



ACTUARIAL ASSOCIATION OF EUROPE

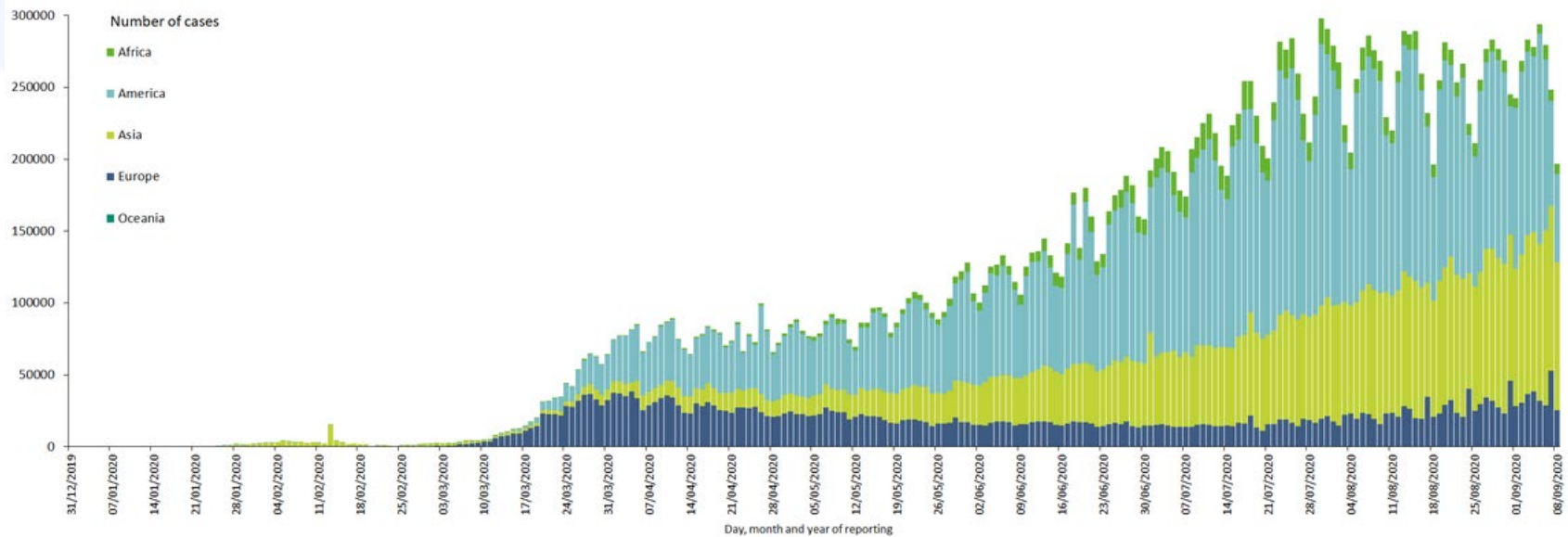
COVID-19

Status, business impacts and implications for actuaries

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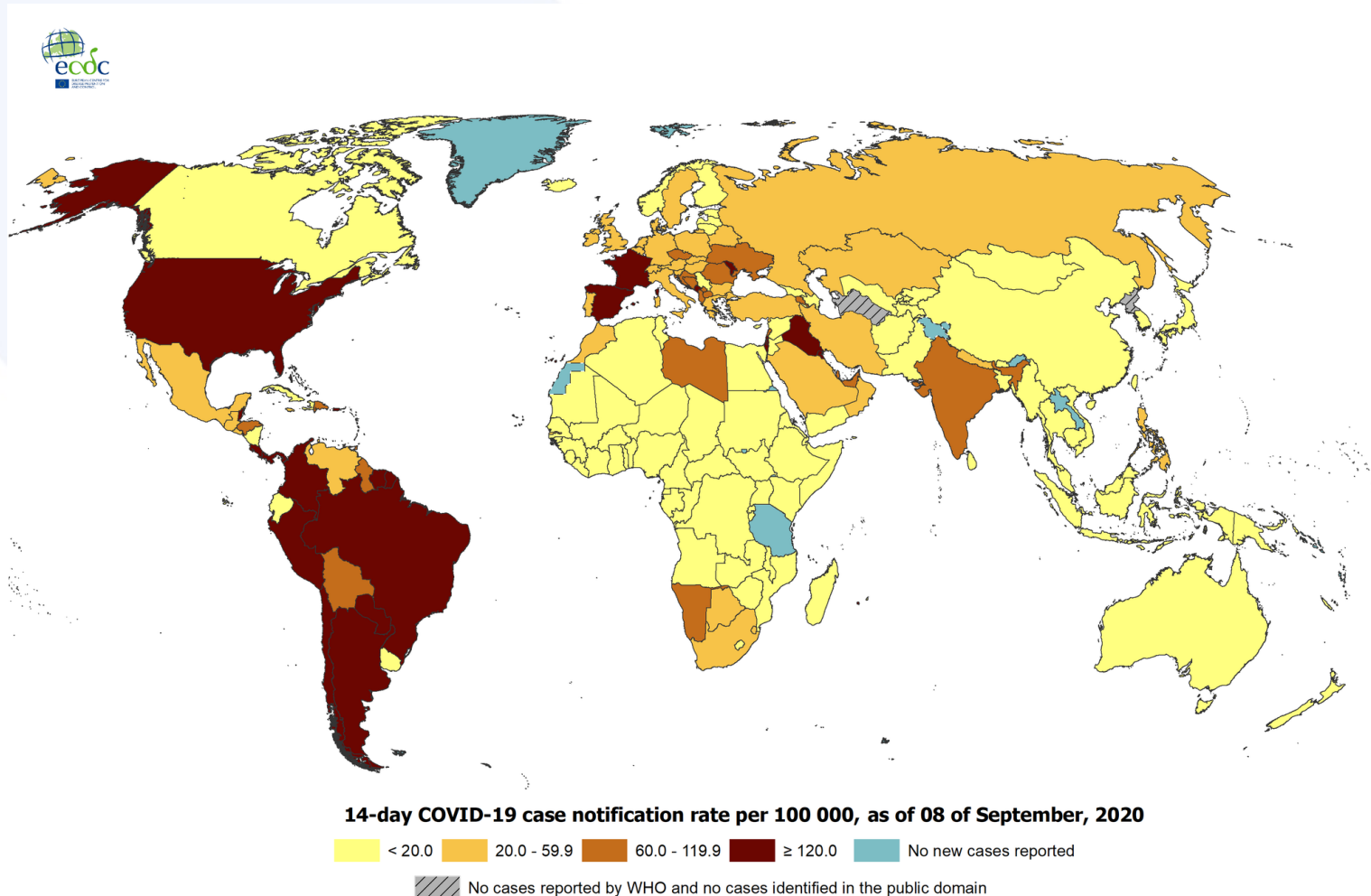
15 September 2020

