Market Intelligence
by Oxbow Partners

COVID-19 insurance update – 19th January

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.

19 February 2021

Summary

- Allianz UK delivers robust results for 2020
- Swiss Re posts significant net loss in full-year results (Insurance Business)
- AIG reports large loss for 2020 (Insurance Business)
- QBE announces financial results for 2020 (Insurance Business)
- COVID losses likely to exceed Lloyd's estimate, says Brit (Reinsurance News)
- EIOPA proposes measures to improve BI insurance (Reinsurance News)
- More than a fifth of adults trust insurance firms less due to COVID (Insurance Times)
- COVID has opened up opportunities for new digital brokers (Insurance Times)
- Insurers can't use the pandemic as an excuse for poor service (Insurance Times)

Analysis

Four losses and a profit

As results continue to pour in from major re/insurers around the world, the word on everyone's lips appears to be 'losses'. Swiss Re, AIG and QBE have all announced significant net losses in 2020 as a result of COVID-19 among other catastrophes. Speciality re/insurer Brit has also announced underwriting losses whilst upping its COVID-19 impact estimate. Brit now expects that industry losses could exceed the $107bn estimated by Lloyd's last year. The results so far are in line with our expectations that most companies exposed to commercial, event cancellation and travel lines of business would see underlying growth but overall losses. However, one notable outlier in the loss landscape is Allianz which today announced that its UK business had not only doubled its Gross Written Premium but delivered an operating profit of £290 million, up 196% in no small part thanks to its acquisition of LV= and the significantly increased presence in the personal lines market.

The Oxbow Partners View

2021 will be a tricky year for some insurers to recover ground lost in 2020 with many hoping to exploit underlying growth and hardening rates. For personal lines businesses 2020 has been challenging but profitable. 2021 will bring more challenges with the FCA's pricing fairness regulation set to take effect later in the year potentially changing the UK insurance landscape.

Oxbow Partners and Swiss Re have teamed up provide some much-needed clarity for the market with our FCA pricing fairness survey. Participants will not only receive a copy of the results but will be helping children's mental health charity Place2Be with a £25 donation for the first 100 responses we receive. To take part in the survey please use the following link and as always, 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.

Allianz UK delivers robust results for 2020

Allianz Holdings, which owns Allianz Insurance and LV=, has today announced impressive results for the full year 2020. In a year where most insurers have posted losses, Allianz UK has seen a 196% increase in operating profit from £98 million to £290 million and an improvement to its combined ratio of -4.1pp to 94.4%. Moreover, the group's Gross Written Premium (GWP) has almost doubled in 2020 to £3,922 helped by the completion of its acquisition of LV= last year. While these are positive results, growth has primarily been driven by LV= with Allianz Insurance seeing a -5.6% in GWP. This is mostly due to the impact of COVID-19 on commercial business with business interruption claims in 2020 totalling £175m, net of reinsurance.

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Swiss Re posts significant net loss in full-year results (Insurance Business)

The global reinsurer is the latest company to announce a net loss in its end of year results for 2020. The reinsurance giant posted a net loss of $878 million (approx. £628.2 million) compared to a profit of $727 million (approx. £520.2 million) for 2019. This has, of course, been driven by COVID-19 claims and reserves which totalled $3.9 billion for the group. However, excluding the effects of COVID the group's net income actually rose to $2.2 billion which bodes well for future success in 2021 and beyond. This is backed up by strong underlying growth in GWP up 2% year-on-year and based on current information, Swiss Re expects additional COVID-19 impact to be below $0.5 billion in 2021.

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AIG reports large loss for 2020 (Insurance Business)

American International Group has reported its full-year 2020 results with a net loss $6 billion (£4.3 billion); this represents a huge shift from the insurer's previous net income of $3.3 billion last year. The group has attributed the majority of this to its sale of Fortitude Group Holdings in June but AIG also experienced $1.1 billion of COVID-19 CATs in 2020. The General Insurance unit reported $545 million of CATs in the fourth quarter, which included US$178 million of COVID-19 CATs resulting in a combined ratio of 102.8% compared to 99.8% in Q4 2019. CEO Brian Duperreault, who was due to leave in March of this year, will now leave at year end to be replace by Peter Zaffino.

