

## COVID-19 insurance update – 12<sup>th</sup> March

### 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.

12 March 2021

### Summary

- Direct Line reports solid results and will use capital strength to repay shareholders
- Legal & General reveals dip in operating profit due to COVID (Insurance Business)
- UK lockdowns impact home insurance claims and premiums (Insurance Business)
- Hannover Re's income robust but large COVID losses dent underwriting result (Reinsurance News)
- COVID-19 and sustainability key insurance themes for 2021 (Reinsurance News)
- COVID-19 pandemic creates new cyber threats (Insurance Times)
- Insurance industry must look forward after the BI test case (Insurance Times)
- Hughes Insurance moves to permanent home-working (BBC)
- Households buy 3.2million pets in lockdown (BBC)
- Two-fifths of British adults will not travel at all until they receive a COVID-19 vaccine (YouGov)

### Analysis

#### Happy birthday COVID-19!

This is now (shockingly) the 50<sup>th</sup> COVID note we have written and the 11<sup>th</sup> of March marks one year since the Director-General of the WHO declared Coronavirus a global pandemic. Few could have imagined back then that one year on we would still be in the midst of fighting this virus but equally few could have imagined we would have a plethora of vaccines created around the world in record time (by vaccine standards). As results season begins to wind down, insurers are looking beyond the pandemic at how consumer behaviour will evolve on the roadmap out of lockdown. We have already seen home claims and premiums have fallen over 2020 and as many people consider booking holidays for the first time, travel insurance is likely to become an area of both heightened risk and great opportunity. Travellers are expected to take out even more cover than usual in an effort to mitigate uncertainty around restrictions.

#### The Oxbow Partners View

As companies and individuals look beyond the pandemic, the next few months will be critical for insurers to consider the post-COVID direction of their business. Many firms have already adopted permanent flexible working. An emphasis on ESG principles is now being seen across the market which will hopefully make 2021 a 'green recovery' from the pandemic. As ever, 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 better informed and make superior strategic decisions.

### **Direct Line reports solid 2020 results and will use capital strength to repay shareholders**

Direct Line's results this week were better than had been expected by analysts despite the slight fall in the group profit compared to 2019. The 1.2%pt improvement in the combined ratio was offset by lower investment returns and instalment income. The main drivers of the improved underwriting result came in the motor book where the group saw a 12.5%pt benefit on the loss ratio from lower frequency (net of higher severity). The underlying loss ratio in motor also improved by 2%pts leading to a motor current year loss ratio of 66.6%. The combined ratio improved to 87.7% (2019: 94.8%) as the current year benefits were offset by lower positive developments from prior years (6.8% vs 2019: 11.9%). The non-motor businesses were hit by excess weather claims (Home: £27m, Commercial: £16m) and cancellation and BI claims.

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### **Legal & General reveals dip in operating profit due to COVID (Insurance Business)**

In its full year 2020 results released on Wednesday, Legal & General has reported a dip in operating profit of 3% from £2.29 billion in 2019 to £2.22 billion. Profit after tax was also down 12% to £1.607 billion from 2019's £1.834 billion, which the business said reflected the impact of lower interest rates on LGI. For LGI, its new business annual premiums were up 10% to £372 million, supporting £2.849 billion in gross written premiums. Legal & General further noted that, despite COVID, it delivered financial metrics in line with its five-year ambitions including a net release from operations of £1.539 billion and a full year dividend of 17.57p per share. Finally, L&G's balance sheet remains strong with a Solvency II coverage ratio currently over 190%.

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### **UK lockdowns impact home insurance claims and premiums (Insurance Business)**

Analysts from Consumer Intelligence have revealed the impact stay-at-home has had on insurance claims and costs for homeowners. According to their analysis, break-ins and water damage claims went down in the past year while accidental damage claims rose due to more people being home for longer periods. As for home insurance prices, Consumer Intelligence noted that average premiums fell 1.2% to £145 with the largest falls being seen in the East and North East. This has been driven by the overall reduction in claims and therefore prices are likely to creep up again as lockdowns are eased.