Status - Daily number of cases



Source: ECDC

Recent notification rates

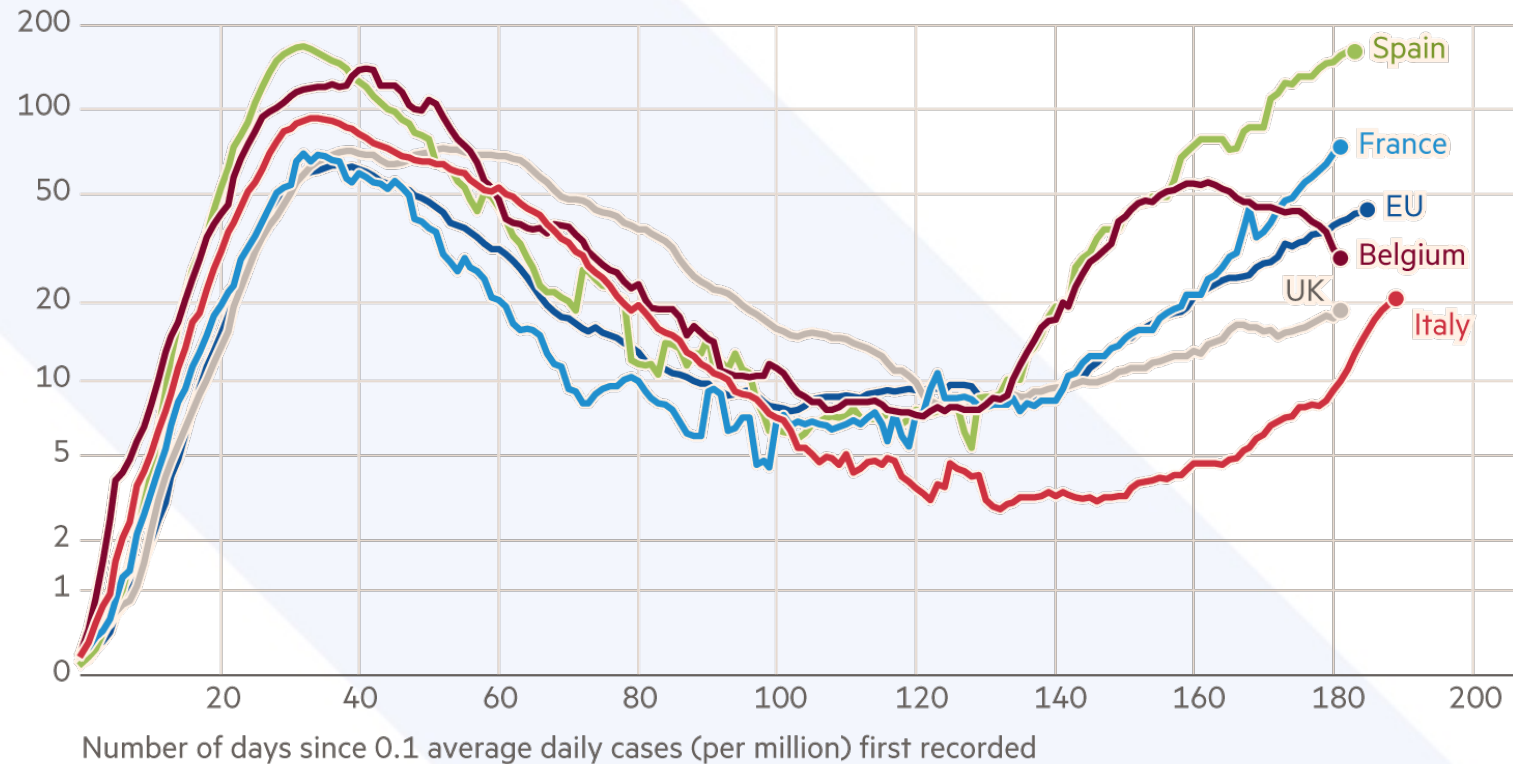


The boundaries and names shown on this map do not imply official endorsement or acceptance by the European Union.

Date of production: 08/09/2020

Europe's Covid-19 resurgence in context

Seven-day rolling average of new cases (per million)

