GLOBAL FEDERATION OF INSURANCE ASSOCIATIONS

4 September 2020

Response to IAIS consultation on the impact of COVID-19

General comments

GFIA appreciates the opportunity to provide feedback to the IAIS on the impact of COVID-19. The COVID-19 pandemic has reaffirmed the importance of dialogue between supervisors and the industry, particularly in unstable economic, political and societal circumstances. GFIA and its members welcome the ongoing engagement with supervisors at global, regional and jurisdictional levels.

First and foremost, GFIA encourages the IAIS and its members to adopt a long-term perspective in responding to COVID-19. The COVID-19 pandemic has brought significant challenges to individuals and societies around the world. It has also created huge economic hardship for citizens and businesses, and it is not yet clear how long this will continue. What is clear is that many of the pandemic's consequences will take time to materialise and the ultimate impact will depend on the severity of the economic crisis and on how fast economies recover. It is therefore vital that the relevant parties take a long-term perspective when developing proposals to bring about economic recovery and support the well-being of people and society as a whole. While the COVID-19 pandemic to date has demonstrated the resilience of the sector and shown that jurisdictional regulatory frameworks have functioned well to maintain policyholder protection and financial stability, efforts need to be made in light of the experiences with the pandemic.

In addition, GFIA regularly highlights the different characteristics and dynamics in different markets, which reflect national circumstances. The impact of COVID-19 is no exception. The economy of each country or jurisdiction is affected differently, with some being hit harder than others. As the global industry has been warning, a one-size-fits-all approach to supervision should be avoided.

Finally, GFIA and its members are committed to working together with supervisors and other stakeholders to identify and implement lessons learned. The global industry is also interested in assisting in rebuilding economies that are more sustainable and resilient.

Q1: How will Covid-19 affect the financial system and the insurance sector specifically over the short, medium and longer term?

- **Short term effects (up to the end of 2020)**

In regards to the short-term effects (ie up to the end of 2020), insurers to date have seen a significant impact on their **operations,** either due to the pandemic itself or to public policy developments including lockdown measures**,** but have demonstrated strong operational resilience in continuing to service customers, leveraging their generally solid solvency position. Insurers have continued to process claims at a normal pace and respond to enquiries from customers swiftly, notwithstanding some minor delays and operational issues, such as in markets with strict requirements around paper/official documentation or due to the closure of car repair shops. Insurers also made a swift and robust transition to teleworking as many governments imposed lockdown measures, and there have been no major disruptions reported, although networks and ICT systems have been stretched. In a smooth transition,

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insurers have managed to keep millions of their staff[1] safe from the virus, responding to national lockdown orders and social distancing recommendations.

Insurers have also made various, additional, voluntary efforts to help their customers, where possible. For example, insurers have offered partial deferral or waiver of fees, or even partial refund of premiums. At the same time, insurers have launched a broad range of **voluntary goodwill actions** to support citizens and businesses. These range from contributing financially to health and research initiatives and making donations to schools for IT equipment to relaying governments' mental and physical health messages.

With regards to business results for 2020, the industry foresees larger than normal **underwriting losses**. A surge in claims for some business lines has been reported in several countries, with total global losses amounting to an estimated $107bn[2]. In the UK, for example, COVID-19 is estimated to have resulted in approximately £1.2bn ($1.6bn) in claims for business interruption, travel insurance and event cancellation. In other areas, a reduction in the number of claims was initially reported in a number of countries (ie motor, marine, aviation and transit (MAT) and health). However, this trend has started to reverse with the lifting of lockdown measures (see "medium to longer term effects").

From a **prudential supervision perspective**, COVID-19 has created financial market turmoil, and has proved to be a test case for how well prudential frameworks work in stressed situations. For example, in Europe, COVID-19-related market volatility demonstrated that the applicable solvency framework, Solvency II, exaggerated the impact of short-term price movement on insurers' balance sheets and solvency positions. More broadly, this reinforces the message that GFIA has conveyed over recent years of developing the global ICS, namely that any prudential standard should be calibrated to reflect insurers' business model, and should be tested against both normal and stressed market conditions.

