COVID-19 Business Briefing

INSURANCE – BRIEFING FOR LUXEMBOURG INDUSTRY
April 2020

pwc

Introduction

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Dear insurance colleagues

Firstly, I hope you and yours are well through this period.

As we enter week six of lockdown my insurance partners and colleagues prepared the attached to support you as leaders of our insurance sector.

We face a human tragedy with a huge loss of life and suffering for so many families. The difficulties will be amplified by the economic crisis which follows. Ultimate exit from the crisis will be founded on testing followed by vaccine discovery and rapid deployment.

Luxembourg's government has reacted strongly to the crisis in order to support people and the economy. Other governments and central banks have also taken measures at unprecedented levels and speed.

Insurance touches all parts of the economy and society at large and the sector feels the impact. Depending on the segment, the industry is likely to experience lower growth and price competition will challenge margins and profitability. We are fortunate in Luxembourg to have such a broad and diverse insurance sector. While not exhaustive, our analysis seeks to highlight key areas we believe you should consider: which regulatory or environmental changes will have the most impact on your business, will these be a risk or a relief, and how should you approach these impacts on your business.

The wider Luxembourg insurance ecosystem is recognised internationally for excellent stakeholder engagement and collaboration from all participants. This will be called upon now more than ever. Insurers will encounter reputational risk but there is also an opportunity for the sector to speed the recovery of people and economies alike. Enhancing your reputation and that of the sector through the crisis can have many benefits that last into the long-term. Consider now more than ever, your societal role – your purpose - as an insurer and ways in which your company can use their skills and resources to best contribute to the well-being of people and the recovery.

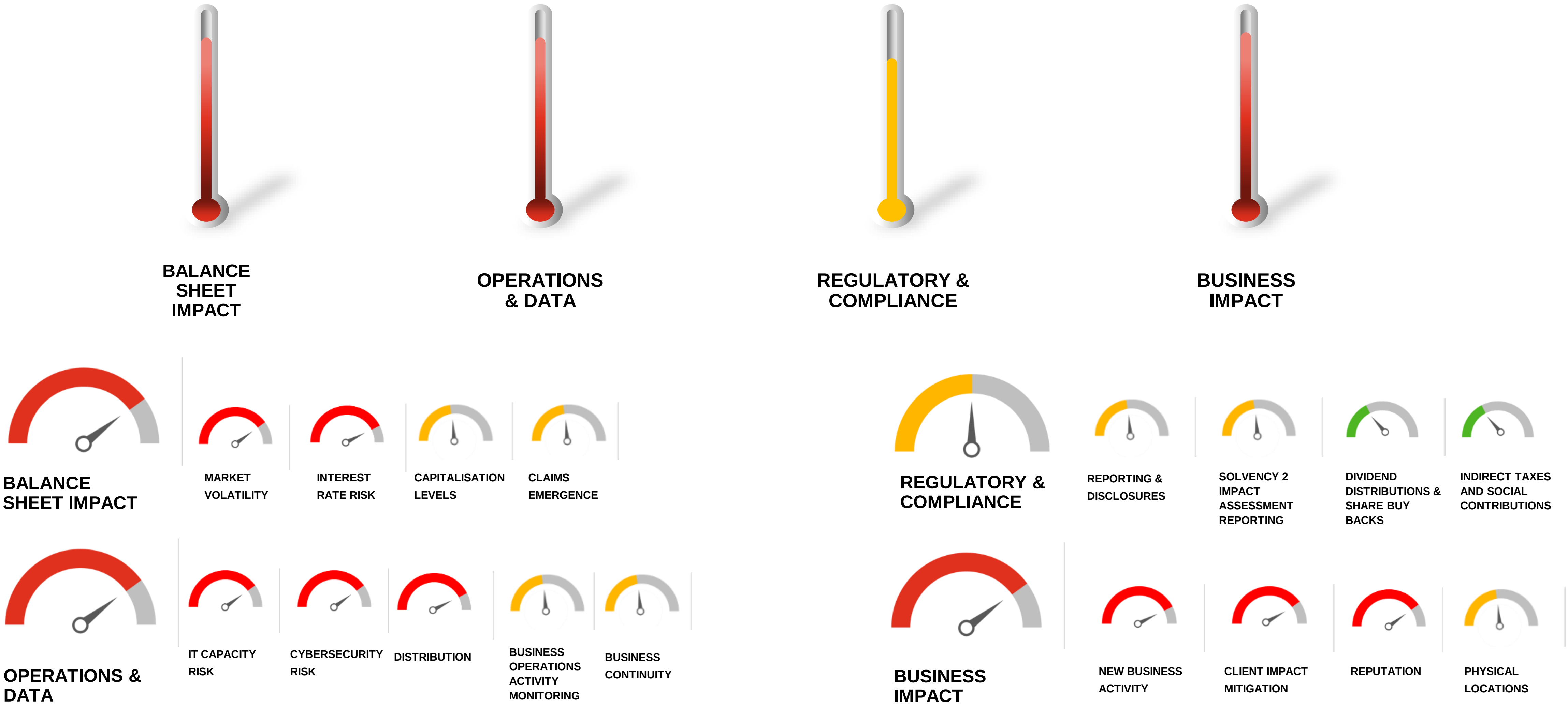
The new normal will lead you to redesign some or all of your business – from offerings through to operations and technology. As leaders, the *fil rouge* that will underpin all actions will be an obsession with your customers and your people.