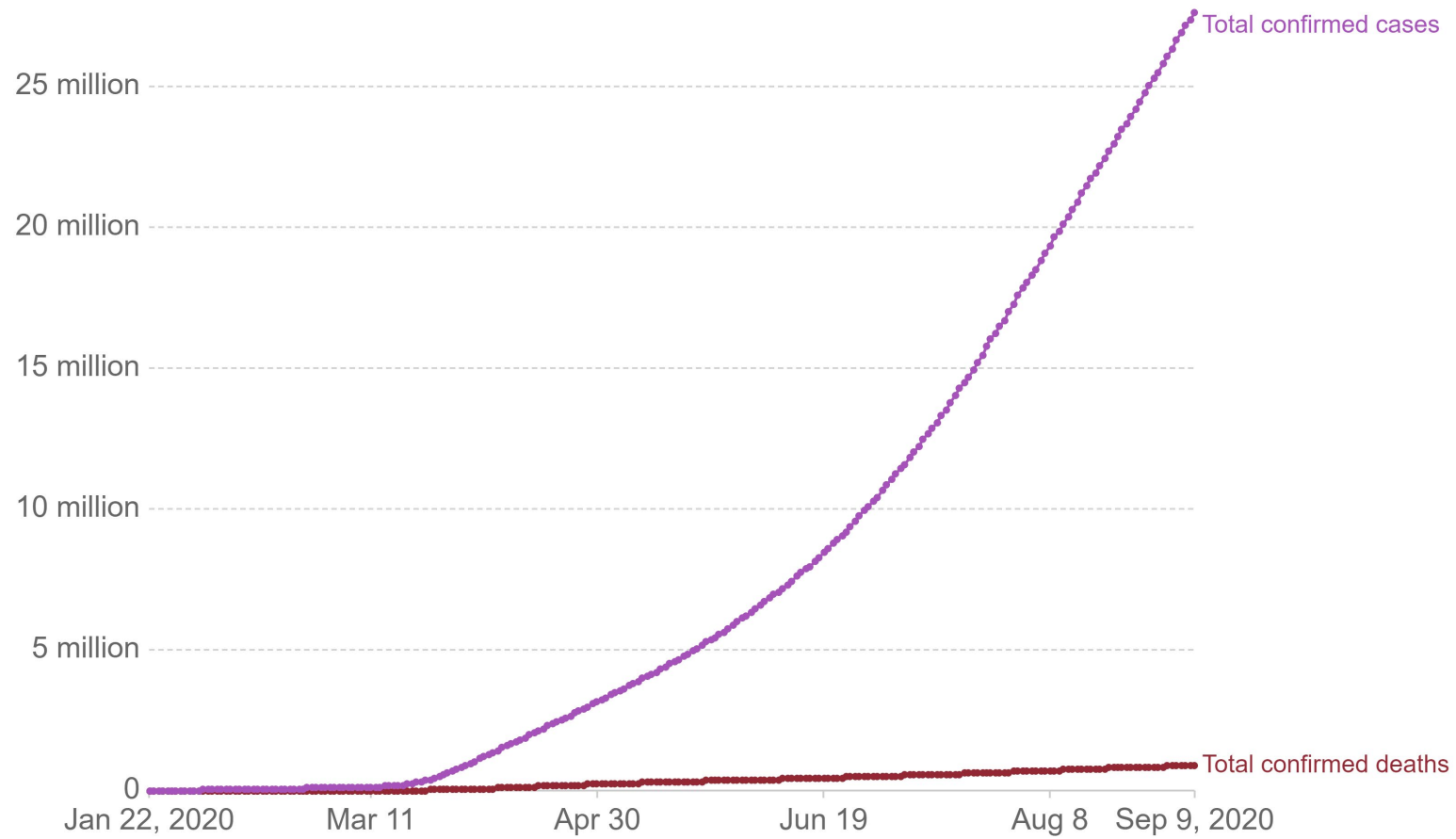


Source: Financial Times analysis of data from the European Centre for Disease Prevention and Control, the Covid Tracking Project, the UK Dept of Health & Social Care and the Spanish Ministry of Health.

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Total confirmed COVID-19 deaths and cases, World

