



# GLOBAL INSURANCE MARKET REPORT

[GIMAR]

COVID-19 EDITION



**IAIS**

INTERNATIONAL ASSOCIATION OF  
INSURANCE SUPERVISORS

2020

## About the IAIS

The International Association of Insurance Supervisors (IAIS) is a voluntary membership organisation of insurance supervisors and regulators from more than 200 jurisdictions. The mission of the IAIS is to promote effective and globally consistent supervision of the insurance industry in order to develop and maintain fair, safe and stable insurance markets for the benefit and protection of policyholders and to contribute to global financial stability.

Established in 1994, the IAIS is the international standard-setting body responsible for developing principles, standards and other supporting material for the supervision of the insurance sector and assisting in their implementation. The IAIS also provides a forum for Members to share their experiences and understanding of insurance supervision and insurance markets.

The IAIS coordinates its work with other international financial policymakers and associations of supervisors or regulators and assists in shaping financial systems globally. In particular, the IAIS is a member of the Financial Stability Board (FSB), member of the Standards Advisory Council of the International Accounting Standards Board (IASB) and partner in the Access to Insurance Initiative (A2ii). In recognition of its collective expertise, the IAIS also is routinely called on by the G20 leaders and other international standard-setting bodies for input on insurance issues as well as on issues related to the regulation and supervision of the global financial sector.

## About the GIMAR

This is the eighth issue of the Global Insurance Market Report (GIMAR). It is a special edition, focusing on the impact of Covid-19 on the global (re)insurance sector in 2020.

The GIMAR assesses developments relevant to the (re)insurance industry and identifies key risks and vulnerabilities for the industry to promote awareness among IAIS Members, stakeholders and interested parties.

Compared to recent years, this GIMAR has been adapted to report on the outcomes of the IAIS' Global Monitoring Exercise (GME). The GME is part of the IAIS' framework to assess global insurance market trends and developments and detect the possible build-up of systemic risk in the global insurance sector. In 2020, the GME was repurposed to perform a targeted assessment of the impact of Covid-19 on the global insurance sector. Based on this analysis, this special edition of the GIMAR discusses the impact of Covid-19 on the global (re)insurance sector in 2020 from a supervisory perspective.

This document is available on the IAIS website ([www.iaisweb.org](http://www.iaisweb.org)).

© International Association of Insurance Supervisors (IAIS), 2020.

All rights reserved. Brief excerpts may be reproduced or translated provided the source is stated.

Editing, design and layout by Clarity Global Strategic Communications.

# CONTENTS

Executive summary	1
1. Introduction	2
1.1 Data collection	2
2. The impact of Covid-19 on the global insurance sector	4
2.1 Solvency	4
2.2 Profitability	6
2.3 Liquidity	6
2.4 Assets	6
2.5 Liabilities and underwriting	8
3. Insurance supervisory measures taken in response to Covid-19	9
3.1 Financial risks	9
3.2 Conduct risks	10
3.3 Operational resilience	10
4. Looking ahead	11

## Acronyms and abbreviations

<b>GIMAR</b>	Global Insurance Market Report
<b>GME</b>	Global Monitoring Exercise
<b>IAIS</b>	International Association of Insurance Supervisors
<b>IIM</b>	Individual insurer monitoring
<b>ORSA</b>	Own risk and solvency assessment
<b>SWM</b>	Sector-wide monitoring

# EXECUTIVE SUMMARY

This special edition of the Global Insurance Market Report (GIMAR) discusses the impact of Covid-19 on the global (re)insurance sector in 2020 from a supervisory perspective.

The report is based on the outcome of the IAIS' Global Monitoring Exercise (GME), which is part of its framework for monitoring risks and trends in the global insurance sector and assessing the possible build-up of systemic risk.

The GME was repurposed in 2020 to assess the impact of Covid-19 on the global insurance sector's solvency, profitability, liquidity, assets and liabilities. Both individual insurers and supervisors participated in the exercise by providing input and data.

Following a significant initial shock to the financial market, the global insurance sector has demonstrated both operational and financial resilience, aided by supervisory measures providing operational relief and by monetary and fiscal support measures in financial markets in certain regions. High-level results indicate that although the financial market volatility caused by the Covid-19 crisis in the first half of 2020 did affect the global insurance sector's solvency and profitability (primarily through its impact on assets), insurers' available capital resources generally remained well above requirements.

On the liability side, the results vary greatly, depending on the business model. For example, insurers involved in business lines like travel, event cancellation, business interruption and pandemic/excess mortality insurance experienced a more significant impact, whereas insurers with more diversified portfolios were affected to a lesser extent, as claims in other lines such as motor insurance decreased significantly due to lower global economic activity.

Vulnerabilities remain, given the uncertainty about the duration and ongoing impact of the Covid-19 crisis. These vulnerabilities include the potential for the credit quality of insurers' fixed-income portfolios to decrease and the impact of the deepened low-yield environment.

