Market Intelligence
by Oxbow Partners

COVID-19 insurance update – 23rd April

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.

23 April 2021

Summary

- Moneysupermarket Group rocked by a 20% hit to its revenue (Insurance Business)
- Revealed – what's happening with car insurance prices in the UK? (Insurance Business)
- COVID spurs P&C insurers to return $13bn in premiums (Reinsurance News)
- ARA total capital up 6% to $270bn in 2020, despite COVID-19 headwinds (Reinsurance News)
- COVID-19 claims costs tailing off sharply for US insurers (Reinsurance News)
- ABI relays guidance replacing insurers' lockdown support pledges (Insurance Times)
- Governments must be 'the leading players' in insuring BI risk (Insurance Times)
- Shed and garage offices cause divide between insurers (Insurance Times)
- James Reader: COVID-19 is a turning point for accelerating consumer trends (Insurance Times)
- FCA proposes additional levy to pay for the BI test case (Insurance Age)

Analysis

Reflection and recovery as the UK begins to open

With the first weekend in England where many have been able to sit outside a café or enjoy a drink at the pub, this week has brought a sense of reflection for both individuals and businesses, including those in insurance. Looking beyond the pandemic, there have been renewed calls for governments to step in as the lender of last resort when covering systemic risks such as pandemics and the ABI is replacing its temporary lockdown support with new guidance from April. Another key area of debate currently raging is whether future workers will be based in offices or homes and this has spilled into insurance where the advent of new 'shoffices' (shed offices) is causing disagreement between insurers as the degree to which these are covered in home insurance policies. It seems legacy systems do not cope well with the blurring of personal and commercial coverage.

The Oxbow Partners View

While a new spirit of optimism seems to be in the air, 2021 will by no means be plain sailing through reopening and recovery. Insurance is no exception, and the gradual reopening of the economy will present both familiar and new risks to the industry. Flexible office and home working has never been present to such an extent before and motor pricing, which has fallen to its lowest rates since 2015, is likely to experience significant uncertainty as vehicle use begins to rise once again post-lockdown. 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.

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Moneysupermarket Group rocked by a 20% hit to its revenue (Insurance Business)

Price comparison giant Moneysupermarket Group PLC has reported total group revenue down 20% in Q1 2021 to £85.5m compared to £107.3m for the same quarter last year. While the news is not good, this is in line with expectations given ongoing market disruption caused by the pandemic. Revenue across all lines including insurance was down; however, CEO Peter Duffy stressed that, "several channels remain impacted by COVID-19, but we are well-positioned to weather this period and return shortly to profitable growth."

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Revealed – what's happening with car insurance prices in the UK? (Insurance Business)

According to Confused.com's Car Insurance Price Index in association with Willis Towers Watson, motor premiums in the UK are now at their cheapest levels since 2015. On average, UK motorists are now paying £538 for coverage as of Q1 2021, a 7% decrease from the previous quarter and a 14% year-on-year decrease. This decrease has been primarily driven by the successive lockdowns reducing the number of road users and consequent claims. However, this trend is likely to reverse with the easing of lockdown and could create pricing uncertainty especially when combined with the FCA's pricing practices remedies due to come in later this year.

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COVID spurs P&C insurers to return $13bn in premiums (Reinsurance News)

Across the pond, US property and casualty (P&C) insurers have returned roughly $12.9 billion in premiums over 2020 due to a reduction in exposures following the COVID-19 pandemic. This is according to analysts at AM Best who highlighted that stay-at-home restrictions reduced the amount of travel across the US last year, which resulted in a significant reduction in exposure for automobile insurers. From a review of 2020 statutory statements from more than 2,600 insurers, AM Best found that the majority of premium returns made appear to have been during the first half of the year, with $8.3 billion of the $12.9 billion total returned being reported by 30 June.

