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COVID-19 and Insurance Sector: impact and possible measures

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The outbreak of COVID-19 is having significant consequences for the global economy, including financial services. It has been estimated that European insurance companies shall be impacted by the COVID-19 crisis on both the asset and the liability side.

The European Insurance and Occupational Pensions Authority (EIOPA) has stressed that:

- ✓ It is particularly important that insurers are able to maintain the services to their clients and stand ready to implement the necessary measures to ensure business continuity.
- ✓ Recent stress tests have shown that the sector is well capitalised and able to withhold severe but plausible shocks to the system.
- ✓ Insurance companies should take measures to preserve their capital position in balance with the protection of the insured, following prudent dividend and other distribution policies, including variable remuneration.
- ✓ Notwithstanding existing tools and powers, EIOPA will continue to monitor the situation and will take or propose to EU institutions any measure necessary in order to mitigate the impact of market volatility to the stability of the insurance sector in Europe and safeguard the protection of policyholders.

As insurance companies are likely to face progressively difficult conditions in the immediate future, both in terms of navigating challenging market conditions and in maintaining operations, while taking steps to protect employees and customers, Directive 2009/138/EC (Solvency II), implemented by Law 4364/2016, includes a number of tools that can be used to mitigate risks and impacts to the sector. Furthermore, new measures are currently being elaborated in order to be adopted in the future.

Existing tools provided within the framework of Solvency II

A. Article 109 of Law 4364/2016 (article 138 of Solvency II): extension of the recovery period.

An insurance company operating below its Solvency Capital Requirement (SCR) can continue to operate, provided that the situation

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is restored within 6 months, on the basis of a recovery plan. Upon request by a supervisory authority, EIOPA may declare the existence of an "exceptional adverse situation" and allow the extension of the recovery period up to 7 years.

B. Article 19 par. 2 (b) of Law 4364/2016 (article 28 of Solvency II)

The above article providing that in times of exceptional disruptions in the financial markets, supervisory authorities shall take into account the potential procyclical effects of their actions, offers to the supervisory authorities the legal grounds for deviations from the obligations arising from Law 4364/2016.

C. Article 82 of Law 4364/2016 (article 106 of Solvency II)

A symmetric adjustment to the equity capital charge applied to cover the risk arising from changes in the level of equity prices is provided. However, it should be noted that the symmetric adjustment made to the standard equity capital charge cannot result in an equity capital charge being applied that is more than 10 percentage points lower or 10 percentage points higher than the standard equity capital charge. EIOPA hasn't expressed a different opinion in that respect.

D. Article 275 of Law 4364/2016 (article 308d of Solvency II)

These provisions refer to the transitional measure on technical provisions (insurance liabilities) which was introduced at the first application of Solvency II in 2016 to grant a smooth transition into the new system. Subject to supervisory approval, it is a "transitional deduction" to the technical provisions which permits to mitigate the effect of market movements. This deduction can be recalculated when a material change in the risk profile has occurred. However, it should be noted that in the Greek market the use of this tool is rather marginal. Furthermore, according to EIOPA the provision of new approvals should cease.

Measures that could be adopted in the future

A. Risk margin review

Review of the cost of capital rate that is used to compute the risk margin from currently 6% to 3%. EIOPA however, disagrees with this review.

B. Volatility adjustment

The volatility adjustment mechanism is currently under review and different proposals are being elaborated.

Your Legal Partners *are actively advising clients in relation to the Covid-19 outbreak. Please do not hesitate to get in touch with us if your business has been affected.*

If you have questions or would like additional information, please contact the author:

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