In response to the initial shocks caused by the pandemic, insurance supervisors have taken various steps to ensure operational continuity in the insurance sector, aimed at minimising disruptions to the delivery of essential insurance-related services. Supervisors have provided operational relief to insurers so they could focus on continuing to serve their customers efficiently, and enhanced supervisory reporting on solvency, liquidity and profitability. Scenario analysis and stress testing have been performed while requesting updates on insurers' own risk and solvency assessments (ORSAs) to take account of the impact of Covid-19.

Supervisors in some regions have taken measures to limit or delay dividend payments and variable remuneration. Furthermore, a number of measures were implemented to ensure the fair treatment of customers through interventions relating to product design, remote distribution and expedited Covid-19-related claims settlement. Supervisors also analysed the exclusion clauses on pandemic-related losses to assess the possible financial impact on insurers as well as the protection gap.

Given the remaining uncertainty about the duration and impact of the Covid-19 crisis, the IAIS will continue to actively monitor and assess how the insurance sector is affected, through targeted risk assessments involving insurers and supervisors across the globe.

# 1. INTRODUCTION

This special edition of the Global Insurance Market Report (GIMAR) discusses the impact of Covid-19 on the global (re)insurance sector in 2020 from a supervisory perspective.

The report is based on the outcome of the IAIS' Global Monitoring Exercise (GME), which is part of the IAIS' framework for monitoring key risks and trends in the insurance sector and assessing the build-up of any potential systemic risk. The 2020 GME has been repurposed to monitor the impact of Covid-19 on the global insurance sector.

## 1.1 DATA COLLECTION

The GME framework consists of two confidential data collections:

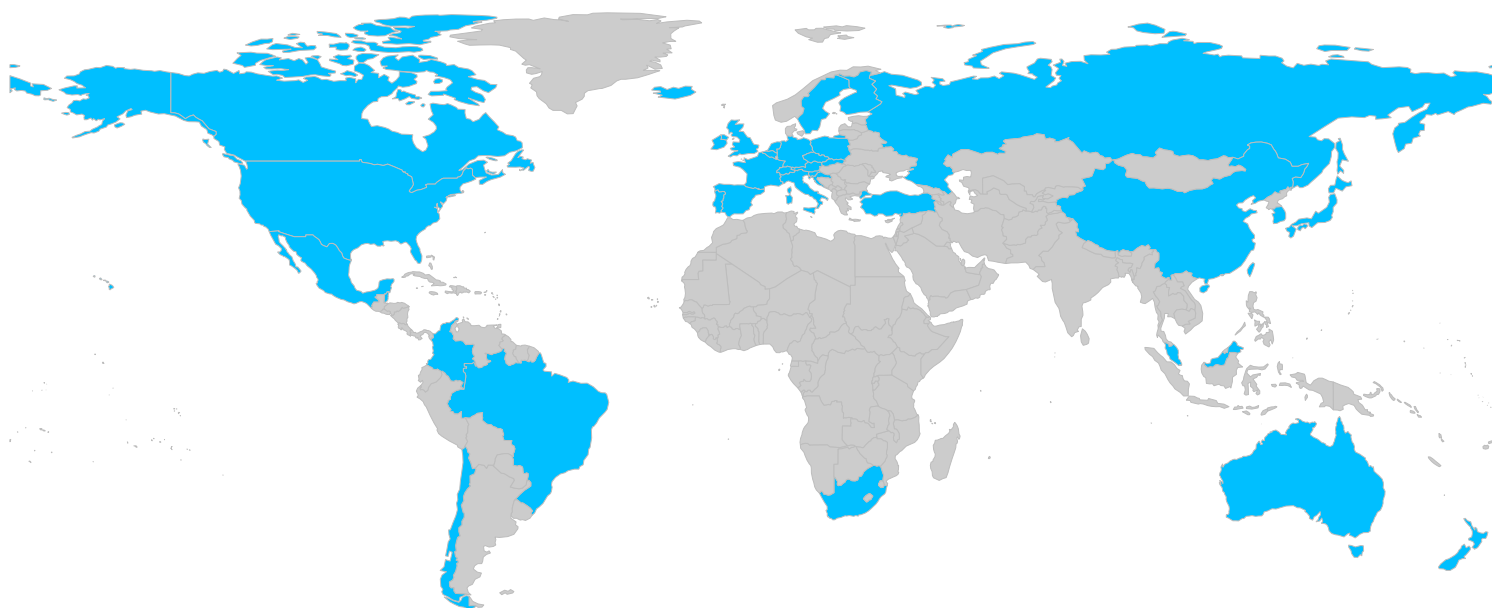
- ▶ **Individual insurer monitoring (IIM)** data collection is applicable to groups meeting the insurer pool criteria.<sup>1</sup> The pool consists of about 60 of the largest international insurers from 18 jurisdictions.
- ▶ **Sector-wide monitoring (SWM)** data collection covers aggregate insurance market data collected from IAIS Members from 28 jurisdictions, covering more than 90% of global gross written premiums. These jurisdictions meet the criteria as outlined in the GME document. The criteria are designed to allow for broad coverage in terms of global participation. In addition, jurisdictions not meeting these criteria may also volunteer to participate in the SWM data collection.