- **Medium to longer term effects (2021 onwards)**

In terms of the impact over the medium-to-long-term (ie 2021 onwards), it will take time to get a full picture because of the long-term nature of insurance business. In addition, varying market dynamics make it even more difficult to predict the impact at a global level. Furthermore, it is simply not possible to foresee how public policies will develop and how the behaviour of citizens and businesses will change as a result of their experiences with the pandemic. Taking underwriting loss as an example, not only will it take time for claims in certain areas to materialise, but also it will take time to assess the extent to which the initial reduction in the number of claims in certain business lines will be followed by an increase with the lifting of the lockdown measures[3].

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[1] Eg over 900 000 in Europe, and over 990 000 in the US life and health insurance market alone

[2] Underwriting loss of $107bn is on a par with some of the biggest major claim years for the industry, such as when three catastrophic windstorms struck (2005: hurricanes Katrina, Rita and Wilma; 2017: hurricanes Harvey, Irma and Maria) (Source: Lloyd's)

[3] For example, New Zealand has seen an increase trend for private and commercial motor, domestic contents and domestic buildings after a strict lockdown was once lifted in mid-May. Deferred claims may arise due to a hesitancy to be without vehicles during lockdown and the limited ability for repair shops to operate.

In view of this, the impact on **new business** will be particularly important in the medium-to-long-term. The impact on new business will depend primarily on the evolution of the economic situation, which tends to have a direct impact on non-life insurance but also on people's ability to save (see also below). Other factors such as reinsurance affordability and availability, the interest rate environment or people's interest in acquiring protection will also play a role. Insurers likewise expect to be increasingly faced with unpaid premiums due to the hardship experienced by some customers.

COVID-19 is also expected to impact insurers' **investments in the real economy**: default rates in various sectors of the economy are expected to increase, the market values of certain companies could be hit further, and the ability of companies to pay out dividends, which has already been affected, could also be challenged in the years to come[4]. COVID-19 has also increased the likelihood of a prolonged low interest rate environment, which is a challenge for the insurance sector especially in the life and retirement areas. Given all these challenges that will ultimately impact policyholders' returns, benefits and access to appropriate and affordable protection and savings products, it is crucial that policymakers carefully assess existing policies and/or proposals under development and remove/avoid any measures that could inappropriately add to the existing challenges.

As regards the area of **pensions,** disruption in financial and labour markets resulting from the COVID-19 crisis is likely to affect people's ability and willingness to save for their retirement and to contribute to pension schemes. This will undoubtedly impact the activities of life insurance companies. Due to the long-term nature of private pension savings, the impact of the COVID-19 pandemic will only be fully measurable once current savers reach their retirement age. Moreover, the impact will vary by country, given the differences in national responses to the crisis and differences in retirement schemes. According to the Swiss Re Institute[5], global life premium volumes are forecast to shrink by 6% in 2020, with savings products being particularly affected. Life premiums in advanced EMEA are expected to decline by close to 10% in 2020. The impact of COVID-19 on private pension savings will also depend on two other important aspects: first, the national rules applicable to pensions (ie surrenders) and second, the nature of the scheme (defined benefits/guaranteed or defined contributions/non-guaranteed).

In relation to **legal certainty**, the pandemic has emphasised the need for clear understanding of the terms and conditions of insurance contracts, since many pandemic-related risks, such as those relating to business closures, are excluded from most insurance policies. Lack of clear understanding has exposed insurers and insurance regulators to public frustration. In some US jurisdictions, insurers have already seen that a growing number of insurance regulators are declining to accept pandemic/communicable disease exclusion filings that are pending, or which have recently been filed and approved. Several regulators have even asked insurers to withdraw existing exclusions. Given the uninsurability of many pandemic risks and the absence of national programmes to address pandemic risks, this could have a serious impact on the financial system and the insurance sector.