I hope you find this both helpful thought provoking. In this regard, I would really value your views, comments and challenges as we navigate this together. Please feel welcome to contact me or any of my PwC colleagues, listed herein.

Stay well and stay safe.

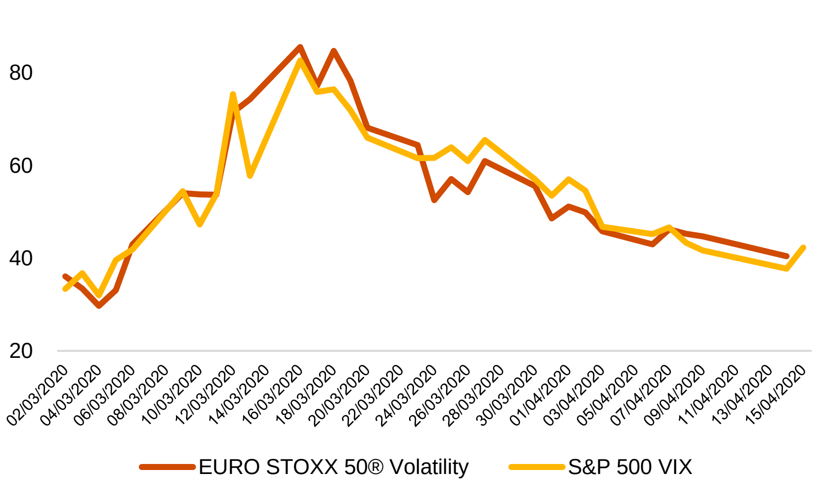
Best regards
Matt

Management attention dashboard

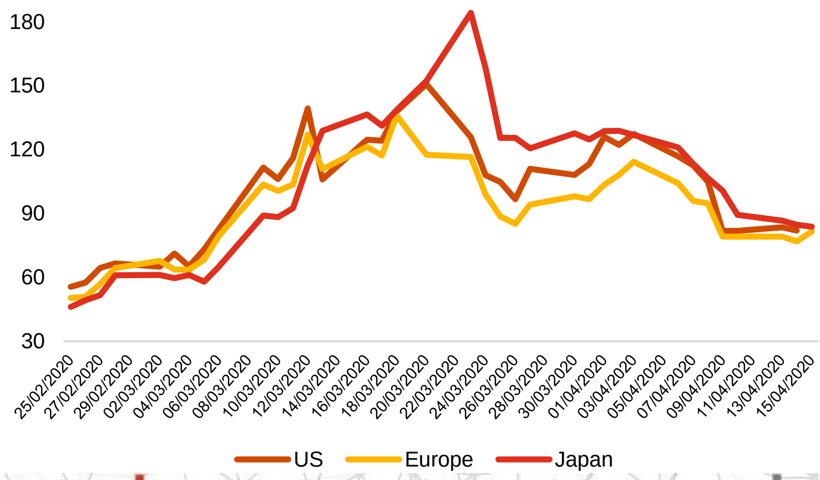


Market dashboard

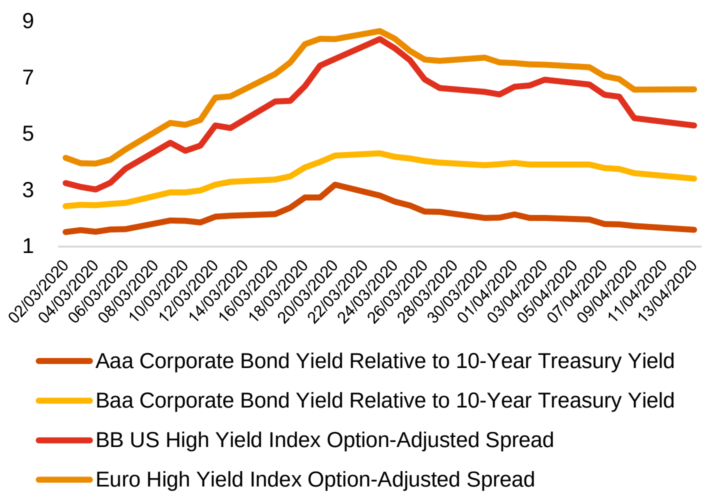
Equity market volatility indices



Corporate CDS spread 5Y Investment grade



Euro and US Corporate bond yield spread in percentage points



10-year government bond yield spread across selected economies as of April 15

Country	Yield	Vs Bund	Vs T-Note	2w Variation
Austria	-0.014	45.9	-68	-9.3%
Belgium	0.119	59.2	-54.8	-0.7%
Canada	0.646	111.9	-2.1	-0.4%
France	0.045	51.8	-62.1	-0.8%
Germany	-0.473	0	-113.9	-4.7%
Italy	1.955	242.8	128.8	49.5%
Japan	0.022	49.5	-64.4	2.8%
Netherlands	-0.173	30.4	-83.5	-1.8%
Spain	0.855	132.8	18.9	14.9%
Switzerland	-0.432	4.1	-109.8	-7.6%
United Kingdom	0.306	77.9	-36.1	-3.5%
United States	0.666	113.9	0	4.6%

