



GAD

Making sense
of COVID-19

The impacts of COVID-19 on the Insurance Industry

Chair: Andy Jinks

Speakers: Jacqui Draper & Nick Clitheroe

5 August 2020



Agenda

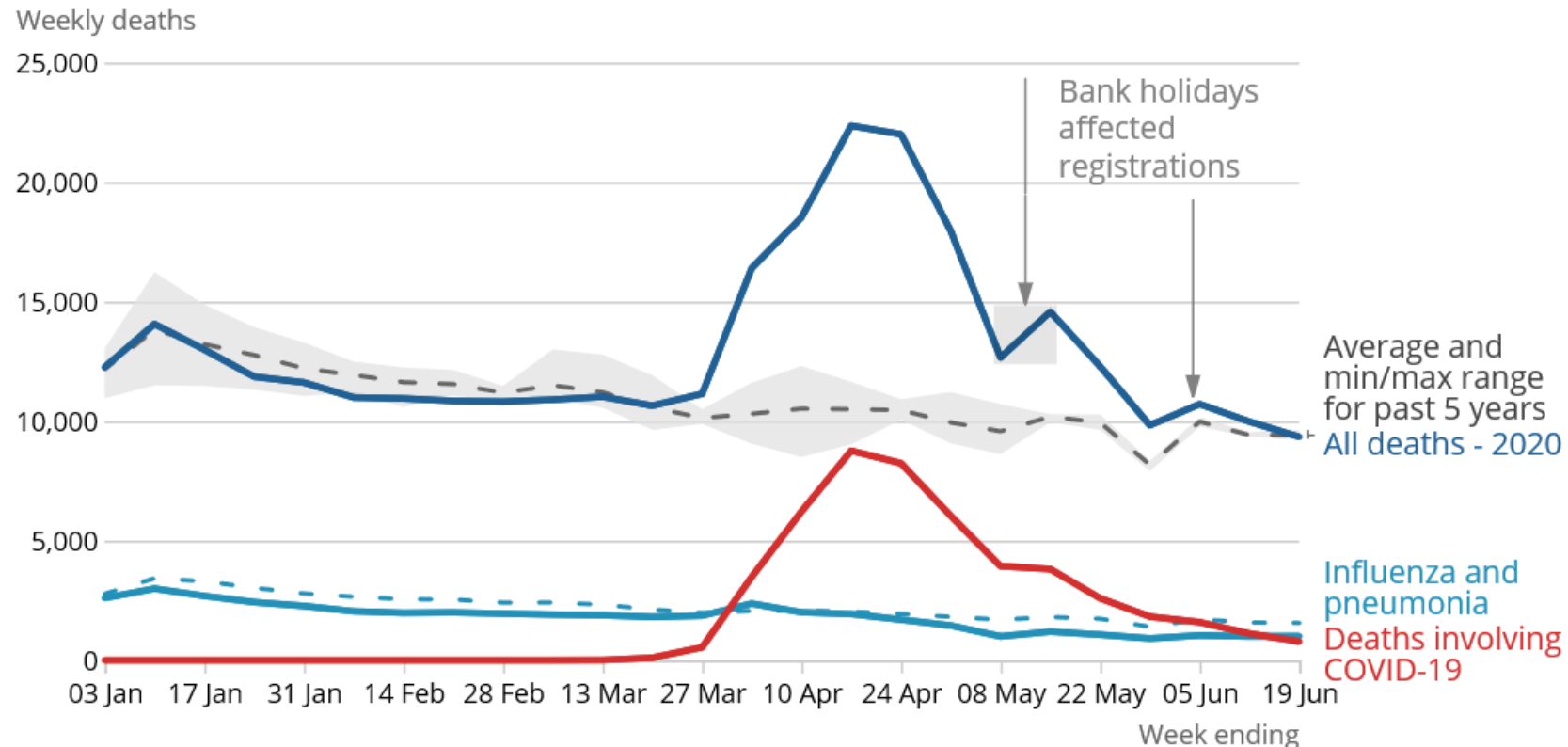
- Context & background
- Through the policy lifecycle
- Impact on different lines
- Pre-seminar survey
- Next steps
- Q&A



