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James Ollerenshaw
Founder
Covid Claims Group

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Dear Mr Ollerenshaw and co-signatories

Thank you for your letter of 9th May, as also published in The Times of that day. My colleagues across the insurance sector do appreciate the anxiety and uncertainty you and fellow SME owners face in this unprecedented economic and public health situation.

Your letter sets out some serious charges; that insurers have failed customers at their moment of need, that they have treated SMEs differently from other customers and that the ABI has hardened its position as the crisis developed. I will address each of these in turn.

Far from failing our customers, insurers in the UK expect to pay at least £1.7 billion in claims as a result of Covid-19. This includes over £900m to businesses and £275m to people claiming on travel insurance. The international insurance market, Lloyd's of London has said it expects this event globally to have more impact on the financial position of insurers than the 9/11 terrorist attacks or the 2005 hurricanes, with the global and systemic nature of this crisis challenging our industry in a way we have never seen before. So, as our sector also seeks to address the challenges it faces from Covid-19, we are also continuing to do all we can to support the individuals and businesses affected by paying a large volume of claims, both in the UK and internationally.

With regard to SME purchase of non-damage Business Interruption extensions, I can assure you that each claim is being examined on a case by case basis by ABI members. Where the policy wording allows for a claim to be paid, it will be - hence the £900m our members expect to pay swiftly and with interim payments wherever possible. This will be on top of the average of £7.8 billion paid by insurers each year to SMEs and larger businesses for day to day risks such as fire, flooding and employee accidents. In deciding whether to pay a claim, insurers do not make a distinction between SMEs and larger businesses; the wording of the policy contract is the key determinant not the size of the business.

I disagree with your assertion that the ABI has hardened its position as this situation unfolded; we have explained consistently since the beginning of the Covid-19 crisis that most Business Interruption policies do not provide any cover for human infectious diseases but that a minority of customers choose to buy add-on cover that provides insurance against specific notifiable diseases that affect their premises. Such add-on policies are not designed to cover a global, viral pandemic. These policies typically specify a list of notifiable diseases covered and/or relate to an outbreak on or near the premises in question. Inevitably, in a fast-moving crisis, there will be more emphasis on some elements of policy wordings than others in media coverage and Government statements. But our understanding and explanation of the situation has remained consistent throughout, as we have sought to answer frequently-asked questions and expand our communications accordingly.

The protection offered by these add-on policies relate to particular risks businesses like yours' face; that an employee may contract a specific infectious disease such as typhoid, malaria or norovirus which is then present on the premises or surrounding area and that requires the temporary closing of the business. The policy protects the business against the loss of earnings during this short period and the cost of making the premises safe again. They are not designed to cover an unspecified global, viral pandemic that is not present on the premises. Nor were these policies sold to customers as being cover against this type of incident. The proof of this rests in the prices charged to SMEs; providing insurance coverage specifically against pandemics is a specialist and expensive form of insurance typically sold in the Lloyd's market. If insurers were including this type of risk as standard in the policies you and your co-signatories had bought, you would have been charged many multiples of the price you paid, given the huge liabilities involved in shutting businesses for indefinite periods.

Your wider point is that irrespective of the policy wording, insurers should pay claims and that if only a minority of businesses have bought extensions to BI-coverage, this should be affordable. I can understand why you may assume this, but I would like to explain why this is not the case. Insurers are required under their legal and regulatory responsibilities to do nothing which endangers the solvency of the insurance company or involves reckless stewardship of its finances, as well as having a responsibility for the 300,000 people our sector employs across the whole of the UK. In these unprecedented economic circumstances, paying tens of thousands of claims for which insurers have not charged a premium would cost many billions of pounds, which could both imperil the ability of insurers to pay the claims of other policyholders. This is not an issue of insurers failing to show flexibility. Insurers have a fundamental duty to their policyholders to ensure they have adequate reserves and must therefore ensure that the risks they cover are included within the premium originally charged before paying a claim.

Where I do agree with you is on the need to find better solutions so insurance coverage can be more widespread in the event of a future pandemic. For such insurance to be affordable to SMEs, there would likely require significant levels of state support. But we are committed to playing our part to find a better future position than we have at the moment.

I appreciate the significant challenges facing the SME sector and that, at the outset of the crisis, many SMEs were hopeful that they would be able to make insurance claims. I can assure you that the insurance sector takes no pleasure in declining claims from hard-working SME owners whose custom we value. Every day we typically process claims worth millions of pounds from businesses like yours' and those of your co-signatories. We take pride in paying claims quickly and providing a safety net against some of the most common risks you face. No country in the world routinely provides affordable standard insurance cover against the risks of a global, viral pandemic but we will continue to look for future insurance solutions, while ensuring we fulfil the promises we have made to protect your businesses against the risks included in your insurance contract.

Yours sincerely

A handwritten signature in black ink, appearing to read 'Huw Evans', with a long horizontal flourish extending to the right.

Huw Evans
Director General