Sovereign CDS 1-month change as of April 15

Country	S&P Rating	5Y CDS	1m variation	Default Probability
Denmark	AAA	17.74	23%	0.3%
Sweden	AAA	17.88	25%	0.3%
Norway	AAA	18.3	43%	0.3%
United States	AA+	19.2	-1%	0.3%
Netherlands	AAA	19.5	29%	0.3%
Austria	AA+	19.99	17%	0.3%
Finland	AA+	20.98	32%	0.4%
Singapore	AAA	23.31	3%	0.4%
Germany	AAA	24	24%	0.4%
South Korea	AA	29.55	-36%	0.5%
New Zealand	AA	31.5	-30%	0.5%
Canada	AAA	32.9	1%	0.6%
Japan	A+	35.2	-14%	0.6%
UK	AA	38.01	29%	0.6%
France	AA	38.5	3%	0.6%
Belgium	AA	39.2	1%	0.7%
Hong Kong	AA+	40.7	3%	0.7%
China	A+	40.8	-45%	0.7%
Ireland	AA-	43	3%	0.7%
Slovakia	A+	51.9	33%	0.9%
Poland	A-	63.1	11%	1.1%
Qatar	AA-	65	0%	1.1%
Israel	AA-	77.88	25%	1.3%
Croatia	BBB-	78.28	44%	1.3%
Philippines	BBB+	79.88	-32%	1.3%
Chile	A+	91.24	-15%	1.5%
Malaysia	A-	92.72	-36%	1.6%
Portugal	BBB	109.2	1%	1.8%
Spain	A	113.9	8%	1.9%
Russia	BBB-	150.47	-26%	2.5%
Indonesia	BBB	185.51	1%	3.1%
Colombia	BBB-	207.26	-2%	3.5%
Mexico	BBB	211.04	5%	3.5%
Italy	BBB	212.9	-6%	3.6%
India	BBB-	213.85	33%	3.6%
Greece	BB-	232.9	-26%	3.9%
Bahrain	B+	255	0%	4.3%
Brazil	BB-	262.1	6%	4.4%
South Africa	BB	364.18	21%	6.1%
Turkey	B+	545.5	12%	9.1%
Egypt	B	606.86	19%	10.1%
Ukraine	B	626.43	-13%	10.4%
Pakistan	B-	691	45%	11.5%
Argentina	SD	8870.17	-20%	100.0%

KEY RISKS	ENVIRONMENT/REGULATORY CHANGES	POTENTIAL IMPACTS ON YOUR BUSINESS	KEY ACTIONS TO CONSIDER	RISK or RELIEF	IMPACT LEVEL
Market volatility	Market volatility has been extreme in recent weeks. Major exchanges throughout the world have suffered some of their worst falls in decades. Since lows in the third/fourth week of March, markets have recouped some losses, but volatility remains high. New waves of quantitative easing measures, coupled with a dramatic contraction in economic activity, points towards lower for *even* longer interest rates. Many insurers have experienced an immediate impact on proforma capital levels as asset prices fell sharply. Client assets within wealth insurance structures are also impacted. Impairment of assets: investments, goodwill, intangible assets, etc.	✔ Valuation and price discovery may become a challenge due to market volatility and a possible decline in liquidity for certain assets ✔ Excess of central bank liquidity increases demand and reduces credit spread, i.e. less return for greater risk ✔ Reduction in bond ratings / outlook – “negative watch” ✔ Credit quality may deteriorate for specific companies, sectors or sub-sectors affected by demand or supply chain problems (e.g., oil, travel, airlines, leisure, etc.) ✔ Some reinsurers may experience higher losses ✔ Goodwill / intangible assets may suffer impairment due to the outlook ✔ Negative impact on revenue / income levels as economies contract and asset prices fall ✔ Negative investor sentiment / liquidity needs could impact appetite for saving & investment products insurance policies depending the segment. ✔ Liquidity has become constrained even for certain high grade previously considered liquid instruments. ✔ Etc., etc., etc.!!!	***Immediate focus areas*** ✔ Consider adequacy and real time capacity of reporting systems including risk, finance, capital and operations to monitor business performance and financial robustness ✔ Enhance real-time capacities of Solvency II modelling ✔ Consider taking advantage of tactical asset allocation in the disrupted environment ✔ Review and monitor compliance with regulatory / contractual limits in unit-linked policies and reinforce supervision of asset management counterparts ✔ Reassess the validity of your company’s valuation policies to reflect the increased valuation risk or reduced price discovery in the new environment ✔ Evaluate your ability to make disclosures, even in volatile circumstances. Make sure you understand what is required by regulators regarding virus-related disclosures, and then create a regular update process. ✔ Ensure proper understanding of consequences on short-term liquidity in high market volatility scenarios ***Follow on strategic considerations*** ✔ Upgrade predictive techniques to manage through future crises and understand the potential future demand curve based on different segments of your portfolio ✔ Outline and implement plan to automate real time reporting across risk, finance, capital and operations to monitor business performance and financial robustness ✔ Consider updated risk transfer structures to underpin Solvency position	RISK	HIGH
Interest rate risk	Interest rates were already at historical lows prior to the onset of the COVID-19 pandemic. As confinement measures were swiftly implemented in Europe and the US, global central banks announced further interest rate cuts (below zero in some countries) to try to calm market volatility and underpin economies.	✔ Asset liability mismatch increases in times of market volatility and interest rate cuts ✔ Falling yields in the bond market urge insurers to set aside more capital to be able to meet future financial obligations to policyholders ✔ Continued difficulty for guaranteed product offerings in the life sector ✔ Low levels of interest rates and bond yields decrease investment income levels and affect the profitability of certain segments of the insurance sector and put pressure on margins	***Immediate focus areas*** ✔ Review and update interest rate hedging strategies ***Follow on strategic considerations*** ✔ Reinforce your scenario analysis capabilities as it is essential in times of interest rates uncertainty. Upgrade to 24/7/365 feeding of internal and external data sets ✔ Review strategic asset allocation within own funds and monitor on a real time basis	RISK	HIGH