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ARA total capital up 6% to $270bn in 2020, despite COVID-19 headwinds (Reinsurance News)

Aon's Reinsurance Aggregate (ARA) reported positive earnings for reinsurers in 2020 and an increased capital base, despite being hit with roughly $25 billion in pandemic and natural catastrophe-related losses. ARA tracks the financial results of 23 of the world's leading reinsurance firms annually. Total capital increased 6% to $270 billion, split between equity of $211 billion (+4%) and debt of $59 billion (+16%) while P&C premiums rose 7% to $223 billion overall. Aon also found that net P&C combined ratio was 103.4% for 2020, with COVID-19 losses of $14 billion contributing 8.0 percentage points.

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COVID-19 claims costs tailing off sharply for US insurers (Reinsurance News)

According to analysts from Berenberg, initial results from US insurers indicate that COVID-19 claims costs are tailing off sharply alongside rate rises in commercial lines. This is the primary driver behind improved margin forecasts, as well as conservative reserving being done now which will lead to higher reserve releases later. Berenberg forecasts strong profit improvement through to at least 2022 reflecting three influencing factors: the 6-18 month lag in earnings and pricing, strong pricing, and extra-cautious reserving.

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FCA proposes additional levy to pay for the BI test case (Insurance Age)

In its budget for 2021/22 the FCA has set out plans to recover £7.5m of external legal fees and other costs relating to the business interruption test case. The good news for the eight insurers involved in the test case is that they will be exempt from the new special levy as the FCA recognises that they have already spent a significant amount of time and money on defending the case, effectively on behalf of the rest of the industry. The levy will therefore fall on 295 insurers and 50 MGAs, another cost to add to the BI claims that are in the process of being paid out.

Read more (requires subscription)

ABI relays guidance replacing insurers' lockdown support pledges (Insurance Times)

The Association of British Insurers (ABI) has reviewed the temporary insurer pledges introduced during the first lockdown and has decided that these will now be replaced with new guidance across the home, motor and pet insurance. These initial pledges were introduced by the ABI to help customers affected by the pandemic back in March 2020 and will remain in place until 30 April 2021 when the new guidance will take over.

Read more (requires subscription)

Governments must be 'the leading players' in insuring BI risk (Insurance Times)

Governments and insurers 'must work together' to close the colossal protection gap around pandemics, says insurance think tank the Geneva Association. The report entitled "Public-Private Solutions to Pandemic Risk" outlined four possible pandemic risk funding schemes where governments can play a leading role, including direct insurance, reinsurance, social insurance and post-event protection. The scale of the protection gap is clear from the fact the report indicated $4tn of global output losses compared to only $30bn of BI premiums and the property and casualty insurance industry as a whole only collecting $1.6tn in annual premiums. Therefore, insurers and governments must work to close this massive protection gap exposed by COVID-19.

Read more (requires subscription)

Shed and garage offices cause divide between insurers (Insurance Times)

The huge increase in working from home during the pandemic has seen more and more people using sheds, garages or other buildings as offices over the last year. While this makes for a 'separate' working environment it causes issues for many insurers according to Anthony Grosso from EIS. Some insurers can extend coverage to new home-based working locations at no extra cost while others are asking customers to pay additional premiums or buy a new policy. EIS research suggests 60% of insurers do not see their products as innovative and in many cases it is the legacy systems that cause the issue. Often legacy systems are siloed into lines of business and do not work very well when the lines between personal and commercial policies are blurred. This can be solved with better technology, but not everyone is willing or able to bring in the changes required.

Read more (requires subscription)

James Reader: COVID-19 is a turning point for accelerating consumer trends (Insurance Times)

Covea CEO, James Reader has spoken to Insurance Times about how the pandemic is likely to accelerate consumer trends and change the relationship between insurers and customers. The goal is to move insurance away from being a grudge purchase to one where there is an ongoing dialogue. This can be through usage-based policies in motor or monitoring systems in home insurance to help prevent escape of water claims. Mr Reader believes that insurers need to think about what the consumer really needs and produce innovative products that meet their requirements. This, in turn, will change customer expectations around what they want from their insurance relationship and move some of the focus away from price.

Read more (requires subscription)