

Response to IAIS consultation on the impact of COVID-19

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How will COVID-19 affect the financial system and the insurance sector specifically over the short, medium and longer term?

The COVID-19 pandemic and the government actions taken in response to it have already had a significant impact on the insurance sector and are expected to continue to affect insurers' claims, assets and business flows. Many of the pandemic's consequences will take time to materialise, however, and the ultimate effects will depend on the severity of the economic crisis and on how fast economies recover. Figures from the [Swiss Re Institute](#) indicate that, in 2020, the global economy is expected to shrink by 3.9% and that the global costs of the pandemic are estimated to amount to roughly \$12trn.

For the insurance sector, the losses are expected to amount to an estimated \$50bn-\$100bn. However, the impact is not the same in all markets. This is due to the fact that the economy of each country is affected differently, with some economies being hit harder than others and with differences in the measures introduced by governments. It is also due to the national and local characteristics of insurance, which mean that the extent to which insurers cover certain losses are dependent on national circumstances, in addition to being dependent on individual company circumstances.

Throughout the COVID-19 crisis, the insurance industry has remained strong, with insurers generally maintaining their solvency position. In addition, insurers across Europe have maintained business continuity, including their ability to continue to serve customers effectively. At the same time, European insurers have managed to keep their own employees safe from the virus, responding to national lockdown orders and/or recommendations to maintain social distancing by moving their combined workforce of over 900 000 employees to teleworking and by setting up effective protocols to facilitate this transition.

Since the outset of the pandemic, many insurers have taken a very broad range of actions to help their clients. On a case-by-case basis, they have offered, where possible, temporary fee deferrals, fee waivers or even partial refunds of premium payments. Moreover, insurers have launched a broad range of voluntary goodwill actions to support European citizens and businesses, from contributing financially to health and



research initiatives and making donations to schools for IT equipment to relaying governments' mental and physical health messages.

Short term effects (by end of 2020)

Overall, insurers have demonstrated strong operational resilience in continuing to service clients. Notwithstanding some minor delays and operational issues — especially in markets with strict requirements around paper/official documentation or due to the closure of car repair shops — insurers have continued to process claims at a normal pace and respond to enquiries from customers swiftly. As regards operational (cyber) risks resulting from the transition to teleworking, insurers have set up effective protocols to facilitate this transition, implementing contingency plans to protect their customers and employees while minimising service interruptions. This process has been deployed with the maximum level of efficiency possible, although networks and ICT systems have been stretched, as in other sectors. However, given that there have been no major disruptions reported, it can be concluded that the ICT security and contingency programmes put in place by European (re)insurers have been robust when confronted with the new COVID-19 working environment.

With regard to claims, a surge in claims for some business lines has been reported in several countries, with global total losses amounting to an estimated \$50bn-\$100bn, as indicated above. In the UK, for example, COVID-19 is expected to result in around £1.2bn of claims for business interruption, travel insurance and event cancellation. In other areas, a reduction in the number of claims was initially reported (motor, marine, aviation and transport (MAT) and health, for instance) in a number of countries. However, this trend has started to reverse with the lifting of lockdown measures (see "medium to longer term effects").

For general insurers, a major concern over recent months has been the potential for legislative action in different jurisdictions to retroactively amend insurance contracts in order to cover pandemic risks, especially for business interruption policies. This remains a significant concern and we highly appreciate the statement of 7 May made by the IAIS warning against any such legislative action.

Insurers in any jurisdiction cannot provide general cover against the impact of a global pandemic and, as shown by the policies sold, it is clear that this was never envisioned before COVID-19. Despite this, the insurance sector in some markets has experienced reputational damage due to perceived inaction and failure to pay claims. In the longer term, this could have an impact on the level of new business written by non-life firms. It is therefore essential that insurers work together with policymakers and regulators to better inform customers and the public at large about the role that insurers can play through the public-private solutions currently being explored in a number of markets across the world.