The confirmed counts shown here are lower than the total counts. The main reason for this is limited testing and challenges in the attribution of the cause of death.

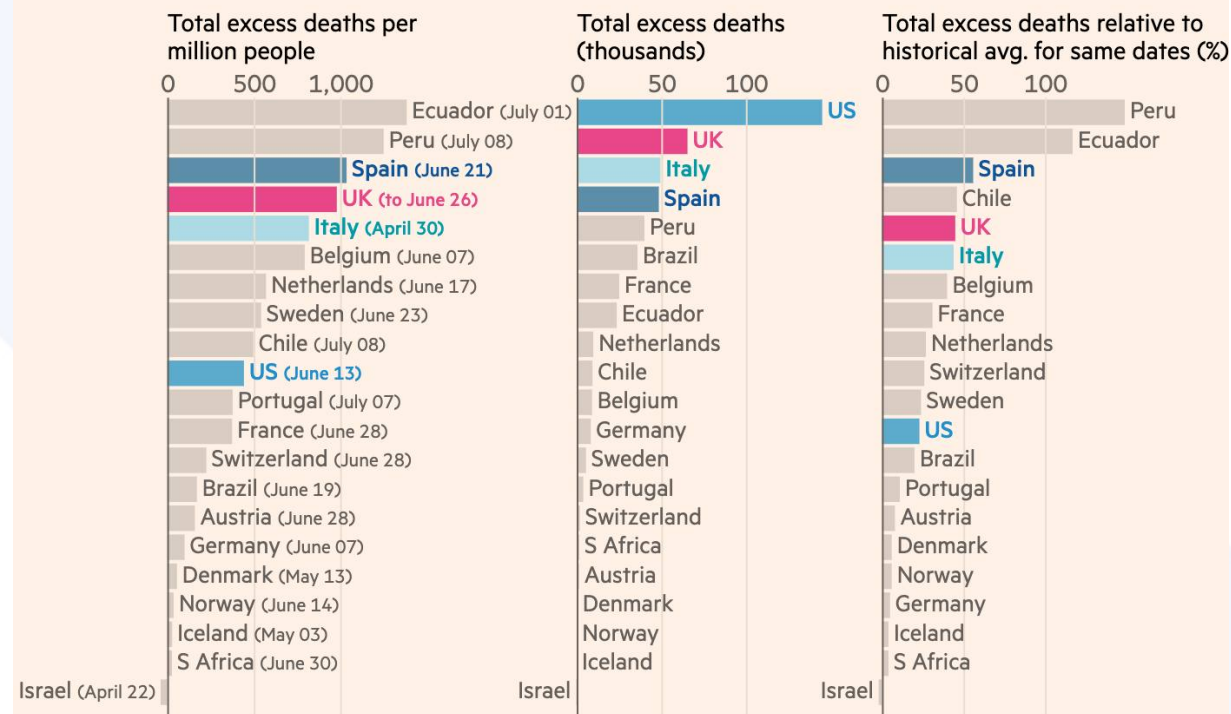


Source: European CDC – Situation Update Worldwide – Last updated 9 September, 13:35 (London time)
 OurWorldInData.org/coronavirus • CC BY

