



# ACTUARIAL ASSOCIATION OF EUROPE

## COVID-19

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# Agenda

- 1) Operational issues
- 2) Impact of COVID-19

# EIOPA and COVID-19

EIOPA 20-137 17 March 2020

## **EIOPA statement on actions to mitigate the impact of Coronavirus/COVID-19 on the EU insurance sector**

*EIOPA published 10 key messages on two important aspects.*

*a) Business Continuity*

*e.g. extending the deadline of the Holistic Impact Assessment for the by two months, to 1 June 2020*

*b) Solvency and capital position*

*e.g. ... the Solvency II framework includes a ladder of supervisory intervention between the SCR and the MCR. This allows for flexibility in cases of extreme situations, including measures to extend the recovery period of affected insurers, for example, as foreseen by Article 138 of the Solvency II Directive.*

# EIOPA's recommendations (1)

EIOPA-BoS 20-236/20 March 2020

## **Recommendations on supervisory flexibility regarding the deadline of supervisory reporting and public disclosure - Coronavirus/COVID-19**

Objective: offering operational relief and support business continuity

**Recommendation 1** - Annual reporting referring to year-end occurring on 31 December 2019 or year-end after that date but before 1 April 2020

NCA's are asked to except delay of 8 weeks (RSR, partially QRTs and annual reporting templates) and 2 weeks (exempted templates of QRT and annual reporting stated explicitly)

**Recommendation 2** - Quarterly reporting referring to Q12020-end occurring on 31 March 2020 or after that date but before 30 June 2020

Depending on particular issue delay between one week and 4 weeks possible

**Recommendation 3** - Solvency and Financial Condition Report referring to year-end occurring on 31 December 2019 or year-end after that date but before 1 April 2020

8 weeks delay for SFCR, except for some of the mandatory templates

# EIOPA's recommendations (2)

## **Compliance and reporting rules**

26. Competent authorities that comply or intend to comply with these Recommendations should incorporate them into their regulatory or supervisory framework in an appropriate manner.

27. Competent authorities shall confirm to EIOPA whether they comply or intend to comply with these Recommendations, with reasons for non-compliance, within two months after the issuance of the translated versions.

28. In the absence of a response by this deadline, competent authorities shall be considered as non-compliant to the reporting and reported as such.

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# Extraordinary weekly risk-free rate curve

## 27 March 2020: **EIOPA publishes extraordinary information for Solvency II Relevant Risk Free Interest Rate Term Structures and Symmetric Adjustment to Equity Risk with reference to 24 March 2020**

*Due to COVID-19 outbreak, in the coming weeks EIOPA will carry out extraordinary calculations on weekly basis to monitor the evolution of the relevant risk-free interest rate term structures (RFR) and the symmetric adjustment to equity risk (EDA).*

*EIOPA is publishing this information in order to support insurance and reinsurance undertakings in the monitoring of their solvency and financial position.*

One result: Volatility adjustment increased to 51 bp for the Euro (7 bp on 31 December 2019, 12 bp on 29 February 2020)

**Next monthly curve will be published 3 April 2020**

# Exposure of undertakings

The concrete exposure of undertakings to risks and the threat resulting from COVID-19 is influenced by

- a) Solvency II requirements
- b) regulatory requirements (local GAAP, contractual obligations,...)
- c) portfolio (e.g. lines of business)
- d) business models

# Solvency II requirements

EIOPA recommended several measures to facilitate business continuity. Operational burden could be reduced by acting consistent with these recommendation (NCAs are asked to make use of the proposed relief).

## Breach of Solvency II requirements:

The ladder of supervisory intervention between the SCR and MCR is part of the Solvency II framework. This allows for flexibility **in cases of extreme situations.**

It includes the possibility to extend the recovery period of affected insurers, for example, as foreseen by Article 138 of the Solvency II Directive.

Exceptional adverse situations according to Article 138 are

- (a) a fall in financial markets which is unforeseen, sharp and steep;
- (b) a persistent low interest rate environment;
- (c) a high-impact catastrophic event.

Precondition: *EIOPA shall, following a request by the supervisory authority concerned, declare the existence of exceptional adverse situations.*

# Solvency II requirements

Question: Do we have such an exceptional adverse situation?

Basically, this question has to be answered separately for each country and in a particular country for lines of business.

COVID-19 pandemic can be assessed as a catastrophic event. An impact on all countries can be taken for granted.

Remaining question: Is this pandemic a high-impact event?

Does COVID-19 affect undertaking's possibility to cover the SCR with eligible own funds?

Considering EIOPA's publications and the national activities to cope with this challenge, this can be affirmed.

Consequences: COVID-19 pandemic is a high-impact catastrophic event for insurers and reinsurers.

An extension of the recovery period up to seven years should be allowed.

# Regulatory requirements

Local GAAP regime can provoke additional burden for undertakings.  
This issue can be intensified by country-specific regulation.

Reason:

Asset side: (risks in the course of the year 2020)

- fall of stocks
- loss in value of real estate
- bonds: reduction of interest rates, increase of spread
- increase of default risk
- liquidity risk resulting from higher number of surrenders  
(caused e.g. by increase of unemployment)

# Regulatory requirements

Liability side: (risks in the course of the year 2020)

- prescribed valuation of technical provision (guaranteed interest rate)
- limited availability of realisable hidden reserve to finance additional liabilities

Underwriting risks:

- Non-life undertakings: business interruption,
- Life insurance: Biometric risks – currently impact on old-age mortality. Predominantly annuity business affected
- Health insurance: increase of claimed benefits

# Economic effects

Long-term development has to be observed.

Impact resulting from

- Non-availability of workers because of illness
- Decline in gross domestic product
- Recession

Impact on the possibility of insurance undertakings to acquire new business

Thank you very much for your attention!

## Solvency II review

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