To repurpose the GME for the targeted Covid-19 risk assessment, the quantitative data set was tailored to focus on information relevant to monitoring the impact of Covid-19 on the global insurance sector. This was complemented by qualitative information. When interpreting the outcomes of the analysis as outlined in this report, it should be noted that the Covid-19 data was collected on a quarterly basis (end of 2019, Q1 2020 and Q2 2020).<sup>2</sup>

A total of 39 jurisdictions participated in the SWM data collection. They are highlighted in blue on the world map on the following page.<sup>3</sup>

THE 2020 GME HAS BEEN REPURPOSED TO MONITOR THE IMPACT OF COVID-19 ON THE GLOBAL INSURANCE SECTOR.

Figure 1: Jurisdictions that participated in the SWM data collection



The IAIS also monitored key developments in financial markets using a risk dashboard and data from external providers. This complemented its monitoring of confidential data from insurers and supervisors. Key categories monitored in the financial markets dashboard are insurers' financial market performance (equity prices, bond yields and spreads, credit default swap spreads and SRISK<sup>4</sup>), insurers' credit ratings and rating outlooks, the macroeconomic outlook, sovereign and corporate bond markets (yields, spreads, ratings and rating outlooks), equity prices and real estate prices.

The assessment focused on the impact of Covid-19 on the global insurance sector's solvency, profitability, liquidity, assets and liabilities. Chapter 2 reports the outcomes. Chapter 3 provides more insight into the insurance supervisory measures taken in response to the pandemic. Finally, chapter 4 looks ahead to potential further work on assessing vulnerabilities.

THE ASSESSMENT FOCUSED ON THE  
IMPACT OF COVID-19 ON THE GLOBAL  
INSURANCE SECTOR'S SOLVENCY,  
PROFITABILITY, LIQUIDITY, ASSETS  
AND LIABILITIES.

# 2. THE IMPACT OF COVID-19 ON THE GLOBAL INSURANCE SECTOR

This chapter outlines the impact of Covid-19 on the global insurance sector's solvency, profitability, liquidity, assets and liabilities. Each of the subsections also provides an overview of examples of key measures taken by insurers to manage the impact.

To date, the Covid-19 crisis has mainly affected the insurance sector's solvency and profitability. Graph 1 provides a view of the qualitative assessment reported by insurance supervisors of the impact of Covid-19 on solvency, profitability and liquidity. The assessment was backed up by the quantitative information collected from insurers and supervisors. Following an initial financial market shock of significant magnitude, the global insurance sector has demonstrated resilience – aided by monetary and fiscal support measures in financial markets in certain regions – with capital resources remaining well above requirements. However, potential vulnerabilities remain, given uncertainties about the duration and impact of the Covid-19 crisis.

The graphs in this chapter are based on IIM data. The findings of the analysis of available SWM quantitative data are similar to those of the IIM data analysis.

## 2.1 SOLVENCY

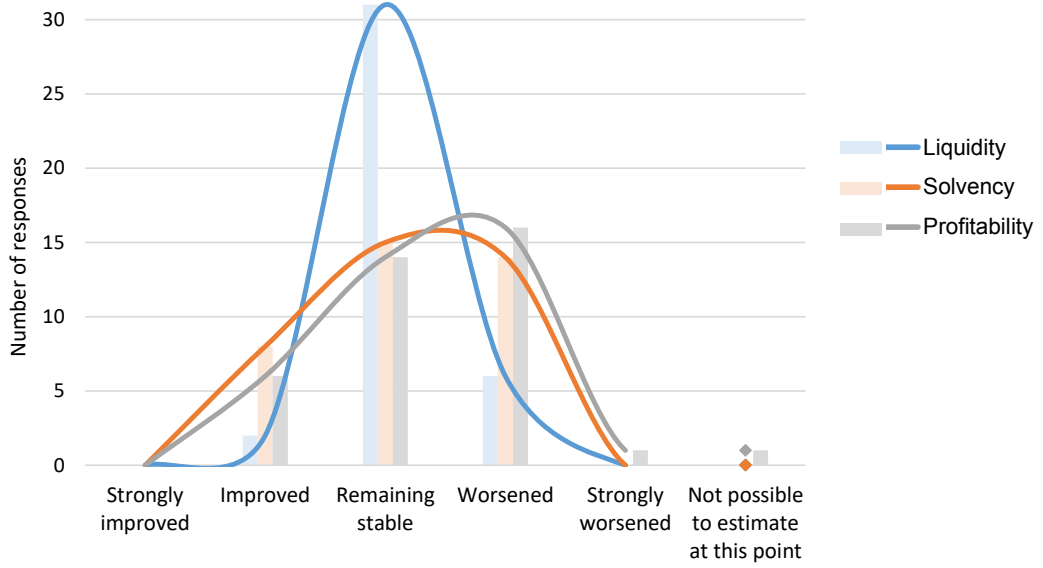
Based on the data submitted for the first half of 2020, the solvency ratios of insurers have declined slightly (Graph 2), but overall the sector's capitalisation has remained resilient. Insurers reported that capital resources remained well above requirements. Solvency ratios declined over the first quarter of 2020 before stabilising or somewhat recovering in the second quarter.