Context & background



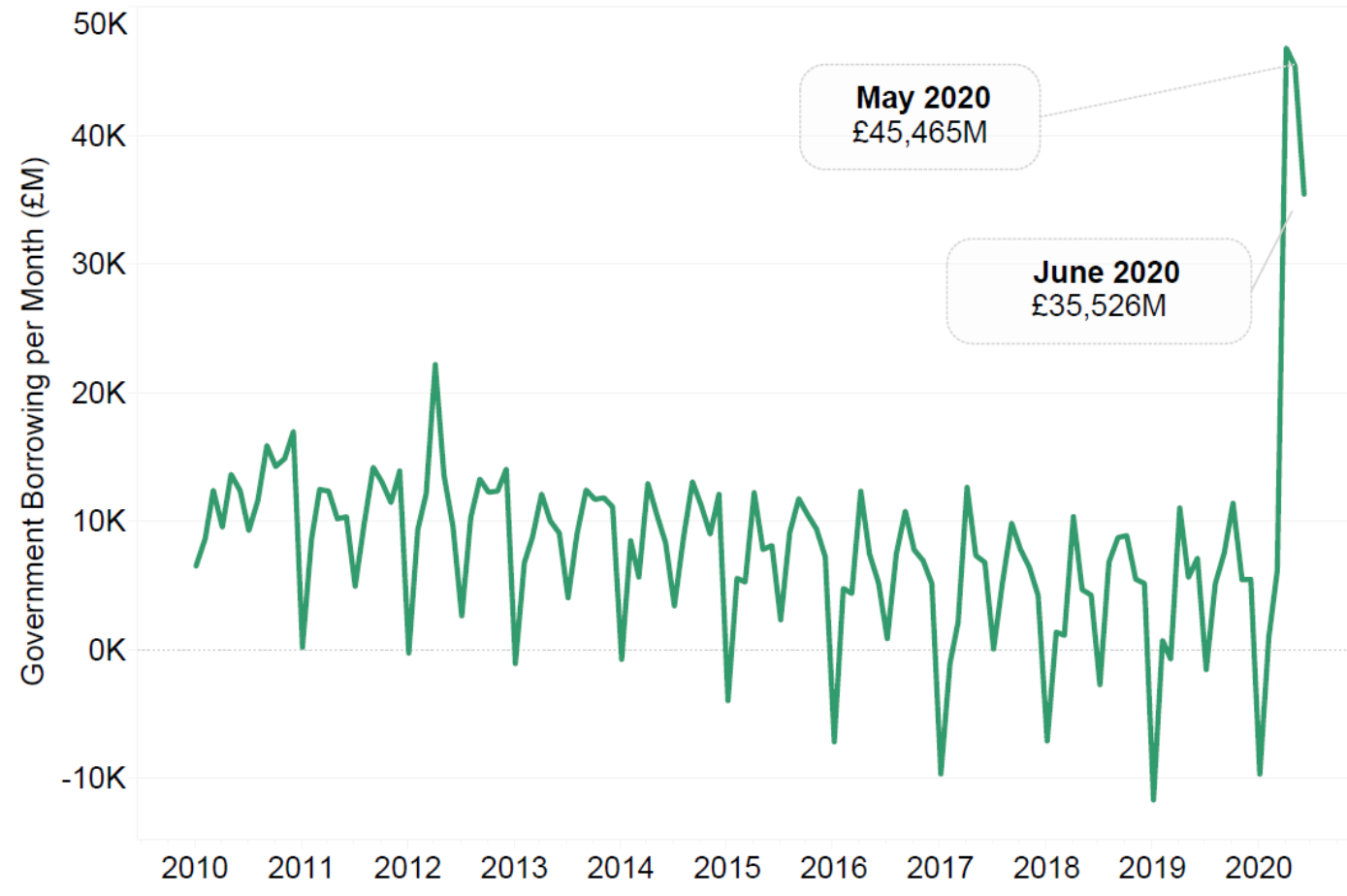
The impact of COVID: excess deaths



Number of deaths registered by week, England and Wales, 28 December 2019 to 19 June 2020. Source: ONS



The impact of COVID: government borrowing



The impact of COVID: Economic Hardship

Coronavirus: UK firms slash more than 12,000 jobs in two days

Coronavirus: Economic impact could be hardest in northern Scotland

UK mortgage approvals slump as Covid-19 hits housing market - as it happened

Become an FT subscriber to read:

“Accenture to cut 900 UK jobs as pandemic hits demand”

News › London

London after Lockdown: Tourism bosses warn of £25bn loss to capital's economy if foreign visitors forced to quarantine

UK mall operator Intu collapses into insolvency. Thousands of jobs are at risk

CNN Business

UK debt is bigger than economy for first time since 1963

Government borrowed a record £55bn in May on back of coronavirus crisis



The impact of COVID: A bumpy ride for insurers

Become an FT subscriber to read:

“UK insurer Hiscox ups Covid claim estimate by 50%”

BBC BBC News

Coronavirus: 'We've spent £10,000 on invalid insurance'

A test case will rule whether many businesses should get payouts for damage caused by the pandemic.

2 weeks ago



BBC BBC News

Coronavirus: Insurance companies pause dividend payments

Insurers Aviva, RSA, Direct Line and Hiscox have scrapped plans to pay dividends to shareholders during the coronavirus crisis. They acted ...

8 Apr 2020



Become an FT subscriber to read:

“Lloyd's of London to offer Covid-19 vaccine insurance”

BBC BBC News

Coronavirus: Insurance firms ordered to pay out or explain

The Financial Conduct Authority has ordered insurance companies to pay out claims to firms "as soon as possible" or explain themselves to the ...

