

# Impact of Covid-19 on the Irish Insurance Industry



While the effects of COVID-19 will be felt across all aspects of our society and economy, this briefing note explores the potential impact of this pandemic on the insurance industry in Ireland and also provides details on how the regulatory authorities have responded thus far.

## Overview

Since March 11<sup>th</sup> 2020, when the COVID-19 outbreak was officially declared a global pandemic by the World Health Organisation (WHO), there has been widespread concern for insurers and consumers alike. Through unprecedented shifts in demand, operational disruption and shocks to financial markets, the global pandemic has impacted all aspects of the Irish insurance industry including life, non-life and health insurers and reinsurers.

Regulators across Europe have increased their engagement with insurers to better understand the potential financial and operational risks associated with the pandemic. However, they have also provided operational flexibility to insurers and reinsurers, in terms of reporting deadlines and data requests.

While the pandemic will disrupt and test the resilience of the industry, it could also present some opportunities.

## Regulatory Response

The regulatory response from both the Central Bank of Ireland (CBI) and the European Insurance and Occupational Pensions Authority (EIOPA) has been consistent throughout this crisis. The following timeline outlines the response from EIOPA.

### SUMMARY OF EIOPA'S RESPONSE TO COVID-19 PANDEMIC

March 17

- Statement issued addressing business continuity and solvency capital position
- Deadline for SII 2020 Review impact assessment extended to June 1st 2020

March 20

- Recommendations on supervisory flexibility regarding the deadline of supervisory reporting and public disclosure

April 1

- Call to mitigate the impact on consumers

April 2

- EIOPA urges that "(re)insurers temporarily suspend all discretionary dividend distributions and share buy backs aimed at remunerating shareholders".
- Further extensions and postponements / cancellations

April 30

- EIOPA revises timeline for SII 2020 Review to end December 2020 and announces second holistic impact assessment for second half of year.

In Ireland, the CBI started to engage with insurers in early March and since then its statements and response has been co-ordinated and highly consistent with that of EIOPA. The following timeline outlines the CBI's response to the pandemic.

### SUMMARY OF CBI RESPONSE TO COVID-19 PANDEMIC

Early March

- Covid-19 surveys – financial impact and operational readiness
- Request for notification of material adverse developments

March 24

- CBI issues "Dear Compliance officer" letter
- Introduced reporting extensions in line with EIOPA's recommendations

March 27

- CBI issues "Dear CEO" letter to insurers
- Focus on treating customers fairly

April 2

- Launched Covid-19 Consumer Hub on website
- FAQ includes statement regarding dividend payments

There is clear harmony with EIOPA's and the CBI's statements with regard to operational flexibility, treating customers fairly and postponement of dividend payments.

### OPERATIONAL FLEXIBILITY

EIOPA issued a [statement](#) on March 17<sup>th</sup> 2020 addressing business continuity and solvency capital. It reiterated the strengths of the risk-based Solvency II regime, however, it also noted that insurers should remain prudent when managing their financial position.

On the March 20<sup>th</sup> 2020, EIOPA issued a [statement](#) recommending flexibility in relation to year-end 2019 and Q1 2020 reporting deadlines. The CBI quickly followed this statement up with a letter to compliance officers taking on board the recommendations EIOPA had made. Year-end 2019 reporting deadlines were extended by 8 weeks in most circumstances, except for a subset of QRTs where the deadline was only extended by 2 weeks. The Q1 2020 reporting deadlines were extended by 1 week.

With the extension to year-end 2019 reporting deadlines only being announced in late March, a large number of Irish insurers

were well advanced with their year-end reporting plans and continued to report their supervisory and public disclosures in line with the original timelines.

### TREATING CUSTOMERS FAIRLY

Towards the end of March and early April, both regulators issued statements with regard to treating customers fairly. The CBI requested that insurers develop consumer-centric solutions to handling payment breaks and policy rebates in light of COVID-19. Claims should be assessed promptly and, where insurance is in place, claims should be accepted and paid. Where terms and conditions are unclear, the interpretation most favourable to the consumer should prevail.

Since this announcement, Insurance Ireland reported that several Irish motor insurers will issue refunds or discounts to policyholders reflecting lower claims experience as a result of the crisis. This is consistent with developments in the European and global motor insurance industries, where insurers have taken similar steps to remunerate their customers. Irish health insurers have also announced refunds and Irish life insurers have offered greater flexibility to policyholders, such as premium payment holidays.

### DIVIDEND PAYMENTS

On April 2<sup>nd</sup> 2020, EIOPA issued a [statement](#) urging insurers to consider temporarily suspending all discretionary dividend distributions and share buy backs due to the background of uncertainty surrounding COVID-19. The CBI has stated that “insurance firms should postpone any payment of dividends until they can forecast their costs and future revenues with a greater degree of certainty”.

However, the response to EIOPA’s statement on dividends has been mixed across Europe. Both the Prudential Regulatory Authority (PRA) in the UK and the German regulator (BaFin) have not issued a blanket ban on dividend payments. Instead the PRA has asked insurers to manage their financial resources prudently and the BaFin will consider dividend payments on an individual basis.

### SOLVENCY II 2020 REVIEW

The Solvency II 2020 Review has been impacted significantly by the pandemic. In March EIOPA extended the deadline for the impact assessment to 1<sup>st</sup> June 2020 and at the end of April they announced that a second impact assessment would be required in light of the pandemic, with a reference date of 30<sup>th</sup> June 2020. The timetable for advice on the 2020 Review has also been extended to end December 2020 (instead of end June 2020).