Going forward, it is essential that all stakeholders understand that insurance is dynamic (capacity will contract and expand with changing circumstances), contractual (the wording of the contract is crucial to insurers' reserving and customer relations), constrained by sometimes conflicting regulatory requirements and significantly affected by the availability and price of reinsurance.

From a prudential perspective, COVID-19 was the first real test of the EU's Solvency II framework, which became fully applicable on 1 January 2016. Insurance Europe had continuously raised concerns about the fact that Solvency II can exaggerate the impact of short-term price movements in the financial markets on insurers' balance sheet and solvency position. This effect was confirmed during the recent COVID-19-induced market volatility. The existing measures (known as the long-term guarantee or LTG package), which should protect insurers from short-term market volatility creating artificial balance sheet volatility, failed to provide sufficient protection for some insurers and created exaggerated changes in the solvency position of others. Overall, however, ratios remained high and well above regulatory minimums.

The insurance industry recognises the benefits of a risk-based and market-consistent regulatory approach. However, for these aspects of any regulatory framework to be truly effective, they must reflect the long-term nature of insurance and the sector's risk management and asset/liability management (ALM). The experience of COVID-19 has also confirmed that any modification to prudential frameworks, in Europe and beyond, should be comprehensively tested to ensure their efficacy in a variety of stressed market conditions.

Given the nature of insurance business (the comparative illiquidity, predictability and long-term nature of liabilities combined with significant sources of liquidity), liquidity remains very much a managed issue of low concern for insurers compared to other financial services firms.

Medium to longer term effects (2021 onwards)

In terms of claims, it will take time to get a full picture of the impact of the pandemic: not only will it take time for claims in certain areas to materialise but, as indicated above, it will also take time to assess the extent to which an initial reduction in the number of claims in certain business lines (motor, MAT, health) will be followed by an increase when lockdown measures are lifted. More generally, the ultimate effect on claims will depend on how countries emerge from lockdown situations and on how citizens adapt to new and evolving circumstances.

Of particular importance for the sector in the medium to long term will be the impact on new business. This will depend first and foremost on the evolution of the economic situation, which tends to have a direct impact on non-life insurance, but which also has an impact on people's ability to save (see also below). Other factors, such as the interest rate environment or people's interest in acquiring protection, will also play a role. Finally, insurers expect to be increasingly faced with unpaid premiums due to the hardship faced by some customers.

As regards the area of pensions in particular, turmoil on financial and labour markets resulting from the COVID-19 crisis is likely to affect people's ability and willingness to save for their retirement and to contribute to pension schemes. This will undoubtedly impact the activities of life insurance companies. Due to the long-term nature of private pension savings, the impact of the COVID-19 pandemic will only be fully measurable once current savers reach retirement age. Moreover, the impact will vary by country, given the differences in national responses to the crisis. According to the [Swiss Re Institute](#), global life premium volumes are forecast to shrink by 6% in 2020, with savings products being particularly affected. Life premiums in advanced EMEA are expected to decline by close to 10% in 2020. The impact of COVID-19 on private pension savings will also depend on two other important elements: first, the national rules applicable to pensions (ie surrenders) and, second, the nature of the scheme (defined benefits/guaranteed or defined contributions/non-guaranteed).

For non-life risks, the reinsurance market is hardening. Rate increases, tighter coverage and potentially reduced capacity will lead to challenges for insurers, especially in the lead-up to 1 January 2021 reinsurance renewals.

Sustained ultra-low interest rates will also have a negative impact on the ability of insurers to achieve investment returns and will likely impact profitability as well as the returns provided to long-term savings customers.

What are the key trends, risks and opportunities for the insurance sector in light of COVID-19?

In terms of the **key trends**, the move towards digitalisation is expected to continue if not accelerate. The continued investment in technology and digitalisation to facilitate distribution, claims management and advice, among other areas, has enabled insurers to support customers during the difficult conditions arising from the COVID-19 pandemic. It is expected that there will be a continued acceleration in the use of digitalisation and technology beyond the end of the current pandemic. Insurance Europe therefore welcomes the fact that the IAIS has identified fintech as one of its strategic priorities for the 2020-2024 period. Insurance Europe believes it is important to ensure there is a legislative and regulatory environment in which digitalisation can be supported, particularly given that there will likely be an increase in the number of people working from home still after the pandemic; this means that the number of activities performed online will in all probability increase as well, including in insurance.