15 Apr 2020



Search

UK edition ▾

The Guardian

Will they work again? Fears over insurance for older actors after coronavirus



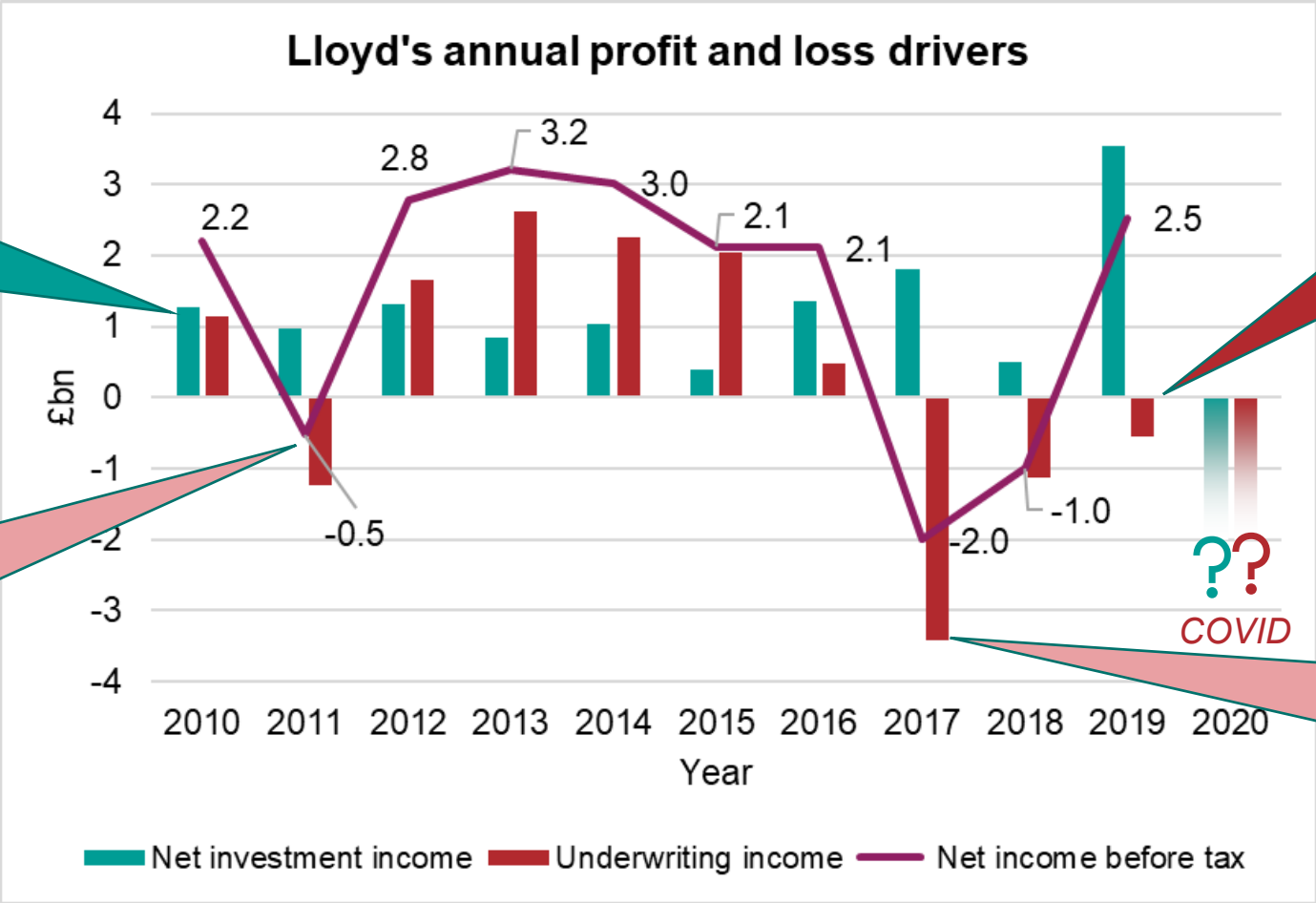
Global Insurance Hit?

Net investment income (i.e. return on investments)

Net underwriting income (i.e. premiums less claims and operating expenses)

2011: Natural disasters (incl. Christchurch earthquake & Japanese earthquake + tsunami)

2017: "HIM" Hurricanes



Excerpt courtesy of S & P publication



Insurance – Policy Lifecycle



Policy Lifecycle





**New business
& renewals**

Areas for consideration:

- Acceptance criteria
- Exclusions & limits
- Pricing action
- Premium rebates
- Impacts on demand
- Entry & withdrawal



External Environment



Areas for consideration:

- Asset values
- Cashflow
- Investment strategy
- Asset vs liability matching
- Inflation



Investment





**Reserving &
capital**

Areas for consideration:

- Impact on frequency / severity of claims
- Increased uncertainty
- Claims volatility
- Lack of data / adjusting past data
- Internal model



External Environment



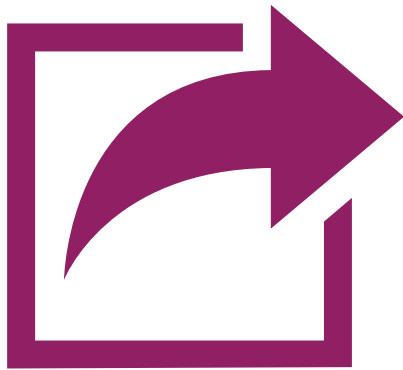
Claims management

Areas for consideration:

- Assessor availability
- Impact on volumes
- Types of claims
- Administration
- Settlement delays
- Fraud



External Environment



Reinsurance

Areas for consideration:

- Availability / renewal
- Strategy / layers
- Pricing



External Environment



**External
Environment**

Areas for consideration:






- Impact of government interventions
- Regulation
- Longer term impacts
- Interaction with Brexit & other risks?
- Way of working (e.g. increased Cyber risk?)



