

Insurance

Insurance prices rise across the board as coronavirus hits

Customer claims expected to exceed \$100bn, while volatile financial markets dent reserves



Higher commercial insurance rates will compound pressure on businesses already struggling to deal with the crisis © AFP via Getty Images

Oliver Ralph MAY 24 2020

Prices for commercial insurance are rising at rates not seen for almost two decades, compounding pressure on businesses that are already struggling to deal with the coronavirus crisis.

Industry experts say that prices for some types of cover are doubling as insurers attempt to repair some of the damage the crisis has inflicted on their balance sheets.

“Prices are rising across the board after several years of price decreases,” said Andrew Horton, chief executive of insurer Beazley. “We haven’t seen anything like this since the early 2000s when everything was growing at the same time.”

Insurers are facing a [double hit](#) from coronavirus. Claims from customers could pass \$100bn in total, while there has also been a hit to reserves from volatile financial markets.

Insurance and reinsurance prices had already been rising before the virus hit. The industry had been reeling from several years of relatively expensive [natural catastrophes](#), while [compensation payments](#) awarded by US juries had also been pushing up the size of insurance claims.

“Post-Covid these trends will continue,” said Jonny Urwin, an analyst at UBS. “It is more pain after a few tough years. It makes sense that pricing needs to respond.”

Jon Turner, head of insurance broker Gallagher’s UK specialty business, said: “There was a snowball rolling down the hill and coronavirus has added to that as it gathers momentum.”

One of the lines where prices are rising the most is liability insurance for [directors and officers](#) — the cover that companies buy to protect senior management in case of legal action. Prices for D&O insurance are doubling, say insurance brokers.

Meyer Shields, analyst at Keefe, Bruyette & Woods, said: “This is a long overdue response . . . the expected returns [for insurers] without rate increases are woefully inadequate. And there is concern over virus-related losses in D&O.”

There has also been a big jump in prices for reinsurance in Florida — a heavily insured state prone to severe hurricanes. These contracts usually renew on June 1 each year, and brokers say that prices for this year’s renewals are rising about 30 per cent.

Mr Turner said: “This is driven by prior years’ claims activity, and the loss of capital.”

Some insurers have raised capital to back new business in the expectation that rising prices will give them opportunities to grow. This month Beazley has raised £247m of equity while Hiscox has raised £375m.

But the higher prices are likely to be a challenge for buyers of insurance and reinsurance, many of which are facing financial problems themselves.

“We’re very cognisant that many of our clients are in financial distress,” said Mr Horton. “People might buy less insurance, but it is not positive for the industry if people hold on to more risk themselves.”

Few are expecting the pricing trend — known in the industry as a hard market — to change soon. Although prices had been slowly increasing over the past couple of years, that was preceded by many years of falling prices after the 2008 financial crisis.

“The hard market will last two or three years, but it will depend on what happens next,” said Mr Shields. “A severe hurricane season or high inflation would prolong it.”