[4] Falls in investment portfolios are estimated at $96bn (Source: Lloyd's)
[5] sigma 4/2020, "World insurance: riding out the 2020 pandemic storm", Swiss Re Institute

Q2: What are the key trends, risks and opportunities for the insurance sector in light of Covid-19?

- **Trends**

In terms of the key trends, the **move towards digitalisation and innovation** is expected to continue if not accelerate. Enhanced use of technology and digitalisation has demonstrated their added value to customers during the difficult conditions arising from the COVID-19 pandemic. Continued investment in technology and digitalisation to facilitate distribution, claims management and advice, among other areas, has enabled and will further enable insurers to provide robust customer support. The industry has observed raised consumer expectations and their preference for prompt, effective and meaningful online interactions. GFIA therefore welcomes the fact that the IAIS has identified **fintech** as one of its strategic priorities for the 2020-2024 period. What is important here is to ensure a legislative and regulatory environment in which digitalisation can be supported. Key considerations should include a likely increase in the number of people working from home, which means that the activities performed online will, in all probability, increase for a broad spectrum of business operations, including those of insurers.

Furthermore, while data is still being collected, several markets have reported an **increase in fraud**. The risk of fraud is generally expected to increase should there be a prolonged recession. For example, an increase in cases of professional liability insurance fraud could occur during the second half of 2020 or 2021 due to the economic difficulties of businesses. New types of fraud could also appear, leveraging more sophisticated digital tools. It will therefore be essential to ensure that appropriate tools are in place to fight existing and new types of fraud.

- **Risks**

In terms of risks, the industry is particularly concerned about **conclusions being drawn too fast.** The situation around COVID-19 is constantly evolving, which means that it will not be possible to fully understand the impact of the pandemic before the end of 2020. GFIA therefore strongly supports the IAIS and its members taking a long-term perspective, notably on the basis of products' full life cycles, rather than mid-term in policy periods, in their assessment of the impact of COVID-19. It is vital that policymakers adopt a long-term perspective when developing policies to bring about economic recovery, otherwise there is a risk that **unintended consequences for the industry, policyholders, and the broader economy will arise.** This highlights the importance of thorough consultation with the industry when developing major regulatory and legislative changes.

Possibly one of the most significant developments in this context is an **attempt to challenge the fundamental mechanism of insurance,** despite cautions raised by the IAIS in its statement issued on 7 May. Requiring insurers to pay COVID-19-related losses that were not priced or covered under existing policies, such as business interruption and workers' compensation, would undermine the interests of citizens and businesses in need of protection. For example, analysis of the impact of retroactive coverage for US small businesses[6] indicates that the

[6] An estimation of COVID-19 related losses for US small businesses indicates $52bn to $223bn per month for those that have commercial insurance policies with some business interruption coverage that typically excludes viruses and pandemics, and $255bn to $431bn per month for all small business including those without standard commercial insurance policies. It will be $1trn to $1.1trn per month for all businesses of all sizes with or without business interruption insurance. (Source: American Property Casualty Insurance Association (APCIA))

industry's capital and surplus for all lines of business[7] would be exhausted in a matter of months, making the segment financially unviable.

There are also other uncertainties that will come into play which could affect the financial system and the insurance sector. The global political situation remains tense and trade tensions/protectionism exist which could materially affect the financial situation. Furthermore, should significant natural catastrophes occur, it is expected that a hardening in the reinsurance market would follow, would translate into a premium hike to be borne by end-customers and potentially exacerbate affordability issues.

- **Opportunities**

The COVID-19 pandemic has brought significant challenges to individuals and societies around the world. It has likewise created huge economic hardship for citizens and businesses alike. It is therefore extremely challenging to identify positive aspects. Nevertheless, the conclusions that the industry can draw from the pandemic could be seen as opportunities to boost resilience.

