



**To: Executive Vice-President Dombrovskis  
European Commission**

Brussels 24 April 2020

Dear Executive Vice-President Dombrovskis,

On behalf of Insurance Europe, I am writing to commend you and your fellow commissioners on your extensive and rapid responses to COVID-19 and to provide some European insurance industry perspectives on the pandemic that could be helpful to you as you engage in further actions.

Firstly, I will outline the industry's broad range of relief measures to assist in tackling the effects of the pandemic. Secondly, I will reflect on the regulatory and supervisory challenges facing our industry. And, thirdly, I would like to suggest collaboration to find solutions that could provide cover for future pandemics.

■ European insurance sector relief measures

As you are well aware, Europe's insurers have a long and proud history of continuing to provide services to our customers during adverse events. This pandemic is no exception. Insurance Europe, its member associations and their member companies are all fully committed to playing our part in tackling the challenges Europe is facing. I can reassure you that, despite national lockdowns and movement restrictions, we are maintaining business continuity — serving our customers to the best of our ability, while protecting them and our employees to reduce to a minimum their exposure to the virus and limit its spread.

Our day-to-day focus very much remains on responding fairly and responsibly to customers; offering flexibility, particularly to those most adversely affected by COVID-19 or by national lockdowns. We are also going significantly further and supporting both our customers and wider society through additional voluntary "solidarity" actions. A further area in which insurers continue to act is in supporting the economy, where some of our members are, for example, participating in government-backed trade credit schemes to ensure the continuity of commercial supply chains and by making swifter payments to their service providers.

In attachment, you can find a compilation of the industry relief measures that Insurance Europe has been notified of to date. You will appreciate that this list is, by its nature, constantly evolving.

Every company's first and foremost duty is to ensure it can honour its promises to its customers. This means prudent management of its capital, particularly during times of economic turbulence. It is very important that solidarity actions that go beyond contractual commitments remain voluntary so that each insurer can take into account the specific situation of its market, its customers and its own individual circumstances. This will ensure insurers' solidarity actions are tailored to local needs while also ensuring they do not put at risk their ability to meet contractual promises to their customers both now and in the future.

In this context, we appreciated EIOPA's 17 March and 1 April statements underlining the strong solvency position of the industry and acknowledging the various steps insurers have been taking to show flexibility to their customers. We also welcomed the fact that EIOPA highlighted that imposing retroactive coverage of claims not envisioned in contracts could create material solvency risks and ultimately threaten policyholder protection and market stability, aggravating the financial and economic impacts of the current health crisis.

#### ■ Regulatory and supervisory challenges

Meanwhile, our regulatory framework is being put to the test. Solvency II has many very good features, but it does not correctly capture the real economics and risks of insurers' long-term business. This leads to an underestimation of solvency strength and excessive volatility in the solvency measures. These Solvency II flaws are of particular relevance currently because, during periods of high market volatility, these flaws can push insurers into unnecessary procyclical behaviour. The industry has highlighted the need for the Solvency II review to result in focused improvements, including increasing the volatility adjustment and significantly reducing the risk margin, while keeping the euro risk-free rate calibration and methods unchanged.

The current review should therefore not be delayed unnecessarily, while still taking the necessary time to include the lessons learnt from the crisis. Indeed, the COVID-19 crisis reinforces the need to address the exaggerated volatility of Solvency II. This area is already part of the Solvency II review, but, if extreme market turbulence should emerge before the review is completed, then earlier action may be needed. In any case, the volatility should certainly not be used to justify a further tightening of our prudential framework in the middle of the current crisis.

At the same time, Solvency II remains one of the most sophisticated prudential systems in the world and has in general performed its function by ensuring that the insurance industry can withstand extreme scenarios and continue to support customers and the EU economy. However, EIOPA's statement of 2 April on dividends questions the importance of the SCR and MCR framework of Solvency II. It has dramatically increased the solvency requirements for all insurers and so added to procyclical pressures at exactly the wrong time. We fully understand the need for insurers to take great care in dividend decisions in the current situation, but we strongly believe that this decision should be made by insurers on an individual basis and not through a generalised ban, as set out in EIOPA's 2 April statement.

Solvency II is a very comprehensive risk-based system designed to require boards and supervisors to take a risk-based approach based on each company's risks and capital situation. It is vital that it remains so.

#### ■ Cover for future pandemics

A pandemic, by definition, especially if it comes with widespread lockdowns imposed by governments, leads to claims from a very wide range of business sectors and individuals at the same time. The normal insurance model of pooling the claims of the few to be shared by the many simply does not work in such a situation.

For this reason, it was so far only possible to cover pandemic risk in specialised insurance policies covering limited situations and with clear cover limits. In a wide range of non-life policies, pandemic risk is not covered and therefore has not been included in the premiums, has not been reserved for and has not been taken into account in setting the solvency capital.

Removing existing limits or providing broad, general cover for pandemic risk is therefore not possible for the insurance industry alone. This is maybe best illustrated by the following example: it has been estimated that current business interruption premiums in some markets would need to be collected for over 100 years to cover two months of COVID-19-related business interruption costs. Events such as pandemics therefore require the joint involvement of the insurance sector and of the state.

The industry has significant expertise here, having already joined forces with governments to develop workable and affordable solutions for other huge and difficult-to-insure risks, such as nuclear energy, flooding, terrorism and earthquakes. When it comes to COVID-19, however, it is already clear that the effects on individuals and



society more broadly are of a magnitude that the insurance sector cannot handle on its own. The extent and evolution of the COVID-19 pandemic vary from country to country, implying that there is no one-size-fits-all solution.

We stand ready to work with the Commission, EIOPA and national governments, regulators and supervisors to develop public/private solutions to better protect Europe against the risk of future pandemics. As ever, we would be happy to provide more information or discuss with you any of the points above.

Yours sincerely,

A handwritten signature in blue ink, appearing to read "A. Brandstetter".

Andreas Brandstetter

**Attachment: compilation of industry relief measures**

cc:

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Gabriel Bernardino