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Capitalisation levels	Prior to COVID-19, much has been said about the industry being well-capitalized and so insurers may be starting from a position of strength as it relates to capital. EIOPA is requesting additional information on financial and solvency reporting and these requirements should also be considered in ORSA assessments (e.g. information on plans to address (1) business disruption and (2) pandemic risks) There is acknowledgement that the previous pandemic scenario planning did not sufficiently consider relevant impacts. Underestimated dependence between pandemics and market behaviour.	✔ Investment portfolios of many insurers have witnessed a strong decrease in value due to the current market conditions. The hit will depend on portfolio allocation strategies adopted ✔ Solvency II ratios are likely to fall, with the level of impact depending on mitigation measures in place and areas of business ✔ The assumption of future profitability required to maintain loss absorbing capacity of deferred taxes under Solvency II may come into question	***Immediate focus areas*** ✔ The EU's Solvency II regime is very sensitive to financial market volatility and movements in bond yields and credit spreads. As a result, insurers need to closely monitor solvency ratios in order to meet economic, regulatory and rating agency capital requirements ✔ Addressing the ability to respond effectively to regulatory requests for information ✔ Determine whether the process established to control and adapt to changes in monitoring requirements is sufficient ✔ Engage proactively with key stakeholders including regulators, board, etc. ***Follow on strategic considerations*** ✔ Consider capital contingency planning and other capital resources that may be available ✔ Consider the input of independent experts on the adequacy of the regulatory reports to be issued, including subsequent events and interim results ✔ Review / reassess hedging strategy against risk appetite. ✔ Update business plan for the new normal…examine how to de-risk profitability in new more competitive market; reassess viability of each line of business; fixed and variable costs; new infrastructure models including cloud ✔ Consider strategies for non-core / suboptimal business areas, including disposal	RISK	MEDIUM

