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COVID-19: IMPACT ON P&C PERSONAL LINES

Emerging trends and longer-term implications

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This note is a collaboration between Oliver Wyman and eBenchmarkers.

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eBenchmarkers, part of Informa Financial Intelligence, is a specialist benchmarking consultancy that builds peer groups of competing brands to create unique datasets using real performance data. Our expert consultants help insurers understand where they sit within an ever-evolving market, spot emerging trends and identify opportunities to improve their performance. For more information on our available benchmarks, visit: https://financialintelligence.informa.com/how/how/insurance-companies.

As the UK grapples with the growing COVID-19 pandemic, and the government's response continues to escalate, we look at the potential impact for P&C personal lines insurers over different time horizons by examining trends from other markets and historically.

We look at emerging trends from markets where the pandemic and responses are further progressed and look at some of the impacts of the 2008-09 recession that followed the global financial crisis.

EMERGING DATA

Many countries implemented partial or nationwide lockdowns to slow the spread of COVID-19 before the UK, including China, Italy, Spain and France. Experience from these countries and others, may give an indicator of future experience for UK insurers, especially motor insurers.

In countries with lockdowns we have understandably seen significant reductions in the volume of road traffic which is down ~60-70% on motorways in Italy, France and Spain, ~50% for Chinese cities, ~15-20% for Milan and Rome, ~10% for Madrid and ~25% for Paris.[1]

Understandably less road traffic is resulting in fewer road collisions and reduced claims frequency. Whilst there is little public data on this, anecdotally from client discussions we have heard reductions in claims notifications of 25-50% following the introduction of a lockdown.

We are also seeing temporary reductions in new business quotes of up to 40-50% in markets such as Italy and Spain, as customers look to deal with more pressing concerns, have no need to use their car if in lockdown or are less concerned with home insurance when working from home.

Consequently, reductions in quotes already seen in the UK may have further to fall now that we are in lockdown. We expect, however, that this trend will be relatively short lived and will reverse over the medium term.

In Italy, insurers are also starting to significantly reduce prices on price comparison websites (by 10-25% relative to February) to try and win share and to account for reductions in claims frequency.

1 Sources: Capital Economics, Atlantia

IMPACTS OF THE 2008-09 RECESSION

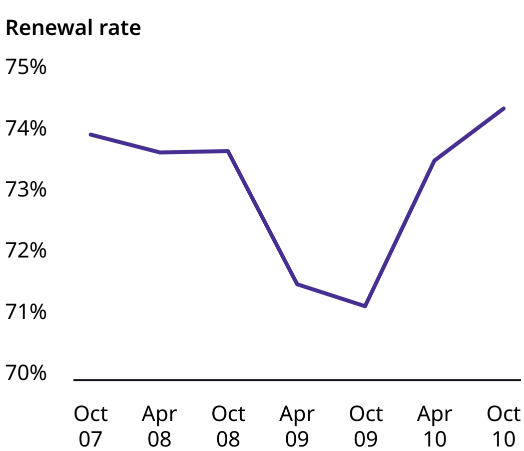
At present there is a great deal of uncertainty around how prolonged the COVID-19 pandemic will be, including how long measures put in place to combat it will need to last. It is expected that the pandemic will push the UK into recession, with more pessimistic predictions stating that this could be more severe than the 2008-09 recession that followed the global financial crisis.

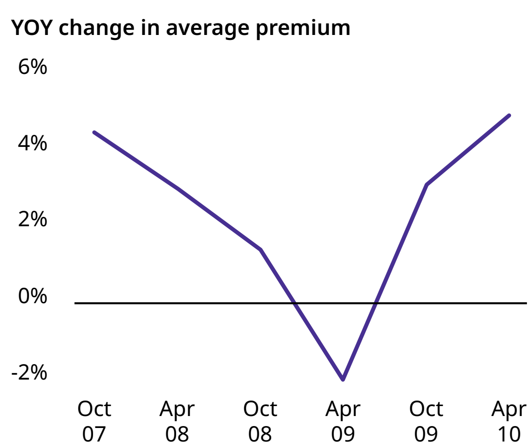
Whilst at this point, we believe it is not possible to predict with any level of accuracy the impact this will have for personal lines insurers, there may be value in looking back at what occurred during the recession. During 2009, we observed:

VERY UNUSUAL COMBINATION OF FALLING RENEWAL RATES AND FALLING PREMIUMS

Market wide renewal rates dropped significantly from Oct 2008 to Oct 2009 (~2.5 ppts for motor and ~2.0 ppts for home), whilst year-on-year growth in new business sales increased over the same period (~6% to ~10% for motor and ~0% to 15% for home). The assumption being that increasingly price sensitive customers shopped around more for better deals.

Highly unusually, the decrease in renewal rate aligned with a 2 ppt decrease in year-on-year premiums; in normal market conditions, falling premiums lead to increased persistency as customer perception of “getting a good deal” is anchored to the prior year price.[2]

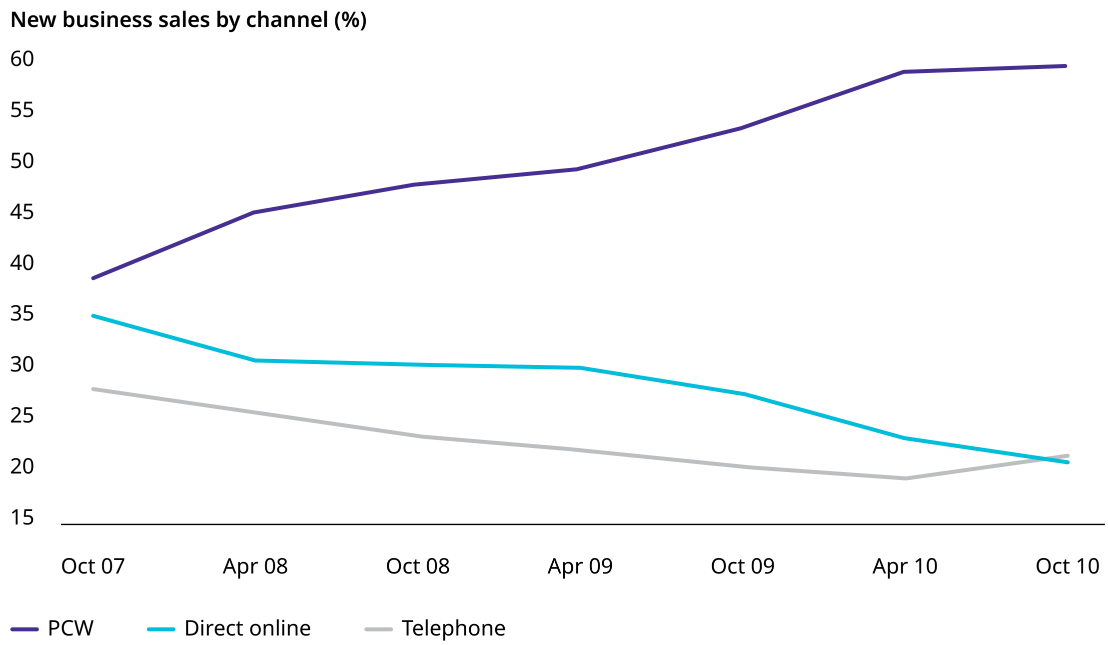




2 Source: eBenchmarkers. Data points are for the preceding 6 months

CUSTOMERS SHIFTED TO DIGITAL PCW CHANNEL

Prior to the onset of the most recent recession, new business volumes were already shifting to price comparison websites (PCW), although this trend had begun to slow. As you might expect with increased customer price sensitivity, 2008-09 saw an increase in PCW new business, most notably for motor (from ~45% to ~53% from Apr 2008 to Oct 2009).[3]



NO SIGNIFICANT CHANGES IN ANCILLARY INCOME

Whilst one might have expected to see an increase in the take up of premium finance following the financial crisis, this was not actually observed, with the proportion of policies paid monthly broadly flat across both motor and home.