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### **Hannover Re's income robust but large COVID losses dent underwriting result (Reinsurance News)**

Global reinsurer Hannover Re has outperformed its Group profit expectation of more than €800 million for 2020 despite the significant impacts of the COVID-19 pandemic. COVID losses pushed the P&C combined ratio to be unprofitable and group net income declined from the €1.3 billion posted in 2019 to €883 million for 2020, still above expectations. Despite this dip, gross premiums increased by almost 10% year-on-year to €24.8 billion, while net premium earned jumped by 8.2% to €21.4 billion. Overall, Hannover Re's operating profit declined by 34.5% in 2020 to €1.2 billion compared with €1.9 billion a year earlier. As for total COVID claims, Hannover Re paid out or reserved an amount of €950.1 million for its customers in P&C reinsurance, of which €330.9 million was attributable to reported claims and €619.2 million to IBNR claims.

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### **COVID-19 and sustainability key insurance themes for 2021 (Reinsurance News)**

Data and analytics firm GlobalData has reported that it expects COVID-19 to be far and away the most important theme for the insurance industry in 2021, but sustainability will also continue to be an essential long-term issue. According to analysts, COVID-19 will continue to transform consumer behaviour with customers likely to take out more insurance in areas such as travel where high uncertainty persists. This is also likely to be true of business interruption cover as people and firms will want to ensure they are fully protected. Sustainability also continues to be a key theme as many governments and insurers stress the need for a green recovery from COVID. Although there is temptation to relax targets, the long-term impacts of climate change will be far more detrimental for insurance than dealing with the threat presently.

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### **COVID-19 pandemic creates new cyber threats (Insurance Times)**

Insurance Times recently hosted a webinar with CGI where they highlighted the increased risk of phishing and other cyber attacks looking to exploit the fear surrounding COVID-19. The attacks in recent months have become more focused on individuals who may have financial or health related concerns. In addition to personal attacks there has been a rise in employees using their own devices for work since the rapid move to homeworking in a lot of businesses. This gives cyber insurers a number of issues, particularly if businesses are not using the correct security tools. CFC underwriting noted that there has been a rise in claim severity in cyber due to weaker security controls and more targeted attacks.

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### **Insurance industry must look forward after the BI test case (Insurance Times)**

John Glen, economic secretary to the Treasury, has told online delegates at the ABI annual conference that the insurance industry has a very significant role in the UK emerging from the COVID lockdown but must look to the future rather than mull on past grievances such as the BI test case outcome. While the test case resolved a lot of outstanding matters some people still feel aggrieved and disappointed over the results. The industry now has to move forward and look at what we can do to improve the situation and improve the relationship and reputation of the industry.

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### **Hughes Insurance moves to permanent home-working (BBC)**

Northern Irish insurance company Hughes Insurance has announced that it is moving to permanent home working even after the lockdown is eased. The business is part of the Liberty Mutual group and the move echoes the stance of the parent company across the world. The remaining retail branches of the business will be closed but no jobs will be lost. The remote model that has been in place during the pandemic has served the business well and will be maintained into the future. Hughes is keeping its head office and offering staff the opportunity to work in the office for 2 days a week if they would like to.

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### **Households buy 3.2million pets in lockdown (BBC)**

3.2millions households in the UK have acquired a new pet since the start of the lockdown, according to the Pet Food Manufacturers' Association. The main driver of this has come from younger people with more than half of new owners aged 16 to 34. The rise in pet ownership has been significant enough to cause a shortage of some dog and cat food products. The fact that 11% of households across the UK have taken on new pets is good news for the pet insurance market as many new owners will look to protect their new family members against high vet bills.

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### **Two-fifths of British adults will not travel at all until they receive a COVID-19 vaccine (YouGov)**

According to a poll of 2000 UK adults conducted by YouGov roughly two-fifths of Britons saying they won't go on a holiday anywhere until they are inoculated (39%). This may dash the hopes of industries which we're hoping for a rapid recovery of the global tourism. Around half of older adults (48%) are especially wary of traveling before having received a coronavirus vaccine and many (27%) reported that vaccination would reduce concern enough to holiday domestically in the UK. However, there is certainly an appetite for holidays after a year at home with 14% of adults saying they would holiday in both the UK and abroad even if they have not had the vaccine. This is especially true of both wealthier and younger individuals who appear less likely to link travel plans to their vaccine jab.

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