Insurance Classes



Insurance lines

Commercial	Liability	Marine	Personal	Life
 <p>Including:</p> <ul style="list-style-type: none">• Business Interruption• Motor• Property• Pecuniary	 <p>Including:</p> <ul style="list-style-type: none">• Directors & officers• Employers• Public• Product• Professional Indemnity	 <p>Including:</p> <ul style="list-style-type: none">• Hull & machinery• Cargo• Liability	 <p>Including:</p> <ul style="list-style-type: none">• Health• Household• Motor• Protection• Travel	 <p>Including:</p> <ul style="list-style-type: none">• Whole of life• Term assurance• Annuities• Critical illness



Commercial: Event Cancellation Insurance

Cover:

- Reimburses irrecoverable costs and expenses incurred or loss of profit following the unforeseeable abandonment, postponement, interruption or cancellation of an event

COVID-19 considerations:

- Insured vs uninsured risks
- Number of large losses
- Policy wording



Commercial: Film & TV

Cover:

- Civil authority (lockdown)
- Cast cover

COVID-19 considerations:

- Market failure
- Government intervention



Commercial: Business Interruption

Cover:

- Insurance that covers the loss of income that a business suffers after it is unable to carry out business as usual due to specific event(s)

COVID-19 considerations:

- Only tends to pay-out on physical property
- FCA test case
- Impact on future demand?



fastFT UK insurance industry

[+ Add to myFT](#)

UK regulator to seek court ruling on business interruption insurance

Decision comes amid row between companies and insurers on what is covered under policies



Commercial: Employer and Public Liability

Cover:

- Indemnity for costs and legal fees for illness or injury caused



COVID-19 considerations:

- Risk of increased number of claims
- Proof of negligence / cause of COVID
- Exclusions / limited cover
- Potential increase in prices
- Different impacts by sector?



Property



Cover:

- Property protection or liability cover for property (both commercial and personal)

COVID-19 considerations:

- Change in risk profile
- Unoccupied buildings
- Slips and trips



Mortgage & Credit Insurance



Cover:

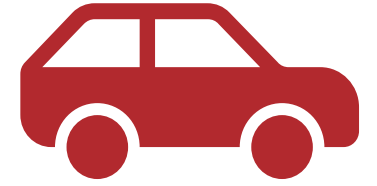
- Financial indemnities linked in inability to pay (mortgages, trade credit)

COVID-19 considerations:

- Personal
 - Unemployment risk
 - Increased risk of sickness absence
- Trade credit:
 - Increased default risk
 - Market withdrawal



Motor

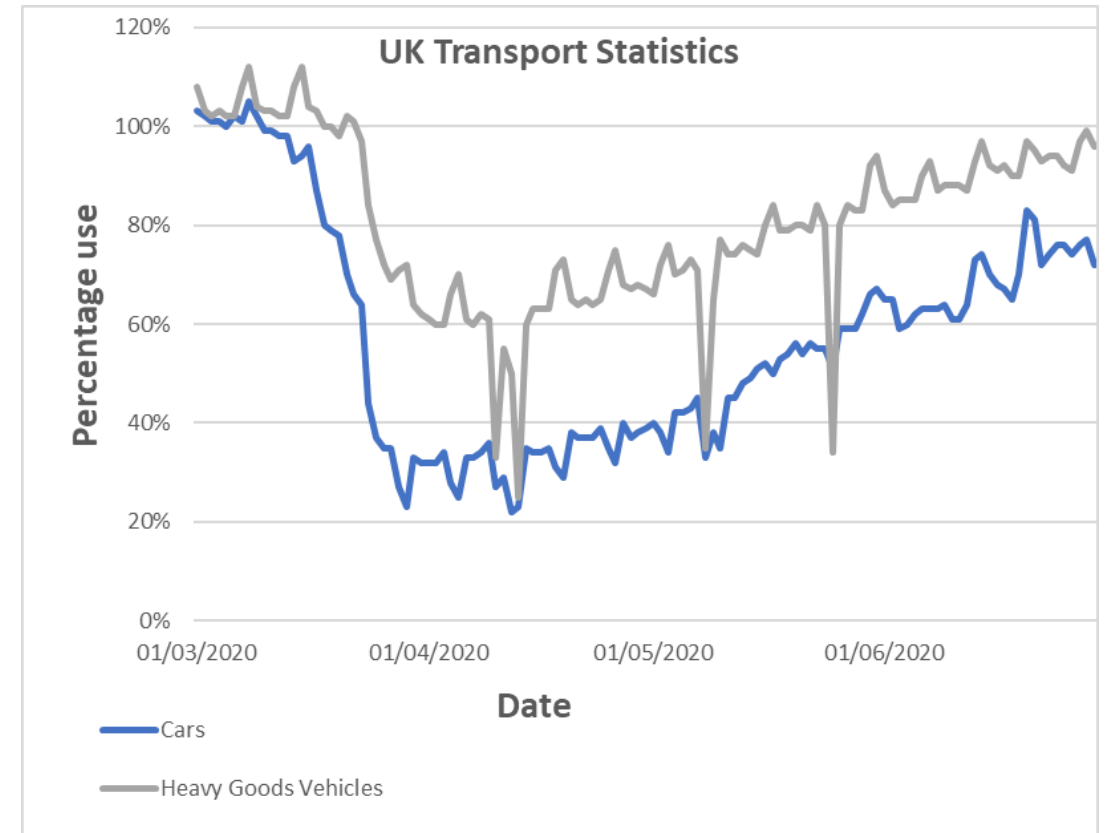


Cover:

- Financial protection against physical damage, bodily injury or liability from driver fault

COVID-19 considerations:

- Different change in commercial and personal lines
- Drop in activity during lockdown
- Longer term (behavioural) impacts



Medmal/ Medical Negligence

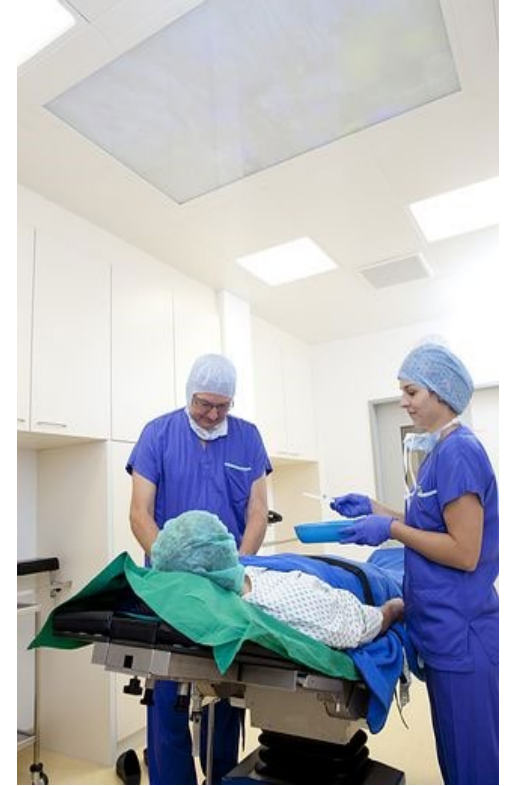


Cover:

- Liability from clinical & care negligence

COVID-19 considerations:

- Reduction in clinical activity
- New COVID related activities
- Strain on healthcare sector
- New treatments, vaccines, technologies and providers



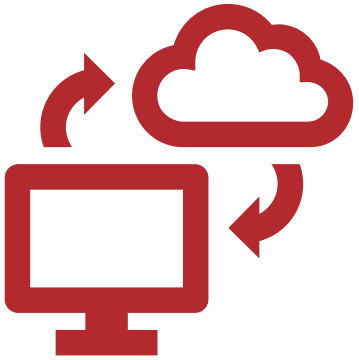
Cyber

Cover:

- Losses and liabilities from cyber attacks

COVID-19 considerations:

- Increased home working
- Extra non-affirmative cover?
- Extra future demand for affirmative cover?



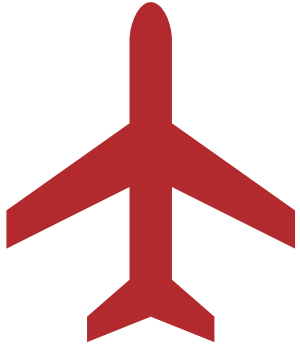
Marine Aviation & Transport

Cover:

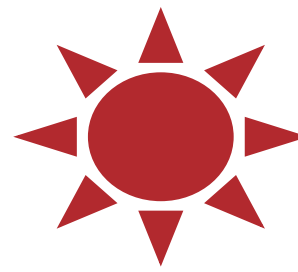
- Losses and liabilities from marine cargo/hull
- Unforeseen losses incurred while travelling

COVID-19 considerations:

- Infection hotspots
- Travel restrictions
- Global trading



Personal Travel



March 2020

Foreign & Commonwealth Office (FCO) advises against all but essential international travel.

June/July 2020

Government introduce further quarantining rules.

Some UK airports temporarily closed.

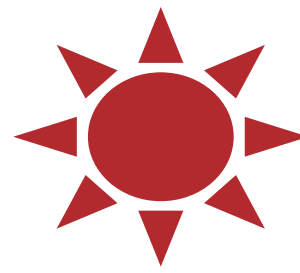
April 2020

Some countries have begun opening their border to tourists.

July 2020



Personal Travel



Cover:

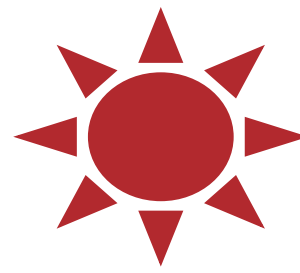
- Additional accommodation and travel
- Medical costs
- Cancellations?
- The ABI pledge

COVID-19 considerations:

- No reference to pandemic in policy conditions
- Market withdrawal (at least temporarily)
- Exclusions



Personal Travel



Key questions:

- When was travel policy purchased?
- When was holiday purchased?
- What is FCO advice?

Current position:

- Must provide medical and repatriation to get on some comparison sites
- 9 insurers claim to cover Coronavirus cancellations
- Only 2 would cover you if you had booked to go to Spain



A quick word on life & pensions...

