

30 June 2020

We have received a series of inquiries regarding business interruption insurance payments and the Government grant scheme. My colleagues across the industry and I understand that this is a very difficult time for many businesses around the country. This letter sets out more detail on how insurers are managing business interruption insurance claims and payments through this crisis.

A global pandemic of this scale is unprecedented in modern times and unfortunately only a very small minority of businesses will have purchased cover that is triggered by a pandemic. This has been publicly acknowledged by both the industry's regulators, the Prudential Regulation Authority and the Financial Conduct Authority. This position has been disputed by some businesses and the insurance sector has worked with the Financial Conduct Authority to bring a fast-tracked test case to court to clarify the position.

In the small minority of cases where insurance is triggered, queries have been raised of why insurance payments may be affected by the payment of Government grants. Insurance acts as a vital final safety net for businesses, stepping in where cover or support is not available elsewhere to fund irrecoverable losses. This is a long-established principle of insurance which also helps keep premiums affordable for customers buying the cover.

The UK Government's Small Business Grant and the Retail, Hospitality and Leisure Grant Fund replace firms' lost income and are treated as such for tax purposes. If insurers were to make payments beyond those set out in the insurance policy, to cover income firms had not ended up losing, they would be unable to recover such payments from their own reinsurance. They would also risk being non-compliant with regulatory requirements that demand insurance executives hold the right amount of capital for the claims they have contractually committed to pay and that they manage the firms' finances prudently and responsibly. I therefore do not share the characterisation that insurers are treating the grant scheme as a subsidy to protect against losses; they are simply recognising when income has already been replaced and avoiding double-compensating the claimant.

Insurers are dealing with all claims on a case by case basis, assessing the circumstances of the business making the claim carefully and, wherever Government grants are taken into account, ensuring that this is a fair reflection of the impact of this grant on the financial position of the business making the claim. On deferred bookings

and cancellations, for those businesses where there are valid claims, this will be considered by the insurer. Insurers have committed to process business interruption claims as quickly as possible and to make interim payments wherever appropriate.

We remain conscious of the challenges faced by businesses in this crisis and, despite the small number of businesses that will have purchased cover, UK insurers still expect to pay out at least £900 million in valid business interruption claims in response to the Covid-19 crisis. For valid claims, leading ABI members have agreed a set of [claims handling principles](#), to ensure speedy processing, and have been working with business customers pro-actively granting policy extensions and waiving policy restrictions for customers on a range of activities and insurance products.

As a trade association, the ABI's role is to represent our member's views, rather than to act as a regulator. Our members have, however, as already noted, agreed a set of claims handling principles. We would not advise our members on how to settle individual claims and have not done so in terms of the treatment of Government grants. We will, however, continue to work with our members to provide guidance on responding to the Covid-19 crisis and to support businesses affected wherever possible. More information on insurers response to the crisis and member pledges to customers can be found on the ABI's [COVID-19 Information Hub](#).

I hope the information in this letter is helpful to understand the insurance industry's position and if we can provide any further information or assistance please do not hesitate to get in contact.

Yours sincerely

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Director General