Furthermore, while data is still being collected, several markets have reported an increase in fraud. The risk of fraud is expected to continue to increase should there be prolonged recession. For example, an increase in cases of professional liability insurance fraud could occur during the second half of 2020 or in 2021, due to the economic difficulties experienced by businesses. New types of fraud could also appear, leveraging on more sophisticated digital tools. It will therefore be essential to ensure that appropriate tools are in place to fight existing and new type of insurance fraud.

In terms of **risks**, the industry is particularly concerned about conclusions being drawn too fast and Insurance Europe would therefore be strongly in favour of the IAIS and its member supervisors adopting a long-term perspective in their assessment of the impact of COVID-19. The COVID-19 situation continues to evolve, which means that it will not be possible to fully understand the impact of the pandemic before the end of 2020 at the earliest. Moreover, in addition to the fact that each product and business line is different, COVID-19 has clearly demonstrated how much insurance products are tailored to national circumstances and the specific market dynamics at play in individual countries. There are also significant differences in the types of restrictive measures imposed by governments to stop the coronavirus from spreading, implying differences in how the sector is affected across the globe as well. This means that the ultimate impact of the pandemic on the insurance sector in general and on insurance products specifically can only be assessed on the basis of figures that reflect the longer term, and notably on the basis of products' full life cycles (rather than mid-term in policy periods). Therefore, Insurance Europe believes that it is important to adopt a longer-term perspective to issuing guidelines and measures, which should moreover be tailored to national circumstances.

The COVID-19 pandemic has cost a significant number of lives globally and has created immense economic hardship for citizens and businesses alike. It is therefore extremely challenging to identify positive aspects of the pandemic. Nevertheless, the conclusions and learnings that the industry can draw from the pandemic could be seen as **opportunities**. Firstly, while COVID-19 confirmed that insurance can provide peace of mind during difficult times, and insurers have indeed played a role in tackling the negative socio-economic effects of the pandemic, the crisis has also demonstrated the importance of clear contractual wording. This is needed to ensure that consumers know precisely what their policies do and do not cover, acknowledging that the insurance industry cannot pay for losses for which it has not received premiums. More broadly, the pandemic confirmed that the information provision to consumers with regard to how insurance works, what it covers, and what the terms and conditions of policies entail is key and it demonstrated that this is an area in which there is room for improvement.

Secondly, the pandemic has confirmed the importance of a fit-for-purpose prudential framework to ensure optimal outcomes for consumers.

Thirdly, COVID-19 has raised important questions around the extent to which the resilience of economies, financial systems and societies in general can be enhanced and pandemic risk can be covered in the future. There is an opportunity to explore the role insurance could play in this regard, for instance through public-private solutions that carefully consider the level of risk that can be viably underwritten by the private market. In this regard, Insurance Europe contributed to an [issues paper](#) outlining shared resilience solutions for pandemic risk, published by the European Insurance and Occupational Pensions Authority (EIOPA). The current pandemic presents an important opportunity for the sector to learn where it is already performing well and in what areas new solutions could be developed in order to better assist, to the extent possible, consumers and businesses in coping with the negative effects of a major catastrophic event.

In a similar vein, there is an opportunity to achieve a green recovery from the crisis, and insurers stand ready to contribute to this goal. Additionally, in light of the increased online activity during COVID-19, the insurance industry is keen to contribute to increasing society's cyber resilience, for instance by developing tailor-made cyber insurance products.

Fourthly, COVID-19 might also generate awareness of the need for people to take responsibility for their own retirement income and for countries to speed up efforts to reform pensions. This is particularly crucial in light of the pace of population ageing around the world. Against this backdrop, private pension solutions offered by insurers are likely to play an even bigger role in ensuring the adequacy of future retirement provision, given



the increased need for financial security as a result of the crisis. Insurers will only be able to play a key role in tackling the pension challenge if they operate in a regulatory landscape that incentivises private pension savings.

