

PRESS RELEASE

Actuarial Association of Europe comments on the paper "Best practices in relation to relief measures offered to consumers and businesses in the context of the COVID-19 crisis"

Brussels, 14 July 2020:

The Actuarial Association of Europe (AAE) welcomes the paper "[*Best practices in relation to relief measures offered to consumers and businesses in the context of the COVID-19 crisis*](#)" published by the European Commission. The paper discusses relief measures offered to consumers and businesses by banks, non-bank lenders and insurers in the context of the COVID-19 crisis. The Commission encourages financial institutions in the EU to follow the best practices in the document on a best-effort basis and in accordance with existing EU legislative requirements and without prejudice to regulatory obligations and supervisory expectations.

The section "*Best Practices for Insurers*" of the paper is particularly interesting to actuaries. This section consists of nine points, covering the importance of contributing to the well-being of society. Insurers are encouraged to demonstrate flexibility towards consumers and business clients who may not be able to fulfil contractual obligations, and to continue to act in the best interests of consumers. Insurance is the tool used to transfer risks and share them among the insured community so that the modest premiums paid by the many are sufficient to cover financially the risks materializing for the few. Consequences of the COVID-19 crisis are by nature difficult when insurance is concerned as, among other things,

- the risk materializes almost simultaneously everywhere making pooling of the risk difficult, and
- it materializes as a combination of the direct consequences of the pandemic and societal responses to it.

This being said, insurance needs to innovate how the consequences of the pandemic can be mitigated now and in the future with other similar 'systemic' phenomena attacking our tightly

Notes for editors

1. For further information please contact Monique Schuilenburg (tel. +32 2 201 60 21), moniques@actuary.eu
2. Copies of all AAE press releases are available on the AAE website (www.actuary.eu)
3. The Actuarial Association of Europe (AAE) was established in 1978 under the name Groupe Consultatif to represent actuarial associations in Europe. Its primary purpose is to provide advice and opinions to the various organisations of the European Union - the Commission, the Council of Ministers, the European Parliament, the European Supervisors and their committees – on actuarial issues in European legislation. The AAE currently has 36 member associations in 35 European countries, representing over 26,000 actuaries. Advice and comments provided by the AAE on behalf of the European actuarial profession are totally independent of industry interests. The Actuarial Association of Europe is registered in the EU Transparency Register under number 550855911144-54

networked modern world. Actuaries, with their education in modeling all types of different risks and managing their financial consequences, are well-placed to participate in the search for solutions. The Commission encourages insurers to assess that insurance products remain consistent with the needs. The key difficulty for some insurance customers has been the lack of coverage for COVID-19 related costs, e.g. non-damage business interruption, event cancellation or travel insurance. Conventional insurance may not provide the means to address this issue for future systemic events, and the AAE is actively contributing to work which is underway to address this gap.

Actuaries are central in insurers particularly in the calculation of premiums and technical reserves¹ and especially in the actuarial and risk management functions of Solvency II. Actuaries are also active actors in the design of insurance products. Actuaries will see that the changing risk landscape brought about by COVID-19 is appropriately taken into account in the risk management. Especially the ORSA (own risk and solvency assessment) process, which is undertaken by all insurers, needs to take into account the new challenges.

According to the Commission, insurers are also encouraged to adjust insurance tariffs to reflect changes. As it has been said, this falls into the center of actuarial practice. As the Commission rightly notes, national circumstances need to be taken into account. Actuaries certainly take the best statistical and other information into account when advising on pricing. There are examples in markets across Europe of such adjustments taking place, primarily in motor and health insurance. There are some additional considerations which insurers will need to take into account in assessing the appropriateness of such adjustments, e.g.

- the extent to which a low claims environment at one time, e.g. during COVID-19 lockdowns, may be followed by a high claims environment
- the impact on COVID-19 on the entire book of business as well as the impact on specific lines of business

Insurers should continue to implement strong and well governed pricing processes in assessing the impact of the pandemic on future prices. The ORSA process should be used in considering possible impacts of changes in underwriting and pricing under stressed scenarios.

Insurers should be consistent in communications with customers, and with those who directly influence customers, i.e. distributors (as brokers and tied agents) and intermediaries, that investments in long term products are for the long term, that market volatility is to be expected, and reaction (in the form of redemption or fund switching/reallocation) to short term downward market movements may be unwise in the long term. Effective risk profiling of savers becomes critical at such times, and more risk adverse investors should be less affected by volatility; insurers should draw attention to features of products such as guarantees which protect against short term market movements.

Long-term saving in Europe has generally shifted to products where more risk is borne by the insured. This is to a large extent a consequence of the low interest environment we are living in. With the market fluctuations there is the threat that savers redeem their savings at an unfortunate moment. Actuaries would like to contribute in this area to create novel products offering better and safer risk sharing and thus better savings products for the consumers.

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¹ which represent the monetary amount that the insurers must have available at all times to face the claims.