns to what the world could look like in the months and years to come. Although this remains unclear, a complete return to the 'old normal' will be impossible: there are significant lessons to be learned from the most expensive event in the history of insurance. We share the views captured in a recent FT article on how the industry could manage the risk of future pandemics, but insurers will need to go further than just protecting their balance sheets. Companies must stay agile and continue to innovate during this crisis to ensure they remain relevant to their customers. The rapid pace of change is set to continue, and the winners will be those able to adapt their business model quickly. Stay safe out there.

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ABI defends industry response in another open letter

The ABI has responded to another open letter criticising the insurance industry's response to SME BI claims arising from the Coronavirus pandemic. The original open letter from James Ollerenshaw, Founder of the COVID Claims Group, accused insurers of failing customers at their moment of need, treating SMEs differently from other customers and that the ABI had hardened its position since the start of the crisis. The ABI refutes all of these accusations on behalf of its members and reiterates that its members will pay claims where they are valid and expect to pay £900m in BI claims due to COVID-19.

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Aviva and QBE join list of firms facing legal action over BI claims (Insurance Times)

The Insurance Times has reported that Hospitality Insurance Group Action (HIGA) has appointed law form Mishcon de Reya to take action against Aviva and QBE after reviewing 500 business interruption policies. The publication quotes one restaurant owner who has joined the group who claims that his insurer will not even respond or acknowledge any claim, let alone pay it – though it is unclear which insurer he has a policy with.

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QBE confirms exposure limit of $75m to UK BI claims

In response to queries regarding the potential exposure to business interruption claims in its UK business, QBE issued a statement to the Australian Stock Exchange this week indicating that reinsurance would limit the net exposure to BI claims at $75m. QBE also confirmed that it usually provides business interruption insurance as part of a broader policy covering property damage.

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AXA loses court case on BI claims in France (Insurance Journal)

AXA has stated that it will meet the majority of BI claims from some restaurant owners in France after a court ruling in Paris. AXA had argued that its policy wording did not cover the restaurant for business interruption caused by the pandemic, but the court ruled that AXA must pay the owner two months of revenue losses. BI claimants in the UK and US are hopeful that this case may set a precedent elsewhere and not just in France. AXA is appealing against the ruling but the CEO Thomas Buberl said the company planned to meet the bulk of claims for restaurant owners with ambiguous contracts. These make up around 10% of the contracts with restaurant owners.

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Aviva issues T2 debt to bolster capital position during COVID uncertainty

Aviva has issued new tier 2 debt at a rate of 4% in order to provide refinancing of long-term debt in response to COVID-19. The group has not issued a release to the market but did provide some colour to investors and analysts:

> *"In line with a number of our peers and consistent with our conservative and proactive response to the COVID 19 pandemic we have decided to issue a benchmark Solvency II compliant Tier 2 bond into a resilient primary issuance market.*
>
> *"As we announced with our investor update last week, we remain committed to our long-term deleveraging targets, with this financing primarily being used for general corporate purposes and to support refinancing of existing debt maturities."*

SCOR cancels dividend and cuts CEO pay by 30%

Ahead of its Combined Shareholders' meeting on 16 June 2020, SCOR has issued a press release confirming that it will not pay a dividend for 2019. The entire income from 2019 will be allocated to distributable earnings. This is in line with guidance from EIPOA and the ACPR in France. Additionally, the group Chairman & CEO has proposed that his variable compensation for 2019 be reduced by 30% compared to the amount approved in the annual report for 2019. SCOR has highlighted that these measures have been taken because of the guidance from the ACPR as its solvency ratio as at the end of March 2020 was estimated to be 210%, towards the upper end of its target range of 185-220%.

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Hard market expected in commercial insurance (Insurance Business)

Analysts and industry experts are predicting that the COVID-19 pandemic could cause significant rises in prices across many commercial lines of business. D&O insurance is said to be registering prices doubling vs last year. The potential global losses of $100bn and volatile financial markets are acting to push up prices across the board and many expect the hard market to be maintained for some time to come, especially if there are any major catastrophe events in 2020 or 2021.

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By Miles secures additional funding

By Miles, the InsurTech that charges customers based on the miles they drive, has secured £15m in additional funding from new and existing investors. The business has seen increased demand during the lockdown with its biggest ever week of sales coming last month. By Miles has also launched a relaxed cancellation fees offer at the start of April. This allows new customers to try the service for three months and leave for free if they return to higher mileage post lockdown.

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Insurers may not have a good case to decline BI claims (S&P Global)

Lawyers in the US representing policyholders are confident that in many cases the insurance companies will lose court cases denying BI claims due to COVID-19. The crux of the issue in a number of cases is that the insurer does not believe that the business has suffered physical damage from the pandemic and therefore is not covered. The lawyers disagree (as one would expect them to) and point to the fact that businesses would only need to prove that one of their staff or customers has had the virus to claim that the premises has been infested with the disease and therefore suffered physical damage. S&P Global note that 9 states in the US have proposed that insurers should retrospectively cover BI claims due to COVID-19. In those 9 states, Travelers wrote the largest amount of commercial multi-peril business in 2019.

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US insurers may face additional bad faith litigation (S&P Global)

In further bad news for US insurance companies, S&P Global has highlighted that companies may face bad faith litigation in addition to legal action over the non-payment of claims. If an insurer is found to have used deceptive practices such as refusing to pay claims without a reasonable basis or failing to properly investigate a claim it would engaged in an act of bad faith. Lawsuits regarding bad faith can result in punitive and other damages that could outweigh the cost of the claim itself.

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