Financial market volatility has resulted in investment losses that reduced the industry's average solvency positions. The extent to which financial market volatility has affected the solvency of insurers depends on both the insurer's business model and the design of the jurisdictional capital standard.

### *Key mitigating measures taken by insurers*

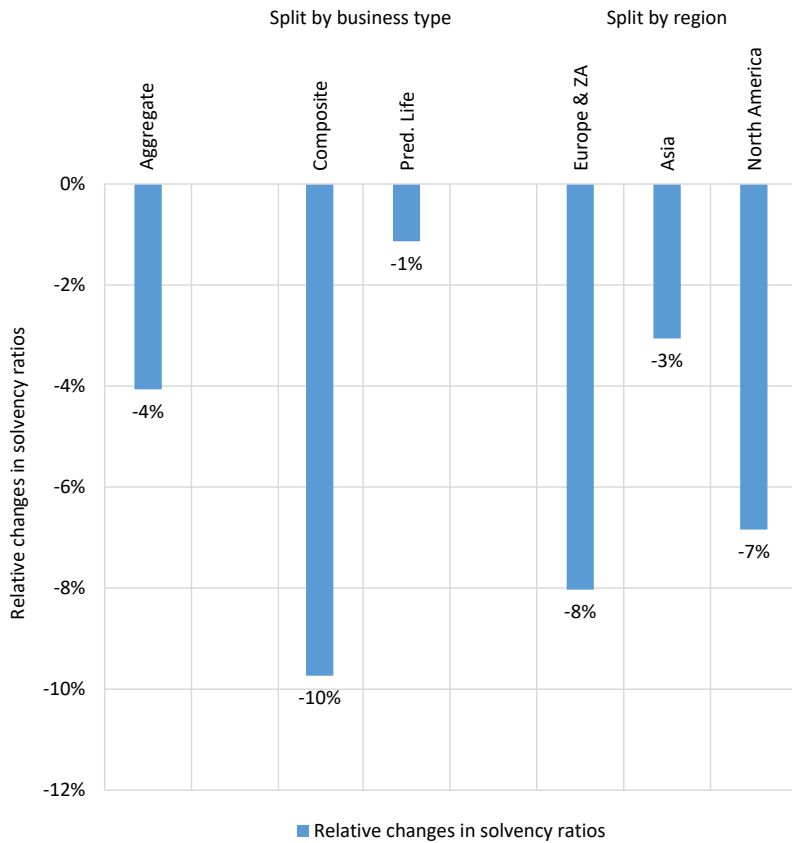
Insurers report that they have increased their solvency monitoring, including their use of sensitivity analyses and stress testing. Certain insurers report that hedging protected against adverse market movements, especially in equity markets. In terms of capital management, certain insurers have reduced, stopped or delayed dividend distribution or share buyback programmes. To increase capital fungibility and improve the solvency of intragroup subsidiaries, some insurers are considering or have implemented new intragroup reinsurance structures.

**Graph 1: Qualitative supervisory assessment of the impact of Covid-19**



Source: IAIS SWM 2020 Q2 data

**Graph 2: Relative change in solvency ratios<sup>5,6</sup>**



Source: IAIS IIM 2019 Q4, 2020 Q2 data



## 2.2 PROFITABILITY

By decreasing investment revenues, Covid-19 has put significant pressure on profitability, mainly for life and composite insurers. In the first half of 2020, the pandemic significantly affected investment revenues and, to a lesser extent, insurance business revenues. Investment revenues were mainly affected by impairments and investment losses from financial market downturns. Increased expenses associated with facilitating remote working and ensuring business continuity also put pressure on profitability for some insurers.

### *Key mitigating measures taken by insurers*

Insurers have implemented cost-cutting measures to mitigate the impact of the foreseen reduction in revenues. Some have reduced discretionary policyholder profit sharing, especially on insurance products with returns linked to the performance of investment portfolios. Others temporarily discontinued the underwriting of new life insurance policies due to the low interest rate environment or made adjustments to their pricing (especially for savings products where the crediting rate is based on the current interest rate environment).

## 2.3 LIQUIDITY

In the initial phase of the Covid-19 crisis, the main economic fallout was a liquidity crunch, which central banks and governments countered with aggressive monetary and fiscal stimulus.<sup>7</sup> For the global insurance sector, the reported data suggest that the impact on liquidity has been limited, raising no immediate concern about the sector's ability to fulfil obligations in the first half of 2020. Nevertheless, the pandemic has increased the sector's overall liquidity and funding risk and highlighted the importance of liquidity risk management in the current environment.

