Market Intelligence
by Oxbow Partners

COVID-19 insurance update – 8th January 2021

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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

- FCA reveals how big an impact the COVID-19 pandemic has had on insurance brokers and intermediaries (Insurance Business)
- Insurance professionals project 2021's biggest challenges in new poll (Insurance Business)
- Zurich UK unveils 'emergency lockdown leave' for staff (Insurance Business)
- Lloyd's to close underwriting room again (Reinsurance News)
- Reinsurers halted downward trends in 2020 (Reinsurance News)
- Santam to assess rejected COVID-19 BI claims (Reinsurance News)
- Collaborative approach to BI claims a good thing for the industry (Insurance Times)
- Government backed trade credit reinsurance scheme extended (Insurance Times)
- Post-lockdown London market likely to operate a hybrid model (Insurance Times)
- Leisure facilities face £90m a week loss under UK winter Covid-19 lockdown (The Guardian)

Analysis

Guess who's back?

2021 has not turned out the be the clean slate many hoped it might be as the virus and your favourite COVID-19 updates have returned with vengeance. The return to a national lockdown feels like stepping back into March 2020 and for the insurance industry this may bring with it many of the same trends seen in the first lockdown. Motor claims are likely to remain down as people continue to stay at home; however, we are unlikely to see the same spike of business interruption claims as insurers and reinsurers have adjusted policy wordings in response to ongoing legal rulings. Many insurers -such as South Africa's Santam- are still grappling with claims from the initial wave of Coronavirus and we eagerly await the UK Supreme Court's judgement on insurers' appeal of the FCA test case ruling which favoured the policyholders.

The Oxbow Partners view

Unfortunately, COVID-19 is set to be with us for several months to come in 2021 as vaccines are rolled out to vulnerable groups. Despite this, the insurance industry is well placed to learn from the successes and failures of 2020 as it tackles this new wave of challenges. Stay safe out there (or indoors for the time being).

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.

FCA reveals how big an impact the COVID-19 pandemic has had on insurance brokers and intermediaries (Insurance Business)

As a result of COVID-19 the total liquidity resources of insurance intermediaries and brokers went down from £16.2 billion in February 2020 to £11.4 billion in May/June. This is according the FCA's recent financial resilience survey conducted by the watchdog as part of its monitoring of the impact of the economic downturn. Overall, the survey has found that there are 4,000 financial services firms (predominantly SMEs) with low financial resilience and at a heightened risk of failure. Accordingly, 44% of Insurance intermediaries and brokers surveyed had furloughed staff during Coronavirus and 19% had received a government-backed loan.

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Insurance professionals project 2021's biggest challenges in new poll (Insurance Business)

A new poll conducted by Chartered Insurance Institute has found that many insurance professionals foresee running into pandemic-related challenges well into 2021. Of the 212 members surveyed most identified reduced new business as the biggest operational threat they face in 2021. The second biggest challenge identified was greater remote working, and the third was updating IT processes to cope with the "new normal" of work. Surprisingly, only 4.7% of respondents said that fraud risk was their biggest challenge despite this typically being a concern during economic downturns.

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Zurich UK unveils 'emergency lockdown leave' for staff (Insurance Business)

One in five of Zurich's 4,500 UK employees are set to benefit from a new HR initiative introduced by the insurer following the national lockdown announced this week. On top of flexible working arrangements, the new 'emergency lockdown leave' will allow workers to take an additional 10 days fully paid leave while primary and secondary schools are shut. The new leave credits can be taken either individually or consecutively with the goal of assisting the staff in balancing work and caring responsibilities over the 3rd lockdown.

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Lloyd's to close underwriting room again (Reinsurance News)

Following the introduction of new lockdown measures in the UK this week, Lloyd's of London has announced that its underwriting room will be closed once again. Owing to the government directive to work from home if possible, Lloyd's has taken the decision to close its underwriting room temporarily for a second time, although it stated that the market will remain open during these difficult times. This comes after access to the underwriting room was limited to just one day a week while London has been in Tier 4 restrictions. In December Lloyd's also announced changes to its Claims Scheme as part of its response to challenging market operations caused by COVID-19.

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Reinsurers halted downward trends in 2020 (Reinsurance News)

According to Willis Re, even with the effects of COVID-19 in full swing reinsurers have largely halted the persistent downward trends in 2020 which characterised recent years. Willis Re stated that the efficient working of global reinsurance markets have ensured that terms and conditions have been less of a problem than initially feared and capital levels recovered rapidly during the year, ending 3% higher than in 2019. In casualty lines, negotiations of treaties have reportedly more buyer friendly and, although COVID-19 losses have triggered technical discussions of primary policy coverage, Willis Re says most programmes renewed without considering any potential COVID-19 losses. However, for the time being reinsurers have generally been unwilling to accept ongoing Contagious Disease exposures.

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Santam to assess rejected COVID-19 BI claims (Reinsurance News)

South African insurer Santam is set to commence the process of assessing claims for policies with contingent business interruption (CBI) extensions. Santam was one of a number of high-profile insurers involved in high court battles across the globe to determine whether business interruption cover extended to COVID-19 impacts. In Santam's case, the court ruled in favour of the claimants, Ma-Afrika Hotels among others. Consequently, Santam has increased its net CBI claims provision by R1.7 billion (£81.6m) in addition to the R1.3 billion(£62.4m) that was raised in June 2020. Despite this Santam will continue with its application for leave to appeal the Ma-Afrika judgment

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Collaborative approach to BI claims a good thing for the industry (Insurance Times)

The response to the FCA test case around COVID BI claims was handled well by the industry in a collaborative approach according to the head of Claims at Ageas UK, Robin Challand. The industry engaged with the process even if insurers were not directly involved in the test case, such as Ageas. Mr Challand believes that where claims were valid, the key thing for insurers is to get the customer back to where they need to be as quickly as possible and take the right steps for customers.

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Government backed trade credit reinsurance scheme extended (Insurance Times)

The government's Trade Credit Reinsurance Scheme providing reinsurance guarantees of up to £10bn for trade credit during the pandemic will be extended until 30 June 2021. The scheme had originally been planned to run from 1 April to 31 December 2020 but the ongoing pandemic has led to a six month extension. Euler Hermes has stated that the sector will continue to cede up to 90% of premiums to the state as part of the scheme. Euler Hermes has also warned, however, that once the scheme is phased out later this year there could be a 25% increase in insolvencies.

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Post-lockdown London market likely to operate a hybrid model (Insurance Times)

Members of the London market have been forced to reassess what the use of the office is going forward as the pandemic's repeated lockdowns have shown that much can be done remotely. While the agility of firms in moving to more digital ways of working has been impressive, the need for some physical office space will continue into the future. The benefit of face-to-face meetings has been underappreciated in the past and will ultimately return. The consensus opinion is that some form of hybrid working will be the best option for many post-lockdown.

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Leisure facilities face £90m a week loss under UK winter Covid-19 lockdown (The Guardian)

New analysis from ukactive has estimated that the winter lockdown will cost Britain's gyms, swimming pools and leisure facilities a combined £90m a week in lost revenue. In response ukactive, which represents more than 4,000 gyms and leisure facilities, has called for urgent government support stating that the current one-off £9,000 grant is "nowhere near enough." January is a key time for the leisure industry with many people renewing or buying exercise memberships for the first time. This comes after analysis from 4Global found that the November lockdown restrictions on the sports industry cost Britain £29m in terms of social value

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