Excess mortality

UK has one of the highest excess deaths rates among countries producing comparable data

Measures of excess mortality* by country, during Covid outbreaks



*Number of deaths observed in excess of historical average for same time of year. Numbers may not reflect latest situation due to lags in registration.
 Source: FT analysis of mortality data. Data updated July 13. Data is shown for all countries where all-cause mortality figures have been published
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General business impacts

- Economic pressures with activity much reduced due to (varying) Covid responses. Retail/hospitality/tourism particularly affected
- Substantially reduced air travel (excluding China, Russia)
- Cessation of F2F interaction and redirection to digital
- Unemployment up
- Negative interest rates (German 10 year -0.43% September 10, down from -0.19% end 2019)
- Investment market volatility (strong recovery from March lows)
- Remote working
- Pressure on health services
- Fiscal responses
- Supplier/value chain management
- Capital raising (c\$20bn across (re)insurance sector (source: Willis Re))

Impacts on (re)insurers

Non-life

- Claim pressures on
 - non-damage business interruption
 - travel
 - event cancellation
- Pressures to reduce or refund premiums on certain LoBs
- Importance of digital capabilities

Life

- Mortality/morbidity
- Retention
- Expense/efficiency
- New business- corporate more stable than personal?
- Underwriting
- Pricing
- Customer measures including payment breaks

Impact on (re)insurers contd.

Reinsurers

- Evolution of mortality and morbidity rates (annuities natural offset)
- Clarity of definitions for non-life LoBs
- Pressure from cedants to follow claim positions
- S&P negative outlook

Common

- Interest rates
- Operating risk
- Investment market volatility

Regulator reactions

- Latitude vav reporting
- Focus on treatment of customers
- Protection of capital
 - no dividends
 - latitude in event of capital pressures
 - understanding of stresses/risks
- Provision of information on mitigating measures, financials (liquidity, capital coverage, profitability), risks, etc.
- Informal contacts
- Solvency II review delayed

Areas for consideration for actuaries

- Appropriateness of assumptions
- Impact on products – guaranteed rates, meeting customer expectations
- Implications for budgets, liquidity, cash flow, investment portfolios
- Reinsurance cost and availability
- Reimagine ORSA – recalibrated business plans and Covid-19 appropriate scenarios, e.g. single and double hit scenarios, different shaped recoveries, vaccine/no vaccine

Implications for European actuaries - Proposed Survey

Solvency II in a Covid-19 context



1 – Introduction

Given the current Solvency II review in the midst of a crisis situation, we aim at launching a survey at EU level to assess the countercyclical measures of the framework and identify possible areas of development

2 – Illustration at Belgian level

Countercyclical elements

- Volatility Adjustment and Symmetric Adjustment are the biggest contributors
- Loss Absorbing Capacity is also important but with some limits
- Current Risk Margin design acts in a procyclical way

Areas to be followed up

- Appropriateness of the shocks in the standard formula (SCR CAT seems a priori sufficient, spread risk and correlations could be considered, health lapse mass risk appears too severe)
- Systemic risk factors (e.g. downgrades/default/liquidity) may need to be checked based on recent observations with an increased focus on specific segments
- Recovery and resolution can be interesting to test the feasibility of the strategies
- Mark-to-model based should be an exception in case of illiquid markets and comply with IFRS13
- Art. 138 L¹ could apply only if a high proportion of companies would approach a low SII ratio, avoiding wrong signals to financial markets


3 – Next steps

Consult the representatives of the different Actuarial Associations to compare the situations among Member States and contribute to Solvency II reflections.

1- Recovery period of 7 years in case of SCR breach under exceptional circumstances

Shared resilience solution

- EIOPA/EC conscious of impacts on businesses of economic upheaval
- Lack of NDBI coverage putting intense strain on affected businesses
- Future coverage may include combination of insurer/reinsurer/State/EC involvement
- Questions re
 - coverage definitions
 - different approaches to containment
 - nature of risk
 - criteria for insurability
 - public/private involvement
 - funding.....
- AAE engaging with EIOPA and EC



“COVID-19 will reshape our world.
We don't yet know when the crisis will end.
But we can be sure that by the time it does,
our world will look very different.

JOSEP BORRELL

**“The greatest danger in times
of turbulence is not the
turbulence, it is to act with
yesterday's logic.”**

-Peter Drucker