Insurers report that they have secured access to liquidity facilities, issued debt and found stability in operating in money markets, including repo markets.

Some insurers have observed an increased volume of policyholder loans and cancellation of corporate

insurance products.<sup>8</sup> However, based on insurers' own qualitative assessment, the increase in lapses and surrenders has thus far been lower than what some insurers had anticipated.

### *Key mitigating measures taken by insurers*

As a result of accommodative monetary policy actions by major global central banks, not many insurers implemented additional measures to manage their liquidity positions. Some insurers have increased their liquidity monitoring and contingency funding. Proactive liquidity management measures taken by insurers include reviewing available contingency funding, prefunding upcoming calls or maturities on debt and confirming accessibility. Capital management measures (reductions or delays in dividend distributions and share buybacks) may also have contributed to increased liquidity positions. Finally, some insurers have issued additional debt or accessed a committed bank credit facility. The

data indicate that several insurers have increased cash buffers at group level.

## 2.4 ASSETS

The main impact on the asset portfolios of insurers was driven by the decline in value and/or holdings of the equity portfolio (partly recovered during Q2), a rise in cash holdings and a strong increase in the "other assets" category for certain insurers (Graph 3). Sovereign bond prices have diverged across jurisdictions, depending on whether interest rates have decreased or increased, as well as changes in sovereign credit ratings (outlooks).

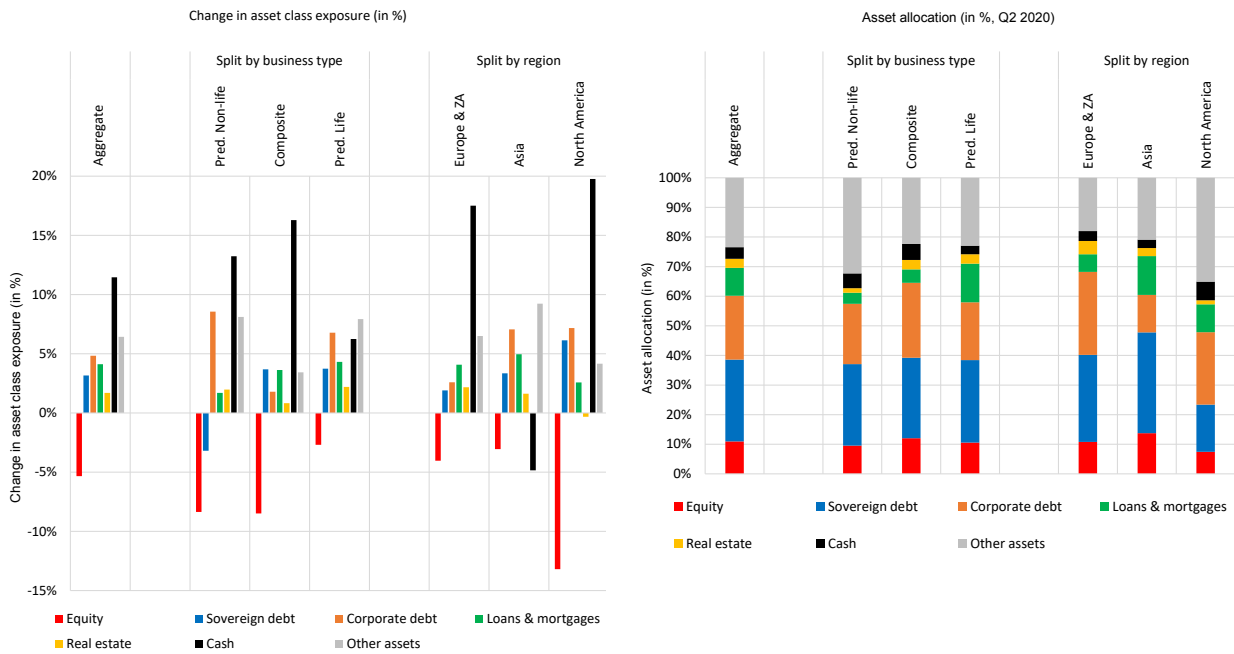
Overall, the vast majority of insurers' portfolios of corporate and sovereign bonds are invested in BBB-rated debt or above (Graph 4). However, some insurers have experienced rating downgrades in their corporate bond portfolios. The IAIS will continue to monitor the impact of rating downgrades on the insurance sector.