Cover:

- Life: pays lump sum on death
- Pension: pays annuity on survival



COVID-19 considerations:

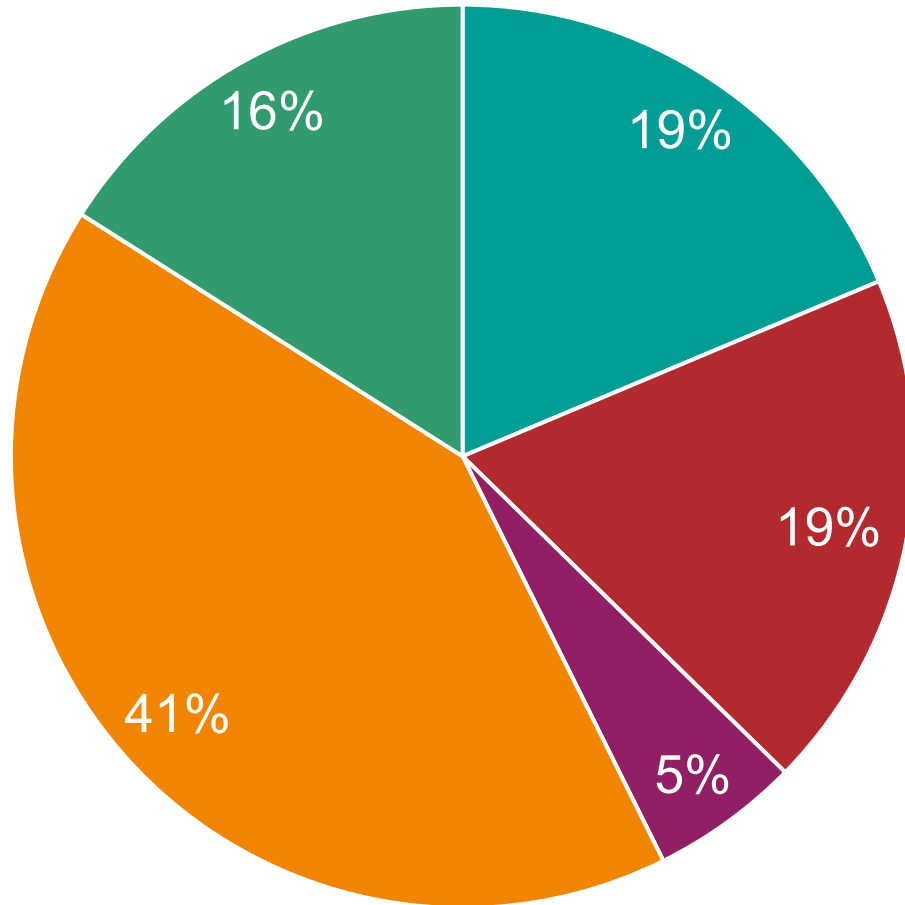
- Increase in death related claims
- Reduction in annuity pay-outs
- Reduction in DC & DB fund values
- Impact on DC drawdown
- Longer term impacts
- Future changes to underwriting



Local Authority Insurance Survey



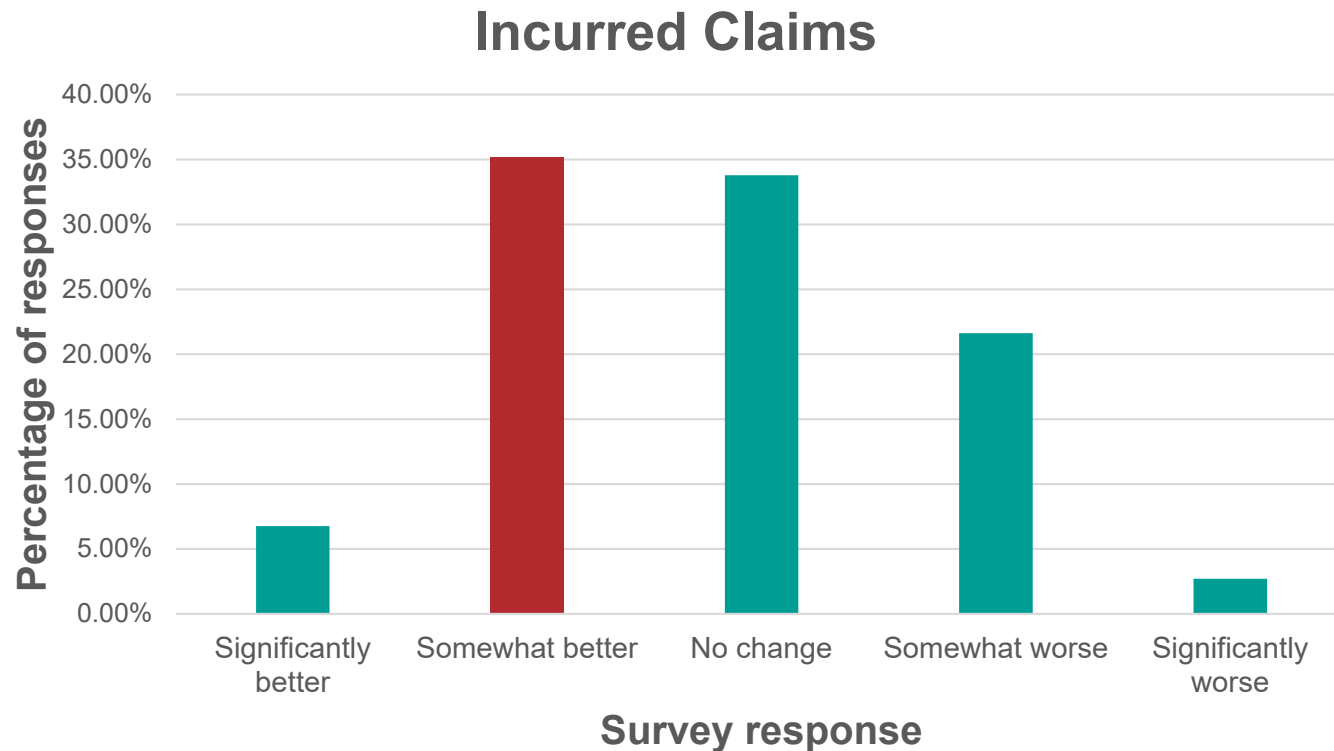
Survey Respondents



- County Council
- Metropolitan District
- District Council
- Unitary Authority
- London Borough