Finally, given the constrained balance sheets of banks, there is potential for insurers to play a significant role in supporting post-COVID-19 global economic recovery. In order to enable this, it will be essential to review any existing and impending regulatory obstacles to investment in the real economy by insurers and consider any enabling measures that could be taken in the design of prudential regulation or approach to supervision.

Insurers globally have always played a significant role in investing in the real economy, supporting economic growth, creating jobs and providing funding to socially useful assets such as infrastructure. At the same time, insurers have played a very limited role in supporting smaller unlisted companies, with the focus instead on larger listed corporates. During the COVID-19 pandemic, while larger listed corporates have been able to access new funding via financial markets, smaller companies have relied on debt backed by government schemes. For many of these companies, debt has increased to unsustainable levels and so solutions now need to be found to recapitalise them and return them to long-term viability and ultimately growth. In the UK, [a recent report](#) by industry body TheCityUK outlines the role that financial services firms, including insurers, could play in supporting smaller businesses via new equity investment and more sustainable long-term debt.

Under the right regulatory conditions and government policies, insurers could deploy significant amounts of capital to return these smaller companies to viability, thereby playing a crucial role in supporting economy recovery while also diversifying their investment portfolios during the current low interest rate environment.

What does this mean for supervisors?

COVID-19 has presented insurers with unprecedented challenges, and in order for them to be able to continue to provide relief to customers in need, while ensuring financial and operational resilience, a certain level of **supervisory flexibility is crucial**. Supervisory flexibility is needed for insurers to be able to adapt their products and services to new situations. This includes, where appropriate, the extension of reporting deadlines. In this regard, Insurance Europe welcomes the IAIS's [statement](#) of 27 March and the EIOPA [recommendations](#) of 20 March. Insurance Europe considers it positive that the IAIS and EIOPA contributed to enabling the insurance sector to play a key role in mitigating the negative social and economic consequences of the crisis.

The IAIS has a key role to play in **monitoring developments related to COVID-19** and in facilitating coordination among its member supervisors in this regard. While Insurance Europe believes that there is added value in the IAIS monitoring COVID-19 related developments, an exercise that includes the targeted COVID-19 data collection, it is important that this work does not duplicate existing workstreams and jurisdictional processes. For the IAIS's efforts to be as efficient as possible, it can rely on its member supervisors for the data collection. To the extent that future calls for data are deemed necessary, Insurance Europe encourages the IAIS to prioritise the most relevant information and to promote dialogue among industry leaders and supervisors in this regard.

The COVID-19 pandemic has confirmed that **prudential frameworks require improvements in targeted areas**. Three areas in particular should be addressed: reducing barriers to long-term business and investment; making proportionality work in practice; and reducing the burden of reporting. It is right that supervisors are focused on new and emerging risks as a result of the COVID-19 pandemic. However, existing rules and standards should also be reviewed to see how they may inhibit the ability of insurers to invest in real economy assets as jurisdictions look ahead to solutions for economic recovery and ultimately a return to growth

COVID-19 has also shed light on the issue of dividend payments, not only from a prudential perspective, but also taking account of the fact that many people depend on the payment of dividends for their pension provision. The industry recognises both the importance of dividends to shareholders and the need to ensure

insurers' financial strength — especially in times of uncertainty, such as those triggered by COVID-19. Insurance companies therefore set their dividend policy and make dividend decisions very carefully, taking into account their solvency levels, business plans, risk profiles and risk appetites, as well as any significant events that could have a material impact (such as COVID-19). In Europe, Solvency II requires insurers to do this, including in the ORSA where companies are required to ensure their solvency will remain strong for the next three to five years, taking into account their business plans and expected dividend payments. Solvency II also provides for an automatic suspension of dividends only where the Solvency Capital Requirement (SCR) is breached or when the distributions would lead to non-compliance.