### *Key mitigating measures taken by insurers*

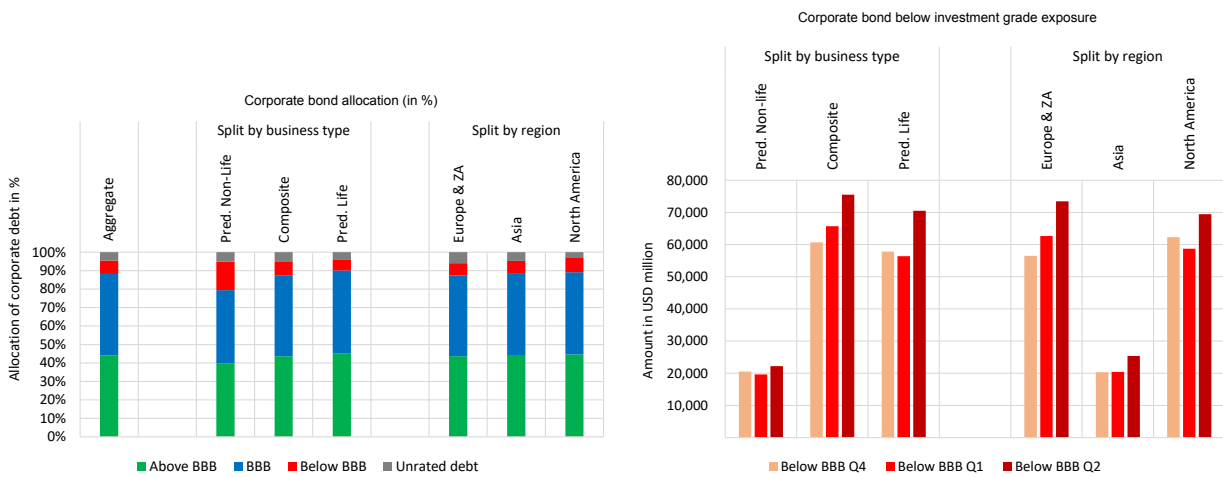
Measures taken by insurers in their management of assets include increased risk monitoring (for example, moving to a weekly review), stress testing and scenario analyses. Certain insurers

THE PANDEMIC SIGNIFICANTLY AFFECTED INVESTMENT REVENUES AND, TO A LESSEXTENT, INSURANCE BUSINESS REVENUES.

**Graph 3: Asset allocation of insurers (changes and composition)**



**Graph 4: Non-investment grade corporate bond exposure**



note that they speak to asset managers more frequently, focusing on avoiding breaches of mandate limits for credit quality. There are also changes to insurers' plans for strategic asset allocations going forward. While some have indicated that no fundamental changes would be made in the short term, others plan to reduce equity exposures or increase asset durations due to lower interest rates. Certain insurers intend to rebalance their fixed-income portfolios in light of negative credit outlooks. Finally, some insurers will slow down their asset diversification towards less liquid asset classes such as real estate and private markets, due to lower transaction volumes.

## 2.5 LIABILITIES AND UNDERWRITING

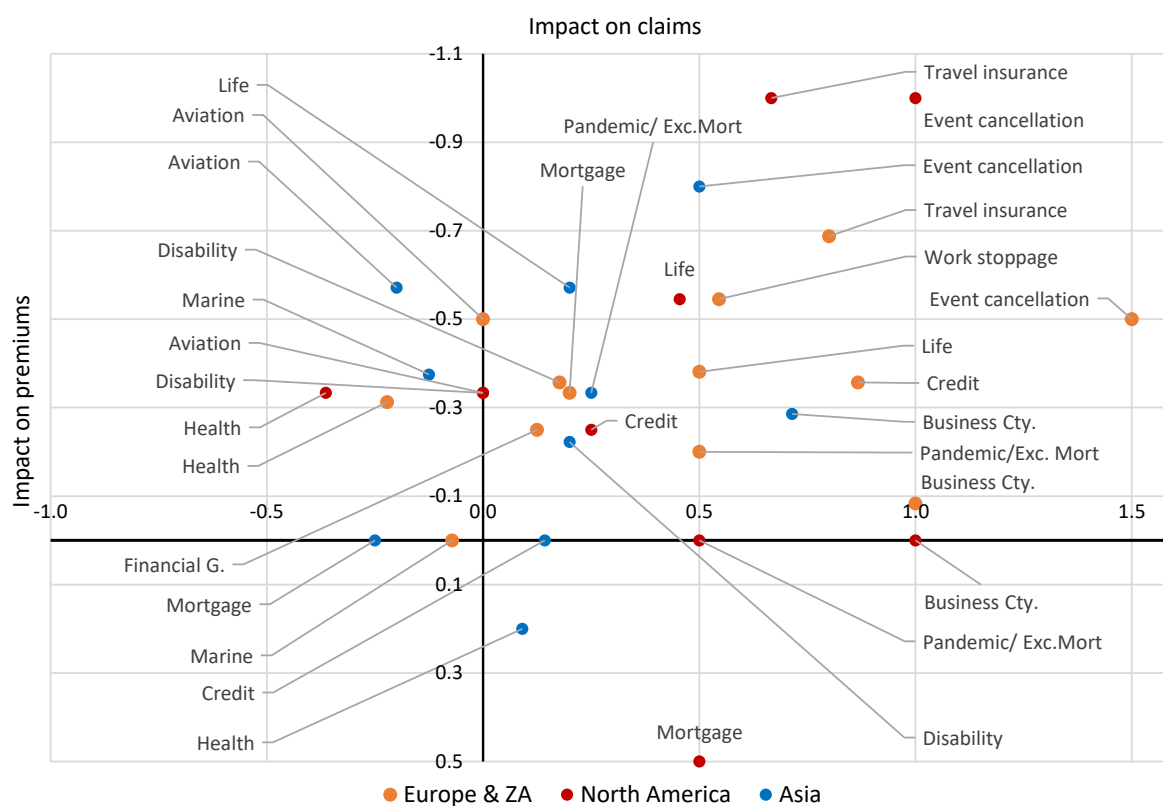
The impact on insurers' liabilities and underwriting (premiums and claims) varies greatly. Certain lines of business are significantly affected by Covid-19,