First, **COVID-19 has confirmed the value that insurance can bring to citizens and businesses.** Insurers can provide peace of mind during difficult times and have played a role in tackling the negative socio-economic effects of the pandemic. At the same time, COVID-19 has demonstrated the importance of a clear understanding of policyholders' rights as defined in their contracts. Consumers need to know precisely what their policies cover, acknowledging that the insurance industry cannot pay for losses for which it has not received premiums.

Second, the pandemic has provided an **opportunity to explore the role that insurers can play in boosting the resilience of economies and societies**. The industry has a number of reflections on this, as follows.

COVID-19 has raised important questions around the extent to which the resilience of economies and societies can be enhanced and pandemic risks can be covered in the future. Preventing economy/society-wide disruptions such as pandemics and shutdowns is a shared responsibility among all governments, the public and the private sector. Building on the shared responsibility, there is an opportunity for the industry to foster a **resilient recovery** from the crisis. **Climate change** remains one of the most significant risks for the insurance industry as well as the broader economy, and insurers are ready to contribute to climate mitigation and adaptation[8]. Additionally, in light of increased online activity, the insurance industry is keen to contribute to enhancing society's **cyber resilience** by developing tailor-made cyber insurance products. Furthermore, insurers can play a role in supporting the most vulnerable sectors and achieving **inclusive growth** via investment (eg in the real economy, including in SMEs) and product offerings (eg microinsurance)[9].

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[7] The total US property and casualty industry surplus is approximately $800bn (APCIA)

[8] See GFIA position paper on climate mitigation and adaptation

[9] A recent report by industry body TheCityUK outlines the role that financial services firms, including insurers, could play in supporting smaller businesses via new equity investment and more sustainable long-term debt

COVID-19 has also made consumers more aware of risks that they face in their daily lives, such as the risk of travel cancellation. Consumers with heightened **risk awareness** may recognise the evolving nature of risk profiles, which change over their lifetime. The insurance industry has a role to play in fostering the development, updating and application of clear risk management perspectives, thereby preventing expectation gaps to the extent possible[10].

COVID-19 might also generate awareness of the need for people to take responsibility for their own retirement income and for countries to speed up efforts to reform pensions. This is particularly crucial given the pace of population ageing around the world. Against this backdrop, **private pension solutions offered by insurers** are likely to play an even bigger role in ensuring the adequacy of future retirement provisions, given the increased need for financial safety after retirement as a result of the crisis. Insurers will only be able to play a key role in tackling the pension challenge if they operate in a regulatory landscape that incentivises private pension saving. A long-term view is critically important, particularly in the area of retirement, and the industry cautions against any move to the detriment of long-term, responsible savers[11].

The COVID-19 pandemic has also confirmed the importance of **a fit-for-purpose regulatory framework** in ensuring optimal outcomes for consumers. There is an opportunity for supervisors to review how effectively current supervisory standards serve this purpose without muting the potential for insurers to better serve citizens and the broader economy. **Timely review of regulatory frameworks** is key in this regard, in order not to limit innovation or competition that supports customers or to add unnecessary regulatory costs. Such reviews should cover **digitalisation and innovation** (eg filing with signatures in electronic format) and **regulatory reporting**. There are opportunities for supervisors to retrofit regulatory frameworks or to expand cooperation and coordination with other supervisors on data collection to reduce the regulatory burden and increase efficiency.

Another key area of review includes prudential frameworks. While the insurance industry recognises the benefits of a risk-based approach in prudential frameworks at any level, to be truly effective they must reflect the long-term nature of insurance and the sector's risk management and asset-liability management (ALM).

Q3: What does this mean for supervisors?

