

## AAE COMMENTS TO EIOPA'S PAPER ON SHARED RESILIENCE SOLUTIONS (SRS)

The Actuarial Association of Europe (AAE) congratulates EIOPA for its staff issues paper on Shared Resilience Solutions (SRS). We feel that the topic is crucial and EIOPA has now opened the door for Europe to find good solutions.

It is also clear that the SRS will be no cure for the problems we are now experiencing with Covid-19. The situation at hand however creates momentum to go forward and also a laboratory to examine the problem and devise tools for similar situations in the future.

The paper recognises that private insurance solutions alone will not be sufficient to protect society against the financial consequences of future pandemics. We agree on this and the four key elements proposed:

- Proper risk assessment
- Risk prevention and adaptation measures
- Appropriate product design
- Risk transfer

We would however add to the key elements a fifth one:

- Adequate pricing reflecting production cost of the insurance solution.

We feel that the paper could gain in value if the following two areas would be included:

- with the current situation it is crucial to properly identify the two central elements of the problem. We have a phenomenon consisting firstly of the pandemic and secondly of the different societal responses. The first element as such is insurable unless the accumulation potential becomes too large. However, the second element introduces severe complications. There is a minor reference to this on page 8. We feel that this characteristic of the problem must be a starting point when looking for solutions.
- the paper addresses practically only SRS in the context of a pandemic and its implications for Non-Damage Business Interruption (NDBI). Possible extensions to wider problems are mentioned on page 14. It might be reasonable to start as EIOPA is doing from analysing the current pandemic and NDBI. Yet it needs to be understood that the next crisis probably will not be identical to what we have now and that a broader view is needed.

We agree with the following four principles that would underlie the development of a shared resilience solution for pandemic risks:

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2. 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

- A shared resilience solution would require the sharing of costs and responsibilities across the relevant parts of the private and public sector in a meaningful manner (“skin in the game”).
- An efficient shared resilience solution will require an element of central coordination across public and private entities (this is however less a technical concern)
- Any solution involving public and private sector would be conditional upon implementing efficient and effective prevention and adaptation measures.
- A shared resilience solution can only insure against a portion of the economic costs.

There is the proposal to establish an EU expert group to address data sharing and risk modelling. We agree with this proposal and we see the AAE as an important expert member in this group for the reasons that (i) members of the AAE have an in-depth understanding of what can be achieved with pooling of risks, and (ii) AAE will bring an objective perspective as it does not represent the insurance industry.

The paper discusses also parametric insurance on page 9: ‘Parametric insurance can offer the advantage of a quick settlement as the payment structure has been pre-agreed based on an event parameter or index value’. We think it is wise to be open to a parametric solution. However, it is also important to take into account the different components of what we now are experiencing. The pandemic as such fits easily to the parametric paradigm while the consequences of the societal response will be an element that must be considered when settlement amounts are determined.

The paper correctly recognises that ‘Public subsidy may pose a risk of moral hazard, by reducing incentives for risk assessment and risk prevention and development of private market solutions’. We feel however that there are important elements of moral hazard not yet analysed in the paper. There needs to be a discussion of moral hazard also with respect to the possible reactions of the states which would be covered:

- it could be easier to impose lockdowns when the insurance system would cover the costs of certain actions, and
- if there were European burden sharing there could also be moral hazard for one member state to try to benefit from others on the basis of such burden sharing.

We understand the importance of avoiding economic fragmentation (page 12): ‘Consistent implementation of pooling mechanisms across EU Member States may minimise the overall disruptive effect of a pandemic risk at EU level and limit the risk of economic fragmentation across the EU. Building on examples across Member States, best practices (a “blueprint”) can be identified to enable a consistent approach across Europe in defining triggers for the payment of losses at national level as well as the scope of coverage of national insurance or reinsurance pools’. We need to remember however that there are differences among the member states that will make the creation of a uniform system difficult. Already with NDBI the cost for an employer of laying off employees is very different from country to country. It would not sound right if, especially in a solution based on burden sharing, NDBI in member states where costs related to this are higher would benefit from other member states. Such cross-subsidisation would undermine the principle of insurability.



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