Michaela Koller
Director general, Insurance Europe

COVID-19 PANDEMIC

Insurance in the time of corona

Europe's insurers have been active and innovative in their support for customers and the economy

In early 2020, the COVID-19 virus spread to virtually every corner of the globe. As this Annual Report went to press, it had infected over 23 million people and taken over 800 000 lives.

The economic impact of the pandemic has likewise been widespread and devasting, as lockdowns and quarantines have curtailed or stopped business and social activity for many weeks. That economic fall-out will be felt for years to come. The OECD was already forecasting in June that global growth could fall by 6% in 2020; even more with second waves of the virus.

Continuity & flexibility

Europe has been badly affected, albeit to different levels in different countries. In late June, the International Monetary Fund predicted a 10.2% contraction of the eurozone economy in 2020, while two weeks later the European Commission forecast that the economy of the 19-country zone would shrink 8.7%.

Europe's insurers, who have a long history of serving their customers during adverse events, showed that an event on the scale of the COVID-19 pandemic was no exception to their ability to continue operating. Despite national lockdowns and movement restrictions, insurers have maintained business continuity across the continent — often by the smart use of digital tools — while still taking all the required precautions to minimise customers' and employees' exposure to the virus.

Just three examples of many European insurer actions

The French insurance industry has pledged over €3bn in exceptional measures: €1.75bn of non-contractual measures to support small businesses, specific business sectors and medical staff affected by the crisis, and a €1.5bn global investment programme to support economic recovery.

Over 100 Spanish insurers joined together to provide complimentary life insurance and a subsidy for hospitalisation for medical staff treating patients with COVID-19.

Germany's trade credit insurers formed an emergency alliance with the federal government to maintain global supply chains and support Germany's export sector during the pandemic.

Europe's insurers and their associations have kept customers informed about virus-related issues by creating dedicated portals and websites and engaging in targeted communications. At European level, Insurance Europe did the same, creating a section of its website dedicated to frequently asked COVID-19 questions. And many insurers have taken steps to alert customers to the increased risk of fraud, and of online fraud in particular.

Insurers' day-to-day focus throughout the pandemic has been on responding fairly and responsibly to their customers and on offering flexibility to those most adversely affected by COVID-19 or the lockdowns. Often on a case-by-case basis, insurers have agreed delays in premium payments for a variety of policies and periods, depending on the national situation and individual needs. Switching between tariffs and allowing policy cancellations and suspensions has likewise been permitted where possible and appropriate. Insurers have also been flexible over the practical consequences of the crisis — taking into account that customers might not be able to fulfil certain contractual obligations, such as submitting paper documents, submitting claims by a certain deadline or renewing tests, certificates or licences.

Support & assistance

European insurers have taken many — and extremely wide-ranging — additional steps to support their customers, society in general and the economy, both at the height of the pandemic and as countries started moving to recovery from it. These actions have been tailored to the severity of the virus and lockdown measures in different areas, as well as to the differing local role of insurers that results from variations in national social security, unemployment and health systems (see box above for just three examples).

The industry's nationwide and company-level voluntary goodwill actions have spanned three areas.

- Insurance premiums or contracts, including:
  - Offering temporary extension of cover and services beyond contractual obligations, for example providing free health cover to medical staff.
- Support for the economy, including:
  - Participating in government-backed trade credit schemes to ensure commercial supply chain continuity.
  - Making swifter payments to service providers.
  - Mobilising long-term investment capacity to support customers and the wider economy by accelerating recovery and boosting growth.
- Non-insurance initiatives, including:
  - Donating medical equipment.
  - Contributing financially to charities, public health bodies and health research initiatives.
  - Amplifying government health messages.

A commitment to best practice

In late May 2020, the European Commission brought together consumer and business representatives and financial services industry organisations, including Insurance Europe, to discuss the COVID-19 relief measures offered to consumers and businesses by insurers, banks and non-bank lenders. As a follow-up to those discussions, the Commission drew up a set of best practices to facilitate the implementation of convergent temporary relief measures, where relevant and required. They were published in July 2020.

Insurance Europe and its members endorsed the EC's best practice recommendations for insurers, which very much reflected the actions that the European insurance industry had already been taking since the start of the COVID-19 outbreak in terms of treating customers fairly and flexibly.

Every insurer's first duty is, of course, to ensure it can honour its promises to its customers, both now and in the future. This means prudent management of its capital, particularly during times of economic turbulence. All the goodwill actions of insurers, therefore, have been developed taking into account their financial capacity. For that reason, it is important that solidarity actions that go beyond contractual commitments remain voluntary.