Similarly, there was no significant change in the level of take up of “discretionary” add-ons such as breakdown or legal cover over this period.

3 Source: eBenchmarkers. Data points are for the preceding 6 months

WHAT DOES THIS MEAN FOR THE MARKET?

With the material decline in claims frequency, the current underwriting year performance will be one of the few classes to outperform expectations. A personal motor market combined ratio of sub-90%, seemingly unimaginable at Christmas, is not so outlandish, with strong performance possible in personal home despite Q1 storm activity.

We have, however, seen significant pricing shifts as a result of the FCA market study on renewal pricing, which is adding further uncertainty to an unstable market and which illustrates the need to monitor closely relative renewal performance in the coming weeks and months.

For new business, the 2008-09 crisis implies there will be two waves of activity:

- Phase 1, where we follow the traditional market heuristic of rate down, persistency up, as otherwise occupied customers renew on improved rates to prior year
- Phase 2, as personal financial hardship is more pronounced, where we see search rates, switch rates and price sensitivity increase as redundancies bite, despite falling premium rates

The timing and duration of these phases will natural depend on the length of the lockdown period, the effectiveness of stimulus measures and the severity of any economic downturn. This time round, Phase 1 may also play out differently, increases in persistency haven't been clearly observed yet perhaps due to the lag between renewal notifications having been sent and customers checking the latest prices.

Implicit in the new business rates offered will be the personal lines insurers' forecasts on the duration of lockdowns. Those with a view of longer shut downs will be prepared to discount more of the expected experience benefit and share that with customers, while others will take a more cautious view. We may also see a boom in "pay as you go" propositions as customers seek to align risk and premium more accurately given the unusual circumstances, and potentially a reduction in multicar policies if second cars are taken off the road.

We do not expect the number of privately insured cars or homes to dramatically reduce – both are mandatory purchases in some form for most customers, and in the current environment taking a car off the road and embracing near total isolation will be resisted by all but the most financially stressed households.

WHAT SHOULD PERSONAL LINES INSURERS DO?

Specifics actions on trading…

- **Build multi-factor scenarios** for the market to inform your decisions and give comfort to Boards about making bold moves
- Convene a **pricing control centre** to rapidly ingest data on a day to day basis (especially on claims frequency, cancellations, search rate, strike rate, price competitiveness) to make decisive moves; work closely with data providers like eBenchmarkers to leverage and deploy insight rapidly
- Consider **digital marketing strategies** with newly housebound customers and new ways to get a message to customers
- Design and test **propositional adaptation** for the new trading reality – pay as you go propositions, coverage of cancellation costs, cash back offers for cash strapped families, pay monthly deals could all have a window of opportunity

…are a part of the wider CEO and organisational response.

CEO checklist for COVID-19

Human connectivity and business continuity issues	Modeling economics, impacts, and potential mitigants	Looking to the future
Keeping the lights on when remote	**Ensuring business survival**	**Reprioritising transformation actions**
1. Operations support whilst remote **2.** Increased operational risks (cyber, conduct) **3.** Keeping people productive	**7.** Exposure assessment (asset & liability) **8.** Near term risk mitigation (ALM, reinsurance, liquidity) **9.** Scenario and stress testing (P&L, BS, CF) **10.** Reputation risk management and lobbying stance	**13.** Cost transformation and change management **14.** Lead the channel shifts (digital reinvention) **15.** M&A (out and in) to shape future portfolio
Strong central control room	**Supporting clients**	**Positioning for rebound**
4. Senior management support and external communications **5.** Enhancing internal communications **6.** Rapid change portfolio re-prioritisation	**11.** Ensuring cover continues to key markets **12.** Trading through the crisis (distribution, pricing, product)	**16.** 2021 equity story – shape portfolio to deliver **17.** Structural impact of lower for longer interest rates **18.** Re-norm ways of working to build on unexpected successes

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