KEY RISKS	ENVIRONMENT/REGULATORY CHANGES	POTENTIAL IMPACT ON YOUR BUSINESS	KEY ACTIONS TO CONSIDER	RISK or RELIEF	IMPACT LEVEL
Claims emergence	The impact of COVID-19 on claims will highly depend on product types as well as the policy exclusions since many insurance policies excludes claims arising from pandemics. Changes in claim emergence needs to be assessed separately based on different time horizons. Some examples are considered below. **Life Insurance -** Pinning down accurate numbers for COVID-19 mortality is nearly impossible at this stage. Traditional pandemic models such as SIR ("susceptible-infected-removed") cannot generate meaningful outcomes when there is a high level of uncertainty surrounding factors that capture the spread of the pandemic, and the Case Fatality Rate. Furthermore, how COVID-19 impacts morbidity in the long-term remains unknown at his point. **General Insurance -** Changes in claim emergence of general insurance products will highly depend on the line of business. In each case, it is essential to conduct an environmental analysis of the activities undertaken by insured as it relates to the transferred risk.	✔ Many insurers may be protected by effective risk transfer programs ✔ For many life insurance companies, the higher than expected temporary increase in mortality to the benefit of annuity blocks and at the cost of protection blocks, is likely to be mitigated by reinsurance/hedging programs ✔ The second order impact of loss of future profits, even for unit-linked products, can be another source of loss ✔ Many products have been protected by exclusion clauses. In particular, general insurance products such as travel insurance are protected for most cases. In these cases, while the risk itself can be excluded, there may be a limited short-term impact on the expenses as claims are being made and rejected ✔ In other lines, e.g., event cancelation insurance, some products have not benefited from exclusion clauses ✔ For some non-life lines of business, the claim emergence will be driven by the change in the activities of the insured. For car insurance, claim frequencies have declined significantly in many cases given lockdown and extensive home-based working ✔ Credit and surety claim emergence will be driven by the financial distress felt by many ✔ We see some insurers in certain markets subject to criticism and controversy by businesses for exclusions	***Immediate focus areas*** ✔ While modelling the impact of COVID-19 on mortality assumption with a high level of accuracy may not be possible, scenario analysis remains a powerful tool ✔ Close monitoring of major society by actuaries and their view on mortality/morbidity assumptions worldwide ✔ Even more than before, be mindful of actions to protect reputation, including strategies in the short term to manage claims and policyholders ***Follow on strategic considerations*** ✔ The effectiveness of natural hedge between protection and annuity business is to be closely monitored, and if significant become part of the portfolio steering decision making process ✔ Revisit your risk transfer program in light of the new claim environment considering both traditional and alternative risk transfer solutions ✔ Timely reaction to the crisis as it evolves by redesigning products to avoid losses that can be expected while paying attention to strategic considerations around customer centricity ✔ Similarly, build advantage through the new environment by designing new products ✔ Consider scenarios with other waves of COVID-19 in prediction and preparation efforts ✔ Protect and nurture your reputation with every major decision taken	RISK	MEDIUM