such as travel insurance (in Europe, South Africa and North America), event cancellation insurance, business interruption insurance and pandemic/excess mortality insurance (see Graph 5). Insurers with more diversified portfolios report that they were able to partly offset this negative impact as claims in other business lines such as motor, aviation and marine insurance declined significantly due to lower global economic activity.

### Key mitigating measures taken by insurers

Measures taken by insurers include changes in underwriting. Some insurers report that they have discontinued underwriting first-party pandemic exposures (such as event cancellation) or made changes to underwriting policy/guidelines to exclude pandemic risk in new business (especially for transportation, business interruption, event and travel insurance).

Graph 5: Insurers' qualitative assessment of impact on insurance premiums and claims<sup>9</sup>



-2 Strongly decreased -1 Decreased 0 Neutral 1 Increased 2 Strongly increased

Source: IAIS IIM 2020 Q2 data

# 3. INSURANCE SUPERVISORY MEASURES TAKEN IN RESPONSE TO COVID-19

This chapter provides an overview of the relevant supervisory measures taken to date in response to the risks focused on in the assessment. This is based on the IAIS repository of supervisory measures taken in response to Covid-19. Since the IAIS launched the survey in mid-March, more than 130 individual submissions from more than 70 IAIS Members have been received. This includes submissions initially shared in March and various updates from Members since then.

## 3.1 FINANCIAL RISKS

### *Solvency*

In addition to enhanced and more frequent monitoring of solvency and profitability risks in the sector (in many cases supported by specific supervisory reporting requirements targeted at Covid-19 risks), supervisors have also taken specific actions to preserve insurers' solvency positions. For example:

- ▶ Conducting scenario analysis and stress testing and requesting updates on insurers' ORSAs to take account of the impact of Covid-19.
- ▶ Encouraging or formally requesting insurers to temporarily limit, suspend or eliminate dividend payments and/or variable remuneration.
- ▶ In some regions, declaring trade credit insurance a non-marketable risk temporarily or providing government support for trade credit insurance.

### *Liquidity*

Consistent with the more limited impact reported by insurers, supervisory measures to mitigate liquidity risk have played a less significant role in supervisors' response to date. They have, however, required enhanced reporting to closely monitor changes or deteriorations in liquidity risk indicators, such as surrenders/lapse rates, funding of guaranteed products, changes in payments by policyholders, or impediments to the disposal of investment assets to meet cash flow needs.

### *Liabilities*

As part of analysing the (potential) impact on insurers' liabilities, some supervisors are reviewing the product landscape and clauses in policies in business lines affected by Covid-19 (although this is more often done for the purpose of conduct of business supervision), as well as changes in cash flows and surrenders/lapses.

SUPERVISORS HAVE TAKEN SPECIFIC ACTIONS TO PRESERVE INSURERS' SOLVENCY POSITIONS.

### 3.2 CONDUCT RISKS

Many insurance supervisors took early steps to ensure that the fair treatment of customers remained a priority during a time of financial vulnerability and distress. Supervisory measures taken to date include:

- ▶ Requiring or encouraging insurers to provide financial and other relief to policyholders in respect of their policy obligations.
- ▶ Emphasising the need for clear and accurate communication and information relating to their policies, including clarity on terms and conditions – specifically regarding exclusions for pandemic-related losses.
- ▶ Making specific interventions relating to product design, underwriting and coverage limits for Covid-19 exposures.

Some supervisors continue to analyse exclusion clauses on pandemic-related losses to mitigate potential customer disputes and other conduct issues that may arise as a result of such exclusions, as well as to assess the extent of possible coverage gaps for policyholders. In a few jurisdictions, this has been aided by court intervention to provide greater legal certainty on the interpretation of potentially ambiguous policy wording.

### 3.3 OPERATIONAL RESILIENCE

Supervisors worldwide have taken steps to ensure that the insurance sector continues to operate its main functions and processes, aimed at minimising disruptions to the delivery of essential insurance-related services, including:

- ▶ Reviewing the readiness of relevant business continuity plans, including testing own business continuity processes and monitoring progress in closing any gaps. This also included the review of third-party dependencies.
- ▶ Recommending enhancing IT risk management and upgrading IT infrastructure and cybersecurity measures, as well as encouraging insurers to pay increased attention to potential fraud and money laundering schemes exploiting the combination of operational pressures, the switch to remote work and non-face-to-face customer relationships.