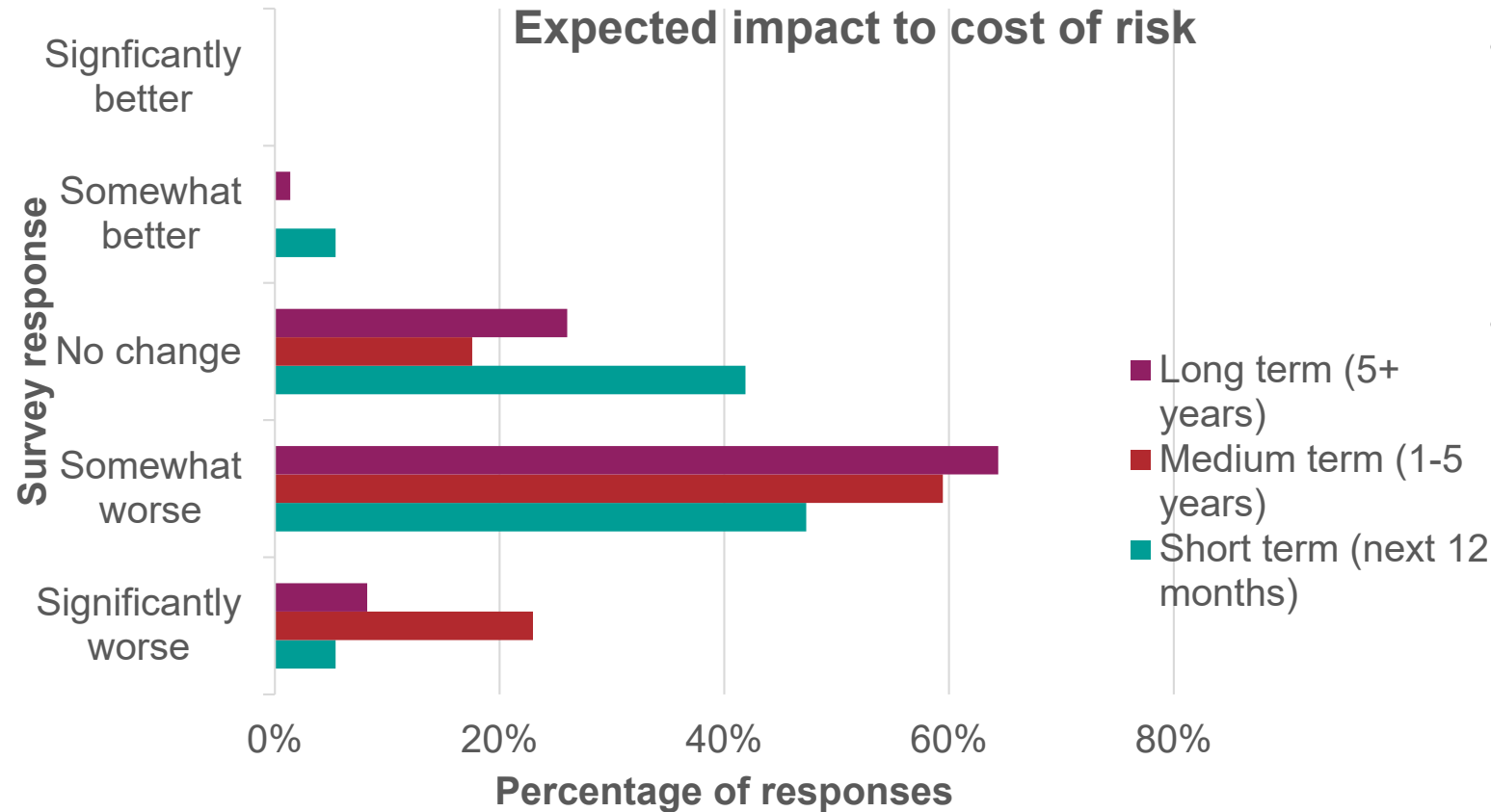
How has the pandemic affected your insurance?



- Reduced footfall - less slip & trip claims
- Less school journeys – less motor fleet claims
- Cancelled school trips triggering more travel claims



How do you think the pandemic will impact your total cost of risk?