Therefore, notwithstanding the importance of ensuring financial stability, where requirements for careful dividend decisions are built into the regulatory framework and where the industry has strong levels of solvency **supervisors should refrain from imposing country or regional blanket bans on dividends** and instead follow a case-by-case, risk-based approach to any dividend restrictions.

What are the main areas you will be focusing on over the coming 1 to 2 years?

As the pandemic and the crisis continue to evolve, it is not currently possible to pinpoint exactly what the activities for the next one to two years will be. However, a key area of focus for the insurance sector will be to explore if and how, based on a public-private partnership, **pandemic risks can be covered in the future**. Insurers will assess the feasibility of developing new solutions for risks similar to COVID-19. This will perhaps be based on efforts already undertaken on natcat or terrorism and focused on better preparing the economy and society for possible future pandemics, including achieving stronger protection against (business) interruptions. Exploring prevention mechanisms would be a core component of these efforts.

How insurers can contribute further to a green recovery from the COVID-19 pandemic will be another important area of focus. In a similar vein, climate adaptation remains a significant focus for the insurance sector.

COVID-19 has once more demonstrated the need for people to save for their retirement and for solutions to be in place throughout the world to achieve this. This workstream will continue to be a key priority.

As the demand for cyber insurance products is expected to increase due to the fact that citizens and businesses have come to rely even more on digital technologies during the pandemic, the sector will focus on developing products that allows their customers to improve their cyber resilience and on assisting them with mitigating action should an incident occur.

Finally, by exposing insurers in some markets to public frustration with regard to pandemic exclusions, COVID 19 has revealed a lack of public understanding of insurance mechanisms and more broadly a lack of financial education. The industry needs to pursue its efforts to improve the level of consumer understanding about how insurance works, what it covers and what the terms and obligations are under the policies.

Where do you believe the IAIS should focus its work during this period?

The IAIS could focus on ensuring that insurers can benefit from a digital level-playing field in order to achieve the provision of tailor-made and innovative insurance products, as well as the access of consumers to insurance products.

To this end, the IAIS could play a role in promoting a digital-friendly landscape. Now, more than ever, European consumers and insurers need a regulatory framework that is fit for purpose and digital-friendly. For example, some (EU) regulation requires that information is provided to consumers on paper by default, preventing further development of the internet as a distribution channel for insurance products and failing to recognise that consumers are increasingly demanding and using online services. In this respect, the COVID-19



crisis has clearly demonstrated the importance of digital communication for business continuity and accelerated consumers' expectations of being able to carry out paperless transactions.

The IAIS also has a key role to play in promoting financial inclusion and in making sure that regulation ultimately benefits consumers. In this regard, the IAIS should focus on promoting a "better regulation agenda" to make sure that insurance supervisors avoid introducing unfit rules and disclosures that mislead consumers, avoid legal uncertainty, avoid outdated rules and obstacles to pro-consumer innovation, as well as avoid implementation timelines that are too short. For reference, Insurance Europe developed [dos and don'ts](#) for regulation that benefits consumers, as well as [guidance](#) for developing quality regulation. While these have been developed with the European context in mind, these could also be relevant at global level.

Insurance Europe understands that the IAIS will work on testing the Insurance Capital Standard (ICS) and on the implementation of the Holistic Framework for Systemic Risk. The ultimate goal of these efforts should be to maintain a sound level playing field at global level.

The IAIS could play a key role in promoting the convergence of standards so that data related to the sustainability performance of listed companies becomes available across jurisdictions. Despite the COVID-19 pandemic, climate change remains one of the most important risks for the insurance industry and society as a whole, and so it should continue to be an area of focus for the IAIS.

Insurance Europe is the European insurance and reinsurance federation. Through its 37 member bodies — the national insurance associations — Insurance Europe represents all types of insurance and reinsurance undertakings, eg pan-European companies, monoliners, mutuals and SMEs. Insurance Europe, which is based in Brussels, represents undertakings that account for around 95% of total European premium income. Insurance makes a major contribution to Europe's economic growth and development. European insurers pay out almost €1 100bn annually — or €2.9bn a day — in claims, directly employ over 900 000 people and invest nearly €10 200bn in the economy.