COVID-19 has presented insurers with unprecedented challenges. At the same time, it shows how increasingly important it has become for supervisors to be concerned about and focused on competitive and sound insurance markets for a wide range of products that are valuable to both individuals and businesses. To this end, it is critically important that the IAIS and its members communicate with their peer authorities in global policymaking and respective governments to ensure a **clear understanding of the fundamental mechanism of insurance.**

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[10] For example, in France, the French Insurance Federation (FFA) has published specific information related to COVID-19 on its website and will pursue its financial education policy ("15 tips to be well insured") aimed at helping people choose insurance coverage that meets their needs in order to reduce the expectation gap

[11] Potential cases in which governments change retirement schemes counter to the long-term benefit of citizens include defunding, reversal of a self-funded pillar (return to a "pay as you go" system), and even outright nationalisation of the scheme

Supervisors should play a significant role in safeguarding the industry, policyholders and the broader economy from unintended consequences.

GFIA welcomes the IAIS statement of 27 March and recommendations made by its member supervisors[12] highlighting the importance of **supervisory flexibility**. Similarly, in jurisdictions across the world, supervisors have provided flexibility in reporting deadlines, which were very much needed in the COVID-19 context.

The IAIS has a key role to play in **monitoring developments related to COVID-19** and in facilitating coordination among its members in this regard. While GFIA is of the view that there is added value in the IAIS monitoring COVID-19-related developments, including targeted data collection, it is important that this work does not duplicate workstreams and jurisdictional processes already running. In order for the IAIS's efforts to be as efficient as possible, it can rely on its members for such data, given that in many jurisdictions significant data is already available via existing reporting requirements. This can be complemented subsequently on the basis of the selected data collection performed by companies, for example through the global monitoring exercise (ie IIM), without setting up a dedicated workstream. There should be a dialogue between the IAIS and stakeholders to share findings from the data analysis and to explore how the IAIS can efficiently carry out its monitoring work.

From a prudential perspective, supervisors should take advantage of this real-world test for prudential regimes. The COVID-19 pandemic has provided evidence that suggests, in some jurisdictions, that targeted improvements in certain areas are needed and justified. Prudential frameworks, including the ICS, should ensure they do not inhibit the ability of insurers to offer long-term products and to invest in the real economy, as jurisdictions look for solutions to support economic recovery and ultimately foster a return to growth. Supervisors should focus on ensuring that insurers are able to meet their long-term obligations through continued adherence to asset/liability management and should not be forced to reflect the impacts of short-term, temporary market volatility that are not relevant to the expected cash flows underlying long-term contracts.

COVID-19 has also shed light on the issue of dividend payment, not only from a prudential perspective but also taking into account the fact that many people depend on dividends for their pensions. The industry recognises the importance of dividends to shareholders as well as the need to ensure the insurance sector's financial strength and stability, especially in periods of uncertainty such as that triggered by COVID-19. Insurance companies therefore set their dividend policy and make dividend decisions very carefully, taking account of their solvency levels, business plans, risk profiles and risk appetites, as well as any significant events that could have a material impact. Where requirements for careful decisions, including on dividends, are built into the regulatory framework and where the industry has strong levels of solvency, **supervisors should refrain from imposing country or regional blanket bans on dividends** and instead follow a case-by-case, risk-based approach to any dividend restrictions.

With regard to the trend of increasing digitalisation, the IAIS, in coordination with the Financial Stability Board (FSB) and other relevant bodies, can **support the development of a globally consistent landscape for cyber**

[12] eg EIOPA's recommendations of 20 March

insurance. There should be coordination at international level to avoid multiple inconsistent regulations for international businesses, including baseline data security expectations that may be found in regulation, legislation or guidance. Such harmonisation will allow for efficient and cost-effective regulation that protects consumers and the industry, particularly for insurers that operate across multiple jurisdictions.

Q4: What are the main areas you will be focusing on over the coming 1 to 2 years?

Insurers will continue to build their insights into risks that have system-wide impact. Such risks include pandemics/epidemics, climate change, space weather, utility failure (including the internet) and widespread cyber attacks. Those insights will feed into rebuilding economies in a resilient way.