Impact on insurers

Of course, the insurance industry itself has not been untouched by the effects of this vast global crisis. Estimates for the total global claims on (re)insurers as a result of the pandemic still vary considerably and it will be some time before the final figures are known. Currently, the claims remain manageable for the industry — indeed, a global pandemic is one of the many test scenarios that (re)insurers use to assess their resilience. (See next article on p10 for more on pandemic cover and future solutions.)

Insurers have also seen falls in new business as a result of decreased economic activity, while at the same time facing even lower interest rates and hits on investment income on the asset side of their business as a result of the economic disruption (although by mid-2020 investment markets were already showing signs of recovery). Nevertheless, as the IAIS stressed in March 2020, globally "insurers are generally well capitalised with sophisticated risk management capabilities".

Within Europe, the industry has remained strong and EIOPA stated in March that the "the sector is well capitalised and able to withhold severe but plausible shocks to the system". Good risk and capital management is core to the insurance industry and the European regulatory framework sets consistent, high standards across Europe and has built-in mechanisms to ensure that companies can cope with crisis periods and extreme events (see Solvency II article on p23).

Insurance Europe's active engagement

At European level, Insurance Europe has been engaged on four fronts since the very start of the pandemic. It identified challenges emerging across markets; working closely with its members in the national markets and other industry groups to build up a picture of the developments affecting insurers and their clients to see if there were areas in which European coordination of action by national authorities was required. It also provided a platform for its members to share best practices; raising issues and sharing solutions to the challenges the industry faced.

Thirdly, it has been discussing solutions for future pandemics; working to explore how insurers can best engage with

Supervisory advice on dividend payments

Insurance companies recognise the importance of dividends to their shareholders, who often include pension funds that need dividends to meet their commitments to pay pensions. Insurers also recognise the need to ensure their own financial strength for the benefit of their customers, especially in times of uncertainty.

Companies set their dividend policy and make dividend decisions very carefully, taking into account their solvency levels, business plan, risk profile and risk appetite, as well as any significant events that could have a material impact, such as COVID-19. Solvency II requires that they do this and that they include it in their own-risk and solvency assessment (ORSA), where they must 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 a suspension of dividends if a company's solvency capital requirement (SCR) is breached or if the distribution of dividends would lead to non-compliance.

Given the requirements in Solvency II and the overall strength of the insurance industry, a blanket ban on dividends by supervisors is not necessary or appropriate. Instead, a case-by-case approach in line with the strong, risk-based Solvency II framework is the right approach to any dividend restrictions.

national and European authorities to increase resilience (see next article).

Lastly, Insurance Europe has been liaising very closely with EIOPA, the Commission (see box opposite) and — latterly — MEPs in the European Parliament to ensure a clear understanding of developments in national markets and to provide feedback on the responses coming from supervisors. Insurance Europe appreciated EIOPA's statements in March and April 2020 underlining the strong solvency position of the industry and acknowledging the various steps insurers had been taking to show flexibility to their customers.

Insurance Europe also welcomed the fact that EIOPA highlighted that imposing on insurers retroactive coverage of claims not envisioned in contracts could create solvency risks and threaten policyholder protection and the market's stability. It was also positive to see EIOPA acknowledging in its supervisory expectations of July 2020 that assessments of the ongoing value and utility of insurance products should not be driven by short-term fluctuations, but instead take a medium- to long-term perspective.

And at international level, Insurance Europe is providing input to an IAIS consultation on the impact of COVID-19 that will inform the IAIS's next work plan.

Social partner pledge

In March 2020, Insurance Europe issued a joint statement with the other social partners in the European financial services sector — trade union federation UNI Europa Finance and five financial services federations. The statement pledged the sector's commitment to maintaining key services to customers during the crisis, while always protecting employees and respecting the restrictions imposed by public authorities. The joint statement also committed the partners to supporting economic activity and called for the European institutions, regulatory and supervisory authorities and financial services sector to work together to seek to neutralise the effects of COVID-19 on the economy.

What next?

As stated in the Foreword to this Report, the implications of the pandemic will be long-lasting and far-reaching. Swiss Re, in a June 2020 assessment of the longer-term implications of COVID-19, predicted several paradigm shifts to the global economy, including greater roles for governments, accelerated digital transformation and a restructuring of supply chains. While it sees these together as creating a "very challenging" environment for (re)insurers over the next two to three years, it also sees new (re)insurance opportunities in those evolving supply chains and the accelerated digitalisation. There will be a very different future for the world and its insurers.