Finance

Can the Finance Industry Be Trusted This Time?

Whether insurers pay out on Covid-19 claims will have a big bearing on attitudes toward finance. And that has serious economic consequences.

By Elisa Martinuzzi
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An insured loss? *Photographer: Leon Neal/Getty Images Europe*

Like the rest of us, the world's finance industry is still wrestling with the huge uncertainty of a pandemic that doesn't yet have an end. The sector's reputation took a battering after the financial crisis, and it's too early to say how things will go this time.

One area in the spotlight is insurance, with myriad claims being pursued by small businesses seeking redress for their Covid-related losses. In one of many cases around the world, the U.K.'s billions of dollars in payouts.

If the insurers win, they'll avoid those huge expenses. But the broader cost might be even bigger. Once again, people working in the real economy would feel that the financiers don't have their back in a crisis, and the knock-on effect on economic confidence would be severe.

At the center of the U.K. dispute are policies that were designed to cover the loss in income for businesses from the impact of physical damage. The contention is whether the policies also apply to a pandemic.

The Financial Conduct Authority argues that companies lost money under lockdown – even if they remained technically open – because people were told to stay home. Insurers say the government's guidance was only a warning, similar to what the public is told about cigarettes and alcohol consumption, and they are therefore not liable. A judgment is expected in September.

Similar cases elsewhere have gone in the claimant's favor. In France, an insurer was ordered to pay a restaurant owner for loss in income because of the coronavirus, and in Canada a court ruled physical damage could include viral contamination.

The extent to which the costs of a natural disaster are shared with the finance industry can hinder and, perhaps more surprisingly, support economic recovery, a recent study has shown.

Academics at Washington University in St. Louis analyzed how people's sentiment toward financiers responded to more than 50 severe natural disasters between 1870 and 2009 and looked at the economic trends that followed. To do so, they gleaned inputs from the texts of millions of books from eight large economies, creating an index to measure attitudes and the impact of people's confidence in the finance sector on gross domestic product.

They found that epidemics and earthquakes tend to lower people's regard for finance, while droughts and floods typically improved views toward the industry. The researchers put this down to insurance coverage. Epidemics and earthquakes are often treated as uninsured, which

The academics acknowledged that it's impossible to calculate the exact impact on GDP of diminished trust in the finance industry, but Asaf Manela, one of the authors, told me individuals' respect for insurers and other financiers in a crisis is clearly a factor for the economy.

Trust in finance was only just recovering in the aftermath of the financial crisis. While banks have been granting payment holidays and handing out billion of loans to small companies, this has been driven largely by government (that is, taxpayer) guarantees. "The way the industry responds to the crisis in the next phase will determine how it is seen," says Antony Elliott of the Fairbanking Foundation, a charity that aims to improve financial wellbeing.

The finance sector can't hide behind governments and central banks forever.

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