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# LOOKING BEYOND CORONAVIRUS

Businesses are beginning to assess their strategic priorities and changes to the landscape as they look to manage the impact of Covid-19 on their business. We expect this will lead to some fairly decisive action and increased transactional activity in the second half of 2020 and 2021 as the insurance sector begins to recover and to deal with the impact of Covid-19.

We have seen Beazley and Hiscox successfully access the equity markets in recent weeks and both companies have been rewarded with significant increases in share prices as a result (8% and 10% respectively). This comes despite uncertainty on the Covid-19 impact on their businesses and in the wake of Lloyd's forecast that the combined hit on investment returns and claims exposure could make Covid-19 the greatest loss generating event the market has seen.

The main reason for this show of market confidence is that investors are looking beyond Covid-19 and seeing the upside in values, hardening rates and the potential increased demand for insurance, including the potential for new and emerging classes such as cyber risk. When taking into account the wider picture of volatility in equity markets and negative yields on gilts the insurance sector becomes a more attractive investment proposition.

If there is a shrinking pool of desirable investments and sectors for investors we can expect to see increased interest in all forms of insurance related assets. This would include increased interest in ILS and M&A as well as the debt and equity markets. We may see an increase in private equity acquisitions in the sector in particular.

Our expectation therefore is that we will see increasing transactional activity in the next six to eighteen months. We expect this would include not only more capital raising for insurers in the debt and equity markets to shore up regulatory capital but also accelerated consolidation in the intermediary sector, particularly in light of the Aon / Willis deal which may act as catalyst for deals or start-up opportunities. This trend for consolidation could also extend into the GI sector and consolidation in the life run-off sector should also continue largely untouched. Capacity to write new and emerging risks will also require significant third party investment, not least the Pan Re and Lloyd's pandemic solutions.

Notwithstanding the positive signs, there are still significant immediate challenges to overcome. In particular, the outcome of the FCA's declaratory judgment request, US litigation on Covid-19 claims, BI action group claims and potential mis-selling claims against intermediaries There is also the issue of reputational damage to the industry and question marks over whether rates hardening will offset decreased demand. As such, we are not yet past the stage where we can discount that difficult decisions will be required, with emergency fund raising, distressed sales and even administrations possibly required for some.

Recent experience suggests, however, that if there is a strong underlying business case the market demand is there to come out of Covid-19 intact. Businesses will need to be confident in their strategy to take advantage of market conditions and to make the right move at the right time.

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