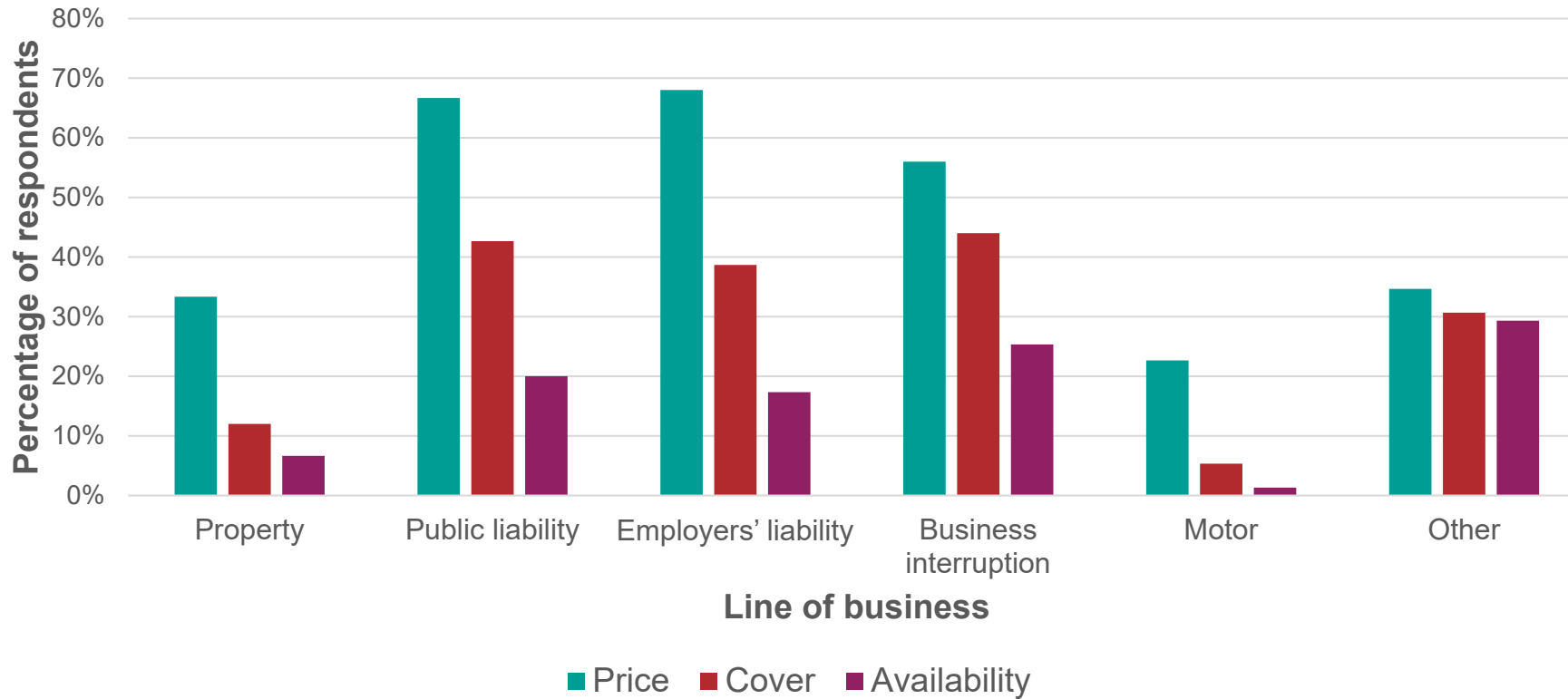


- Degree of change in cost depended on insurance renewal date
- Most respondents expected a negative impact due to the pandemic



Are you concerned about the price, cover or availability of your insurance?

Percentage of Local Authorities worried about different insurance lines



- Price a concern across all lines, especially for EL & PL
- Business Interruption dependent on outcome of test case
- 'Other' lines related to Travel



What steps are you taking or considering to manage the total cost of risk?



- Self insurance levels being challenged
- Brokers and insurers are advising
- Focus on risk management



Forward look



Where next?

- Evolving and uncertain future
- Gradual cover renewal / removal / repricing
- FCA test case
- Interaction with other factors (e.g. IFRS 17, Brexit)
- “Pandemic Re”



Any Questions?



Any Questions?



Other events in the GAD COVID seminar series

COVID-19: mortality impact and considerations for pension schemes (panel discussion webinar, 19 August)

About this event

As we all sadly know, COVID-19 has had a stark impact on the UK's mortality rate this year. GAD will host a panel discussion to explore what 2020 population mortality experience has looked like and the impact of COVID-19. We will consider practical implications for those involved in running defined benefit pension schemes (eg trustees and employers), identifying key factors which will need to be considered when setting future mortality assumptions for their own schemes.

We look forward to hearing from [Professor Andrew J.G Cairns](#) from Heriot Watt University, alongside Dan Whincup (Coal Pension Trustees) as well as demographic experts from the ONS and GAD.

Matt Gurden, Actuarial Director at GAD, will chair the discussion.



Other events in the GAD COVID seminar series

Considering the impact COVID-19 has had on climate risks, and what climate risk management can learn from the crisis

About this event

COVID-19 has shown that planning for systemic risks is essential. GAD's Zoom webinar will consider potential implications of the recent crisis on emerging climate risks and what we can learn from our experience of COVID-19 to inform better climate risk management practices.

We look forward to hearing from [Professor Paula Jarzabkowski](#) from City's Business School, alongside speakers from HM Treasury's COP 26 Private Finance Hub and the Government Actuary's Department.

Colin Wilson, Deputy Government Actuary and past president of the Institute and Faculty of Actuaries, will chair the discussion.



Thank you

