EU has key role in pandemic insurance

Interview with Gabriel Bernardino, Chairman of EIOPA, conducted by Hannah Brenton, Politico

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The EU should play a "key role" in establishing pandemic insurance to protect businesses in future outbreaks, said Gabriel Bernardino, chairman of the European Insurance and Occupational Pensions Authority.

Bernardino said in an interview last week that Europe has an "opportunity" to head off divergent approaches around the bloc as some countries plow ahead with their own proposals.

The EU could provide a final layer of financial support for national insurance pools or create a blueprint to encourage countries to set them up, according to the Portuguese regulator, who's headed EIOPA since it was established in 2011.

The Frankfurt agency is working with the insurance industry and businesses on policy options for pooling private and public money, to be published in the coming weeks.

Bernardino, 55, also said EIOPA is preparing in case the coronavirus crisis takes a turn for the worse. The agency is analyzing how insurers' balance sheets would hold up under stress scenarios, including mass downgrades of credit ratings that would, among other effects, reduce the value and raise the risk profile of insurers' securities holdings.
EIOPA is prepared to issue a declaration of adverse developments — which would give struggling insurers more time to rebuild capital levels — in case of a sector-wide shock, he told POLITICO.

What do you think a pandemic insurance scheme should look like?

We are trying to build together — insurance industry, businesses and also the brokerage industry — to talk together and to see if we can have some ideas, some common elements to try to build what we have been calling “shared resilience solutions.”

I believe that the insurance industry needs to have some skin in the game also on this. I think that makes a lot of sense up to a limit. We should also explore the possibility of capital markets, because that can increase the capacity … and then above a certain limit, let’s be honest, only the state can take care of this.

What we are also looking at and exploring is the possibility of having a kind of an ultimate EU layer in here — and it can have, of course, very different types of tonalities. If I may say, it can go from being a catalyst for the implementation of pooling solutions at a national level, developing best practices to have kind of a blueprint on how these frameworks can be put in place.

But, also, it can go to more, looking from a financing element, at an ultimate layer to ensure that there is capacity for member states to limit the economic damage.

In my personal view, I think that is really important — and this is a huge opportunity also for Europe to have a key role to perform in this area. I think it’s clearly about avoiding fragmentation within the EU of the EU economy in the different member states.

I hope that in a couple of weeks, we can come up with some definition of what are the possible solutions and then some options.

Do you think there’s political appetite for a European approach?

I believe that there is really an opportunity and a need also to be honest, to have a European approach to this. It can come of course with different nuances. I think it’s too soon right now to say if there will be appetite or not.

Do you think that European element has to come second after national schemes are set up?

It depends on the kind of framework that is defined at the end. For me, at least, it’s fundamental that Europe really is encouraging and being a catalyst for the development of these “shared resilience solutions.” It’s not definitely an optimal situation if, at the end of the day, only a couple of member states will have solutions, and then all the others will not have it.

Are these solutions aimed at the next pandemic?

If it would be possible to have in place a solution to cover the kind of second wave or third wave of pandemic, of this one, [that] would be the preferable solution. But that I think is speculating and I’m not in the business of speculating. Are there many different pooling options?

As always in these schemes, it’s that the devil is in the details. You have a number of different policy options that you can have in these different layers — and so that’s what we are right now bringing to the table and trying to identify.

So, what businesses could be covered: It’s only for SMEs; it’s also covering big companies. How this is put in place — is it mandatory; it’s not mandatory; it’s voluntary. What type of limits will be there in terms of capacity, etc.

How do you think insurers have withstood the impact of the pandemic so far?

If you look at the current situation, the situation as it is right now, I think the insurance industry has weathered the crisis well.

Now, it’s clear that there’s a lot of uncertainty still there. There is uncertainty in relation to … the impact of the economic downturn. We have these GDP contractions of two figures. This is huge, this is unparalleled in history — so this will have an effect on the business model of insurers.

As supervisors, I think we need to be prudent and we need to have some caution on this. We are not yet out of the woods.

Are there any areas where you’re being particularly prudent?

We’re doing a lot of scenario analysis, and sensitivity analysis on the asset side, to understand what will happen, for example, if a certain levels of credit downgrades will happen in the markets. If defaults will happen, we’re looking at possible concentrations on certain types of businesses.

What if you did find sensitivity there?

We're looking to test different scenarios in relation to possibilities of credit downgradings and to see how the system will react in terms of capital — if this will pose more challenges, to what kind of companies etc. So, to try to really have preventative work anticipating if the crisis evolves in certain adverse ways that we are prepared also from the supervisory side.

How are you looking into liquidity in light of the recommendation from the European Systemic Risk Board?

In face of the crisis, we had to decide at our level, at EIOPA, to put in place already for this particular situation a more dedicated, specific framework for collection of information in relation to liquidity that involves not only more qualitative assessment, but also some quantitative elements.

We don't have any materialization of liquidity risk in the insurance sector until now.

Has the framework shown that liquidity buffers could have been useful?

At least in my personal view, it's something that would not be needed across the board, but it may be relevant in relation to certain types of businesses and as the conclusion of an assessment process of liquidity.

Do you need stronger powers on dividends?

In these extraordinary situations, I believe that one of the lessons, at least for me from this crisis, is that there should be this more centralized power to make sure that there is a consistent approach throughout the market.

If there is a second wave, are there any steps that you are taking now?

The Solvency II regime has some layers of flexibility there in relation to what happens if and when companies breach their Solvency Capital Requirement. There is first the possibility to have a recovery plan. And then we're working also with the national authorities to ensure that there is consistency in the way that these recovery plans are assessed and the way that they are then granted.

If the crisis deepens and if we see that a significant number of companies breach [the] Solvency Capital Requirement, we will be prepared — and that's what we have been putting in place, all the operational elements — to have this declaration of adverse developments that will allow national authorities then to extend this recovery period to the company.

What would be the criteria for that?

That's what's fixed in the legislation, which is that there needs to be a significant number of companies breaching the Solvency Capital Requirement and this significant number needs to be capturing a good part of the market. These are the analyses and the indicators that we are using, that we are going be monitoring in the near future.
Right now there is no need of course to use this tool, things have been manageable, but we will be ready to take measures if needed.