How insurers can contribute further to a **resilient recovery** from the COVID-19 pandemic will be an important area of focus. In order for insurers to support resilient recovery through their investments, it will be important to ensure the availability of sustainability-related data reported by investee companies. In a similar vein, **climate adaptation** remains an important area of focus for the insurance sector.

COVID-19 has also demonstrated the **need for people to save for their retirement** and for solutions to be in place to achieve this. This workstream will continue to be a key global industry priority, maintaining and expanding the capacity of private retirement markets to help citizens and governments to face the longevity and morbidity funding gaps caused by global ageing.

Now that the demand for **cyber insurance products** is expected to increase due to the fact that citizens and businesses have come to rely even more on digital technology, the sector will focus on developing products that allow customers to improve their cyber resilience and assist them with mitigating action should an incident occur.

Finally, it is key for any of the above areas that there is a clear understanding of what policies cover, acknowledging that the insurance industry cannot pay for risks for which it has not received premiums. The industry needs to pursue enhanced **financial education** to improve consumers' understanding of how insurance works and how contractually the policyholder's rights and obligations are defined by the policy terms and conditions.

Q5: Where do you believe IAIS should focus its work during this period?

GFIA continues to support the IAIS's strategic directions and priorities as set out in its 2020-2024 strategic plan[13]. GFIA also acknowledges the IAIS work in the prudential area, including the ICS and the Holistic Framework for Systemic Risk. As highlighted above, COVID-19 has confirmed the need for prudential developments to be tested against both normal and stressed market conditions — and this should be emphasised in future work.

In parallel, the IAIS could focus on ensuring that insurers can benefit from an open and competitive international **digital level-playing field** to allow for the offer of tailor-made and innovative insurance products, as well as the access for consumers to insurance products. To this end, the IAIS could play a role in promoting **digital-friendly**

[13] See GFIA feedback on the IAIS strategic plan 2020-2024

international and domestic landscapes. Now, more than ever, consumers and insurers need a regulatory framework that is fit for purpose and digital-friendly. For example, some regulation requires that information is provided to consumers on paper by default, preventing further development of the internet as a distribution channel for insurance products and failing to recognise that consumers are increasingly demanding and using online services. In this respect, the COVID-19 crisis has clearly demonstrated the importance of digital communication for business continuity and accelerated consumers' expectations of being able to carry out paperless transactions.

The IAIS should focus on promoting a "**better regulation agenda**" with a view to ensuring that insurance supervisors avoid introducing unfit rules and disclosures that mislead consumers, legal uncertainty, outdated rules and obstacles to pro-consumer innovation, as well as implementation timelines that are too short[14].

In addition, **climate change** and **population ageing** remain key challenges for the insurance industry and society as a whole, irrespective of the COVID-19 pandemic, and so should continue to be an area of focus for the IAIS. The IAIS and its members, which are well placed to recognise challenges for the industry, could communicate with their peer authorities in global policymaking and respective governments, helping the insurance sector to play a greater role.

In addition, GFIA urges supervisors to interact with other government agencies to identify and apply lessons learned to prevent pandemics and corresponding large-scale shutdowns of economies. While there are insurance aspects, the reality is that preventing pandemics and shutdowns is a shared responsibility among all governments, the public and the private sector.

GFIA looks forward to future opportunities to exchange views with the IAIS on key areas of relevance for the insurance industry.

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About GFIA

Through its 41 member associations and 1 observer association, the Global Federation of Insurance Associations (GFIA) represents the interests of insurers and reinsurers in 64 countries. These companies account for around 89% of total insurance premiums worldwide. GFIA is incorporated in Switzerland and its secretariat is based in Brussels.

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[14] For reference, Insurance Europe developed dos and don'ts for regulation that benefits consumers, as well as guidance for developing quality regulation