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IT capacity risk	Technology related infrastructure was already under considerable strain in many companies. The COVID-19 situation has led many companies to quickly deploy Home-Based-Working measures thus allowing for potentially a high number of employees to access core systems remotely with a raft of questions around sufficiency of professional mobile devices, connection bandwidth, adequacy of mobile phone packages, etc. Certain insurers have suffered with legacy infrastructures, lack of end-to-end digitisation of processes throughout the operating model and significant manual and face-to-face business practices.	✔ Difficulty in maintaining and accessing core IT platforms on a remote basis especially for businesses not cloud-based ✔ Companies had to (successfully) acquire new portable hardware to enable staff to continue to work ✔ In particular, issues related to: a reduction in end user support due to lack of proximity; difficulty to onboard new joiners; difficulty to offer operational support in case of productions issues, etc. ✔ Internet lines: VPN saturation put pressure on bandwidth levels and servers; endpoint (VPN servers) capacity issues; VPN licenses limited; applications not ready to work remotely (security, etc.)	***Immediate focus areas*** ✔ Continue to organise appropriate IT support presence on site (different teams, shift management, etc.) ✔ Enable the service desk to regularly enhance remote support ✔ Organise load testing of the VPN (BCP approach); make sure VPN licenses are aligned with the number of employees ***Follow on strategic considerations*** ✔ Plan for "second wave" pandemic or resurgence of COVID-19 ✔ Reassess IT strategy to enable full end-to-end business management and engagement with key stakeholders - especially staff and clients. ✔ Create strategies for alternate vendor sourcing for IT technologies	RISK	HIGH
Cybersecurity risk	Cybersecurity is a major issue for the insurance sector, and a top priority for the CAA and other regulators. Phishing and online fraud attempts are increasing, with criminals taking advantage of the current emergency situation related to the outbreak of COVID-19. We see a massive jump in attacks with reports on 18 April of the FBI saying cybercrime has "quadrupled" during the COVID-19 pandemic. When considering Home Based Working (HBW), nearly all companies in the FS sector did not prepare for this scale of adoption and for such a long time period. The current situation allows for less restrictions, with uncertainty regarding the way personal computers are stored and whether security due diligence processes are performed.	✔ The quick implementation of HBW solutions may mean that improper due diligence has been done from a security perspective. In the case of BYOD (Bring Your Own Device) people can now access the organisation directly from their own PCs, without VPNs ✔ Possibility of a company-wide lack of access to systems due to a malware on the personal computer of remote working employees ✔ Further, both employees and management are likely to face increased manipulation efforts to gain access to confidential information ✔ Extended remote access increases the risk of data leakages, with strong impact on data and insurance secrecy breach	***Immediate focus areas*** ✔ There is a need to continually strengthen cyber security protection in a number of manners, including; • reminding employees of the increased risks and strengthening security protocols • reassessing remote working policies and systems, enforcing multi-factor authentication systematically • conducting phishing exercises to identify weak points • fortifying endpoint protection to make sure devices with access to core systems are up-to-date ✔ Evolve cybersecurity management procedures through phases of deconfinement ***Follow on strategic considerations*** ✔ Repeat above! ✔ Develop cybersecurity plan for the new normal where Home-Based-Working may become part of the new normal for your traditionally office-based insurance staff	RISK	HIGH

