Market Intelligence
by Oxbow Partners

COVID-19 insurance update – 26 February

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.

26 February 2021

Summary

- Insurers expect to pay up to £2.5bn in UK COVID claims
- AXA sees net income fall in 2020 after considerable COVID-19 claims
- RSA reveals full-year financial results (Insurance Business)
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- Munich Re's profit falls in 2020; P&C combined ratio deteriorates on major losses (Reinsurance News)
- Commercial insurance pricing up by 44% in UK (Insurance Times)
- Goldman Sachs boss rejects working from home as the new normal (BBC)
- There are likely to be less trains in the new normal (BBC)
- Judge declines to dismiss McDonald's COVID-19 suit against insurer (Business Insurance)

Analysis

Planes, Trains and Automobiles

Following Boris Johnson's Monday announcement, the date on everybody's mind appears be the 21st June. The prospect of an end date to COVID-19 restrictions in the UK has caused surge in holiday bookings which is sure to delight and worry travel insurers in equal measure. With the potential that people will gradually return to physical workspaces over the coming months the question of 'the new normal' has once again reared its head. Naysayers such Goldman Sachs' David Solomon have made their case for home working to be terminated as soon as possible but few can imagine that the pandemic would have no lasting effect on work patterns. Network Rail are preparing for a reduced level of service for the next few years as more people opt to work from home. Reduced train services could boost the appeal of driving for the days when people return to the office. We have already seen some insurers close offices and offer 'indefinite' home working beyond the pandemic; only time will tell whether these changes stick or home working really is just an 'aberration' destined to become a footnote of history.

The Oxbow Partners View

The PM's cautious roadmap to normality has raised expectations but there is still a long way for the UK to go and insurers will need to be prepared for the economy to splutter back to life as risk profiles once again evolve into something between lockdown and life before the pandemic. Insurers will need to be more aware then ever regarding their customers' individual situations and whether the insurance cover matches their risks. 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.

Insurers expect to pay up to £2.5bn in UK COVID claims

The ABI says that its members expect to pay up to £2.5 billion in claims related to COVID in 2020. The bulk of the claims come from business interruption following the Supreme Court ruling on the FCA test case. In aggregate, ABI members expect to pay out £2 billion for BI claims. In addition to the BI claims the industry expects to pay out £204 million in protection claims, £152m in travel insurance claims and £121 million on other general insurance products including event cancellations. Of these claims around £700 million has been paid out as of mid-January 2021.

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AXA sees net income fall in 2020 after considerable COVID-19 claims

With the release of its 2020 results AXA's COVID-19 impact estimate has held steady at a not inconsiderable €1.5 billion. As a result, underlying earnings for the year were down 34% to €4.3 billion with net income down 18% to €3.2 bn. Despite this, AXA's total revenues have held relatively steady down just 1% reflecting strong growth in the first quarter offset by a severe decline in Q2 (-10%) followed by recovery and return to growth in the second half of the year. This decline has been mostly driven by AXA's Life & Savings segment with P&C Commercial lines, Health and Protection performing strongly. However, AXA's P&C combined ratio has increased 3.1pp from 96.4% to 99.5%. Notably, the integration of AXA XL has added 13pp to the Group's Solvency II ratio which now stands at 200%.

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Ageas UK reveals COVID impact in full-year financial results (Insurance Business)

Like many insurers Ageas UK has felt the impact of COVID-19 with gross income for the year down from £1,517 million in 2019 to £1,484 million. Much of the fall was attributed to reduced volumes from the Tesco Underwriting divestment during the final quarter, as well as lower mobility on volumes and reduced motor pricing during the lockdown. Concerning lower mobility, this has driven and overall improvement in motor combined ratio of over 10 points from 101.5% to 91.1%. However, other combined ratios have creeped up including home from 86.9% to 99.4% and travel from 104.3% to 105.7% although gross inflows for these segments have risen considerably. Chief executive Ant Middle also stressed the positive impact of Ageas' strong broker relationships in helping weather the effects of the pandemic.

