EIOPA statement on dividends distribution and variable remuneration policies in the context of COVID-19

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EIOPA considers that it is essential to ensure the access to and continuity of insurance services, safeguarding the ability of the insurance sector to continue to perform its role as risk transfer mechanism from citizens and businesses and its capacity to mobilize savings and invest them in the real economy. This objective requires that (re)insurers take all necessary steps to continue to ensure a robust level of own funds to be able to protect policyholders and absorb potential losses.

As mentioned in EIOPA’s statement of 17 March, in the context of the current crisis all (re)insurers should take measures to preserve their capital position in balance with the protection of the insured, following prudent dividend and other distribution policies, including variable remuneration.

In exercising this prudence, (re)insurers should ensure that their assessment of the overall solvency needs is forward-looking, taking due account of the current level of uncertainty on the depth, magnitude and duration of the impacts of COVID-19 in financial markets and on the economy and the repercussions of that uncertainty in their solvency and financial position.

Against this background of uncertainty, EIOPA urges that at the current juncture (re)insurers temporarily suspend all discretionary dividend distributions and share buy backs aimed at remunerating shareholders. This suspension should be reviewed as the financial and economic impact of the COVID-19 starts to become clearer.

Taking into account the need to preserve an efficient and prudent allocation of capital within insurance groups and the proper functioning of the Single Market, EIOPA urges that this prudent approach is applied by all (re)insurance groups at the consolidated level and also regarding significant intra-group dividend distributions or similar transactions, whenever these may materially influence the solvency or liquidity position of the group or of one of the undertakings involved. The materiality of this impact should be monitored jointly by the group and solo supervisors.

This prudent approach should also be applicable to the variable remuneration policies. It is expected that (re)insurers review their current remuneration policies, practices and rewards and ensure that they reflect prudent capital planning and are consistent with, and reflective of, the current economic situation. In such context, the variable part of remuneration policies should be set at a conservative level and should be considered for postponement.

(Re)insurers that consider themselves legally required to pay-out dividends or large amounts of variable remuneration should explain the underlying reasons to their National Competent Authority.