At the same time, authorities acknowledged the huge operational strains experienced by insurers, due to the need to organise and adapt to large-scale remote work operations; enhance online and other remote communication channels; and adjust claims handling and processing, policy underwriting and customer relationships generally. Relevant measures to provide operational relief so that insurers can continue to efficiently serve their customers while assessing and managing exposures to Covid-19 include:

- ▶ Delaying on-site inspections and misconduct proceedings temporarily.
- ▶ Suspending or limiting regular data collections and simplifying supervisory reporting to the needs of Covid-19 information, postponing deadlines for the submission of audited financial statements and suspending consultation on new or revised guidelines and policies.
- ▶ In exceptional cases, loosening requirements for new licence applications, in light of the possible interruption or slowdown in providing services by other parties.
- ▶ In some cases, temporarily waiving existing requirements for face-to-face contact with customers and, in a few other cases, introducing waivers to mandatory in-person board meetings.
- ▶ Testing own business continuity processes and upgrading IT infrastructure and cybersecurity for remote work operations where necessary.

MANY INSURANCE SUPERVISORS TOOK EARLY STEPS TO ENSURE THAT THE FAIR TREATMENT OF CUSTOMERS REMAINED A PRIORITY DURING A TIME OF FINANCIAL VULNERABILITY AND DISTRESS.

# 4. LOOKING AHEAD

The IAIS will continue to actively monitor developments in the global insurance sector, given the remaining uncertainty about the longer-term impact of Covid-19 on insurers' profitability and solvency, policyholder outcomes and broader financial stability.

To monitor solvency and stability risks from a forward-looking perspective, the IAIS is using its data collection to undertake further sensitivity analysis to assess insurance sector vulnerabilities based on various potential future scenarios. Specifically, the sensitivity of insurers' asset exposures to risk factors (such as credit loss rates) will be investigated.

Future monitoring will focus on key vulnerabilities, which may include:

- ▶ The potential for a deterioration in the credit quality of insurers' fixed-income portfolios, amid concerns about rating downgrades and solvency issues in the real economy.
- ▶ The impact of Covid-19 on insurance claims, including uncertainty around the interpretation of policy wording in some business lines.
- ▶ The impact of the deepening of the low-yield environment on life insurers, particularly those writing long-term guaranteed products.

TO MONITOR SOLVENCY AND STABILITY RISKS FROM A FORWARD-LOOKING PERSPECTIVE, THE IAIS IS USING ITS DATA COLLECTION TO UNDERTAKE FURTHER SENSITIVITY ANALYSIS TO ASSESS INSURANCE SECTOR VULNERABILITIES BASED ON VARIOUS POTENTIAL FUTURE SCENARIOS.

## ENDNOTES

- 1 The insurer pool criteria are outlined in the GME document: Total assets of more than \$60 billion and a ratio of premiums from jurisdictions outside the home jurisdiction to total premiums of 5% or more; or total assets of more than \$200 billion and a ratio of premiums from jurisdictions outside the home jurisdiction to total premiums greater than 0%; or jurisdictional discretion.
- 2 Q3 2020 data was not collected in order to help reduce the reporting burden for participating insurers and supervisors, and taking into account the fact that there were no significant new external developments at this date.
- 3 Australia; Austria; Belgium; Belize; Bermuda; Brazil; Canada; Chile; China; China, Hong Kong; Chinese Taipei; Colombia; Croatia; Czech Republic; Finland; France; Germany; Iceland; Ireland; Italy; Japan; Korea; Malaysia; Malta; Mexico; Netherlands; New Zealand; Poland; Portugal; Russia; Singapore; Slovak Republic; Slovenia; South Africa; Spain; Sweden; Switzerland; United Kingdom; and United States of America.
- 4 SRISK is a market-based proxy measure of systemic risk from NYU Volatility Laboratory (<https://vlab.stern.nyu.edu/welcome/srisk>).
- 5 Pred. Life = Predominantly life insurance groups, i.e., insurance groups predominantly active in life insurance business (similarly for Pred. Non-Life).
- 6 Solvency ratios not shown for the "Pred. Non-Life" segment due to limited data coverage of capital resources and capital requirements in that segment.
- 7 <https://www.bis.org/speeches/sp201013.htm>
- 8 Corporate insurance products are, for example, property insurance, business interruption insurance, professional liability insurance, product liability insurance, group health insurance and workers' compensation insurance.
- 9 Business Cty. = Business continuity insurance, Exc. Mort = Excess mortality insurance, Financial G. = Financial guarantee insurance.



# IAIS

INTERNATIONAL ASSOCIATION OF  
INSURANCE SUPERVISORS



**International Association of Insurance Supervisors**

c/o Bank for International Settlements

CH-4002 Basel, Switzerland

Tel: +41 61 280 8090 Fax: +41 61 280 9151

[www.iaisweb.org](http://www.iaisweb.org)