## Insurer’s Public Disclosures

As already mentioned, many of the large Irish insurers, continued to report year-end disclosures in line with original deadlines. We reviewed a number of the Solvency and Financial Condition Reports (SFCRs) published by (re)insurers based in Ireland to see what public disclosures companies made respect of the

COVID-19 pandemic. The message was generally consistent across the SFCRs we reviewed:

- The pandemic has resulted in unprecedented global uncertainty and market volatility.
- In general insurers are well capitalised and financially strong. Many insurers noted that they expect to remain within their target solvency ranges despite the pandemic.
- Insurers referred to the Own Risk and Solvency Assessment (ORSA) process and recent stress and scenario tests.
- Business continuity and operational resilience were also noted in a number of SFCRs.

Irish Life noted that they would defer any decision to declare dividends this year, which is in line with the CBI’s statement.

## Potential Industry Impact

While the actual impact on the insurance industry of this crisis is uncertain, some effects of the pandemic are already being felt by (re)insurers.

### MARKET VOLATILITY

There have been large movements in asset values and yield curves since the start of the year, which will impact insurer’s profit margins and balance sheets. However, for some insurers, this may not result in a fall in solvency coverage, as the Solvency Capital Requirement (SCR) may also have fallen, in particular as the symmetric adjustment on the equity risk shock has reached its minimum value of -10%, resulting in a much lower equity risk capital charge.

If the economic crisis associated with the pandemic deepens, insurers could face increased liquidity risk and credit risk. In addition, some insurers are also reporting issues with the valuation of property investments as a result of the difficulty in obtaining up to date and reliable market values for properties.

### BUSINESS PLANS

There is increased uncertainty surrounding business plans due to a significant drop in new business volumes across Europe. Persistency rates may also be an issue, in particular for saving and investment products which saw a large increase in lapses during the last financial crisis.

Many companies are looking to update sales projections and business cases for 2020 and some of the large insurance groups are carrying out ad-hoc ORSAs. For smaller insurers, we understand that ad-hoc ORSAs are not a priority currently, however this may change in the future if the crisis continues.

Proxy modelling is also an area some companies are considering in order to estimate their solvency position quickly and frequently as new information emerges.

## RISK MANAGEMENT

Risk management is an increased area of focus during a crisis. Insurers should reconsider their emerging risk registers to understand how pandemics are captured and look back at previous ORSAs to understand if this type of scenario was considered in the past and if it was not, why not. If insurers see significant deteriorations in solvency coverage, they may need to test their recovery plans in a real-life scenario. Fred Vosvenieks has prepared some blog posts on risk management relating to COVID-19 which can be found [here](#) and [here](#).

In Ireland, we understand from Head of Actuarial Functions (HoAFs) that some companies are reconsidering reinsurance arrangements and other capital management techniques. The volatility adjustment in particular has become a hot topic due to the increased benefits of this long term guarantee measure to the Solvency II balance sheet.

## CLAIMS EXPERIENCE

While it is not possible to predict the mortality experience associated with the pandemic at this point, based on experience to date it does not seem likely that the mortality experience will exceed the mortality stresses calibrated for the Solvency II standard formula. However (re)insurers' individual experience will depend heavily on the age profile of the insured population, and this may vary greatly by product type and country of risk.

On the non-life side, claims experience is expected to be lighter for health insurers and motor insurers as a result of the crisis. Other non-life claims in relation to events cancellation and business interruption will rely heavily on policy exclusions, with the possibility that reinsurers may bear the brunt of some of the larger claims associated with the pandemic.

## REGULATORY RISK

There has been increased engagement from regulators with (re)insurers across Europe as a result of the crisis and increased focus on treating customers fairly. We understand that the CBI has written to new license applicants for details of the impact of the pandemic on their plans, so this is an area of increased focus across the board for the CBI.

In addition, the inconsistent approach taken by European regulators with regards to dividend payments points to on-going issues with regard to harmonisation of insurance regulation across Europe.

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## OPERATIONAL ISSUES

All industries are impacted by the operational issues associated with the pandemic, not just insurers. Business continuity plans are no longer just theoretical as large sections of the workforce moved to working remotely overnight. Unforeseen issues can arise in relation to older processes that rely on pen and paper and signatures or actuarial models that are stored on specific PCs rather than in the cloud. The remote working capabilities of outsourced providers has also been tested and this seems to be an area of focus for the CBI.

The impact on distribution networks will also be significant, particularly where consumers are unable to engage with insurers or brokers in the usual way. As a result, companies may need to adjust and develop new ways of engaging with consumers.

## REPUTATIONAL ISSUES

There has been a lot of coverage in the media focusing on business interruption insurance to date. There may also be other issues arising from the crisis, particularly in relation to treating customers fairly. However, the rebates on motor and health insurance policies promised by insurers should hopefully generate some positive press coverage for insurers.

## OPPORTUNITIES

Like many industries, the insurance industry will be significantly disrupted by this pandemic, but that's not to say that opportunities won't arise for (re)insurers post-crisis.

The pandemic could be the catalyst to spur on the digitalisation of the insurance industry, which has generally been slow to date to engage with customers online. Increased operational issues could see many insurers finally focus on digital strategies. Innovative new products may emerge from the crisis, such as products focusing on telemedicine or usage-based insurance.

There may be increased demand for pandemic cover, both commercially and personally – consumers may be willing to pay a premium for pandemic cover on travel insurance, for example, in the future. Reinsurers may also play a part in providing large-scale catastrophe cover for pandemic risk.

Regardless of the challenges faced by the industry during this pandemic, the move to Solvency II is likely to have improved the industry's resilience and ability to withstand large risk events. This will hopefully allow insurers to focus on the opportunities arising from this crisis.

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