

To: Solvency II Working Group
From: Prudential Team
CC:
Date: 27-04-2020
Reference: ECO-SLV-20-089

Subject: For information – Summary of BIS paper on insurance measures during Covid 19

Summary

On 23 April, BIS (Bank for International Settlements) published an overview of 'Insurance regulatory measures in response to Covid-19' ([here](#)), the secretariat has prepared a high level summary.

Attention points

- Most insurers experience **more losses from financial market volatility and low interest rate environment than from higher insurance claims** arising from Covid-19. **Insurers are much more financially resilient** and better able to withstand unexpected insured and investment losses. Well managed insurers to **carefully consider wide range of possibilities and capital conservation** (eg dividends).
- Modernisation of **risk-based capital regimes** in many jurisdictions in recent years is now **bearing fruit**. **A well-designed solvency framework should stand the test of time and should not require frequent ad hoc adjustments** that may go against the intended policy objective of withstanding extreme events.
- So far main focus of supervisors was on taking measures to provide **operational relief** to insurers from regulatory and supervisory requirements. Only a few supervisors strengthened/adjusted prudential requirements to insulate insurers from current financial market uncertainties.
- Far-reaching impact calls for high vigilance by both supervisors and insurers. In the post-pandemic phase, a **prudent exit strategy from the extraordinary measures currently warranted** will be needed.
- Care should be taken to **avoid morally hazardous behaviour** among insurers that could encourage them to expect regulatory relief when the next crisis arrives.
- Note the paper mentions as one of examples of the countercyclical measures "favourable consideration of requests for application of SII transitionals in Germany and Poland"

Non-exhaustive summary of regulatory measures that supervisors have taken **to achieve four objectives:**

1. Capital conservation measures

- Large uncertainties on Covid-19 long term impact on assets and liabilities. **Prudent to conserve capital buffers** and ensure insurance services continue to be provided
- Some supervisors set out expectations for insurers to conserve capital through prudent exercise of **dividend** and **variable remuneration** policies, aiming to enhance resilience.
 - Dividend: Australia, Croatia, the Czech Republic, EIOPA, Finland, France, Guernsey, India, Ireland, Italy, Mexico, North Macedonia, Norway, Poland, Portugal, Russia, Slovenia, South Africa, Spain, UK
 - Remuneration: Australia, EIOPA, Finland, France, Italy, Poland, South Africa, UK
- **Explicit regulatory direction** in these areas could be helpful to insurers in dealing with any potential adverse reaction from shareholders and employees.

2. Countercyclical capital measures

- Other capital-related measures - eg extending the **supervisory intervention ladder**, triggering the **countercyclical lever** and **recalibrating capital requirements** - intend to relieve supervisory pressures and reduce procyclicality.
- **SII - VA** was explained in more detail, and also **symmetric adjustment, MA** were mentioned. (no shortcomings of VA were mentioned)
- Greater flexibility of supervisory intervention ladder (prolongation of recovery period EIOPA and South Africa)
- Other measures:
 - allowing loans or premium payment deferrals not to increase capital requirements (Canada, South Africa)
 - adjustment to capital requirements for interest rate risk (Canada, Malaysia)
 - favourable consideration of requests for application of **SII transitionals** (Germany, Poland, UK)
 - extension of the period for unpaid premiums to 180 days before additional provision needs to be established by insurers (Peru)
 - lowering of capital requirement for certain risks eg credit and suretyship (Poland) or investments in exchange-traded stock market stabilisation funds (Korea)
 - consideration of requests from insurers for temporary smoothing of yield curves in order to reduce daily fluctuations of the SST – FINMA.

3. Regulatory and supervisory relief measures

- Many supervisors have taken action to provide **operational relief** to focus on business continuity and intensify monitoring.
- List of measures:
 - **extending deadlines** to submit regular **supervisory reports**
 - **postponing public consultations** (Canada, Dubai, EIOPA, Malaysia, Peru, Singapore, New Zealand, UK)
- Most supervisors adjust requirements on a case-by-case basis.

4. Measures to preserve the provision of insurance services

- Overview of regulatory approaches, varying widely, to overcome practical difficulties due to restrictions on movement:
 - **Product design, coverage and pricing:**
 - Review products that may be impacted to ensure they continue to meet customers' needs (EIOPA)
 - Expand insurance coverage for Covid-19 risks** (India, Singapore, Thailand)
 - **Underwriting and product distribution**
 - No examples for EU
 - Policy **servicing**
 - Allow **deferral of premium payment** or revise payment schedule without lapsing policies of financially distressed individuals and businesses (**Belgium, EIOPA, Hong Kong SAR, India, Japan, Malaysia, Peru, Korea, Russia, Singapore, South Africa, Thailand, Turkey, various US states**).
 - Avoid triggering of policy cancellation**, non-renewal of policies or denial of claims due to movement restrictions (**UK, various US states**).
 - Require insurers to **clarify policy exclusions for pandemic** events such as Covid-19 (**Chile, EIOPA, India, Ireland, Portugal, UK, various US states**).
 - Require insurers to **explain clearly the implications of cancelling life insurance policies** with significant investment/savings component (**Portugal, UK**).
 - Allow deferral of loan (including mortgage) repayment for financing facility taken from insurers (**Belgium, China, Thailand**).
 - Extend period within which insurers need to **respond to complaints or queries by policyholders** (**Italy, Poland, Portugal**).



- **Claims processing**

- No EU examples
- **EIOPA** reminded insurers to pay particular attention to **fair treatment of customers without violating fundamentals** of insurance business
- Certain jurisdictions (not specified): NCAs considering requiring insurers to **retroactively cover** certain insurance claims due to Covid-19 even though excluded in the policies. **EIOPA calls for careful consideration** (could jeopardise solvency and adversely affect market stability)