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RSA reveals full-year financial results (Insurance Business)

While many insurance companies have reported some form of losses or decline this season, RSA broke ahead of the pack to post impressive gains in 2020 despite COVID-19. The group's business operating result increased 15% to £751 million for the year and group underwriting profit was up 36% at £550 million. In addition, RSA achieved a healthy combined ratio of 91.1%. COVID-19 has of course had an impact and the group paid out some £4.6 billion in 'normal' claims while also providing for over £250 million in COVID-19 specific claims. With such strong results one can see why Canadian firm Intact and Nordic firm Tryg are keen to acquire RSA's business. Shareholders approved the £7.2 billion takeover bid in in January with the deal expected to close in Q2 this year.

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Munich Re's profit falls in 2020; P&C combined ratio deteriorates on major losses (Reinsurance News)

Reinsurer Munich Re has reported a profit of €1.2 billion for the full-year 2020 down from more than €2.7 billion in 2019. Munich Re's performance has been heavily impacted by the pandemic, which gave rise to reinsurance losses of €3.4 billion, of which €370 million is attributable to L&H, and more than €3 billion in P&C. At €54.9 billion, Munich Re's gross written premiums for the year increased by 6.7% from €51.5 billion with P&C premium volume rising to €24.6 billion. However, combined ratio deteriorated to 105.6% of net earned premiums, driven by high major losses. Across the firm, the operating result fell sharply from €3.43 billion in 2019 to €1.98 billion in 2020. Despite this, Munich Re expects to reach its profit target of €2.8 billion for 2021 and hopes the impact of COVID-19 dwindle over the year.

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Commercial insurance pricing up by 44% in UK (Insurance Times)

According to Marsh's quarterly Global Insurance Market Index, global commercial insurance pricing was up by 22% in Q4 2020 with the UK seeing an increase of 44%. Renewals this past quarter have reportedly featured significant negotiations on terms and conditions with concern over exclusions, especially in terms of COVID-19 and cyber risk. Financial and professional lines pricing increased by 90% in Q4 - largely due to directors' and officers' insurance (D&O). Renewals have been challenging for D&O liability with price increases justified on the grounds of a "deterioration in claims", a Covid-19 impacted economy, insolvencies, wrongful trading and a lag on claims after government support.

Read more (requires subscription)

Goldman Sachs boss rejects working from home as the new normal (BBC)

Goldman Sachs boss David Solomon has labelled working from home as an aberration that does not suit the work culture at the bank. Goldman Sachs has operated through most of 2020 with less than 10% of its staff in the office but this is not something that Mr Solomon wants to continue. The main concerns at Goldman Sachs are that a work from home culture as the new normal does not fit with the collaborative nature of the business and that new joiners cannot get the direct mentorship that they need. This is a similar view held by other banks such as Barclays and JP Morgan but goes against announcements from tech companies welcoming a new flexibility in working arrangements. The new normal way of working may well depend on what industry you are in – something insurers need to be aware of when writing new business.

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There are likely to be less trains in the new normal (BBC)

A further data point has emerged this week indicating that the world of commuting is not going to go back to normal in the near term. Sir Peter Hendy, the chairman of Network rail has advised the Nation Rail Recovery Conference that 10% fewer trains could run on the network as the old pattern of five days of peak commuter travel may not return. Commuter traffic could return to 80% of pre-pandemic levels for the next 1-3 years, though Network Rail are looking at a range of 60-100%. With a reduced rail service, and season tickets no longer being as cost efficient for flexible workers, driving to work may increase in popularity.

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Judge declines to dismiss McDonald's COVID-19 suit against insurer (Business Insurance)

On Monday, a federal district court judge refused to dismiss a lawsuit filed by McDonald's Corp and two of its franchisees over its insurer's refusal to defend them in COVID-19 litigation filed by the fast-food chain's employees, three of whom have had symptoms of the virus. Five workers filed a suit against Macdonald's back in October claiming negligence over the chain's decision to remain open during the pandemic. The employees' suit seeks a mandatory injunction requiring McDonald's to provide their employees with adequate PPE and information about the virus, among other demands. Moreover, the three plaintiffs who contracted the virus could be due for a pay out under the firm's insurance cover which does not exclude viruses from 'bodily injury' damages. This is not the first time Macdonald's has been caught up in controversy recently with Los Angeles McDonald's franchisee was fined more than $125,000 last week after being accused of retaliating against employees who reported COVID-19 workplace safety violations.

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