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QBE announces financial results for 2020 (Insurance Business)

Sydney headquartered insurer QBE has released its 2020 results with bad news for shareholders as the company posted an underwriting loss, insurance loss, and net loss after income tax. QBE saw a $727 million insurance loss in 2020 with a net loss after tax of $1.52 billion compared to $550 million profit in 2019. In response, the company has elected not to declare a final dividend for 2020 and stated that the "in addition to COVID-19, the result was impacted by above average catastrophe claims and prior accident year claims development." Despite this, QBE hopes to exploit its premium momentum and hardening rates to see better results in 2021.

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COVID losses likely to exceed Lloyd's estimate, says Brit (Reinsurance News)

According to speciality re/insurer Brit, COVID-19 losses could 'significantly exceed"' the $107 billion claims estimate predicted by Lloyd's last year. This goes against the predictions of other analysts, notably Berenberg who recently lowered their industry loss estimate to $40-60 billion. Brit's forecast is particularly gloomy but was released alongside its 2020 results which included a $215 million underwriting loss and a combined ratio of 112.6% with COVID-19 responsible for a 15.9 percentage point increase. Brit did caution that estimating overall costs is 'highly subjective' and will be dependent on many unknown factors such as the length of current or future lockdowns.

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EIOPA proposes measures to improve BI insurance (Reinsurance News)

The European Insurance and Occupational Pensions Authority (EIOPA) has proposed a series of measures to improve the insurability of business interruption (BI) in light of pandemics. Among these measures, EIOPA has suggested that improving the clarity of coverage's scope as well as integrating prevention measures in risk-based pricing of the insurance cover can create incentives for preventive behaviour. While pandemic-specific schemes are being discussed, more progress is still needed on pandemic risk modelling and pricing. The authority emphasised that prevention is a key element of shared resilience solutions and can be promoted by re/insurers to help improve society's capacity to reduce losses.

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More than a fifth of adults trust insurance firms less due to COVID (Insurance Times)

22% of adults in the UK now trust insurance companies less because of COVID and 36% believe that the industry did not do enough to help customers during the pandemic, according to research from the FCA. The survey results are based on 22,000 customers polled in October 2020. There has also been an increase in the number of respondents who believe that insurance companies 'rarely pay out' – up to 34% from 22% in February 2020. This is despite only 4% actually having reported issues getting a refund or having a badly handled claim. Michael Sicsic from Sicsic Advisory blamed the FCA's BI test case for the increased distrust of insurers and highlighted that insurance is now the least trusted financial services provider with only 7% of consumers expressing high trust.

Read more (requires subscription)

COVID has opened up opportunities for new digital brokers (Insurance Times)

Social distancing and enforced working from home have accelerated the use of digital solutions in the broking space and created opportunities for new brokers with digital-first business models. The pandemic has fast-tracked something that was going to happen anyway but instead of taking 10 years it has been done in one. The HNW market in particular has seen an increased desire from customers to use digital solutions such as virtual visits to properties following a theft claim. Criterion has been offering these for 5 years but the take up has been low as HNW customers like the personal approach. During the first lockdown 70% of customer visits were virtual. The customer acceptance of digital options has opened the door to brokers that are willing and able to embrace it.

Read more (requires subscription)

Insurers can't use the pandemic as an excuse for poor service (Insurance Times)

Insurance Times has spoken to a number of insurers and brokers about the service levels being provided during the latest lockdown and how these compare to the situation during the other lockdowns in 2020. Overall, there has been a transition in expectations over the last year as everyone has become used to working under the strict conditions of lockdown. In March 2020 there was a general spirit of all being in this together which brought with it an acceptance of slightly lower service levels. Now that we are nearly a year on, however, the expectation is that insurers should have the systems in place to deliver high levels of service as they have had plenty of time to adjust to the 'current normal' of lockdowns.

Read more (requires subscription)