KEY RISKS	ENVIRONMENT/REGULATORY CHANGES	POTENTIAL IMPACT ON YOUR BUSINESS	KEY ACTIONS TO CONSIDER	RISK or RELIEF	IMPACT LEVEL
Distribution	Regulators highlight the key role of intermediaries in maintaining client access to relevant and transparent information (e.g. understanding the current market and COVID-19 impact) as well as ensuring continuity of insurance services at all times. Fair treatment and meeting client demands and needs remain essential even under the current exceptional circumstances. For life insurance saving products: volatile financial markets generate swing changes in life insurance policies impacting fee revenue basis. For non-life: acceleration in claims triggering events such events cancellation, spike in credit default, soaring health care costs (although regulators may require postponement of non priority treatments to later).	✔ Social distancing will result in several operational challenges for intermediaries ✔ Operations incl. day-to-day interactions with the ecosystems' stakeholders is more difficult (e.g. impossible or delayed client facing meetings including prospecting for new business, remote working of intermediaries' staff etc.). Impact of social distancing on client's (e.g. inability to fulfil some contracts obligations due to confinement) needs to also be considered ✔ Mounting political and social pressure on the non-life insurance and intermediaries community about past and current insurance coverages. Scope of exclusions may need to be revisited and/or lifted in certain instances, leading to higher claim ratios ✔ For unit-linked life business, ensuring relevance of advice on products choice and investment options will be crucial in volatile markets to avoid/limit future complaints and issues in relation to quality of advice given	***Immediate focus areas*** ✔ Proactively contact clients to assess their needs and how they are evolving ✔ Assess, as precisely as possible, current exposure from existing book, as well as the adequacy of products (IDD's POG/PDA requirements) ✔ Establish and refine strategy and organization for remote working: from underwriting to claims' management, revisit current procedures to ensure continuity of services ✔ Implement / upgrade core e-signature capabilities to support advanced requirements ***Follow on strategic considerations*** ✔ Enhance and/or accelerate the deployment and use of digital tools and solutions (either internal or from insurers) ✔ Enable paperless business and provide options to eliminate need for face-to-face only activities ✔ Anticipate more than ever upcoming renewals incl. logistical constraints attached to current circumstances to limit impact on intermediaries revenues, as well as clients (cost and scope of coverage)	RISK	HIGH

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Business operations activity monitoring	The unusual environment leads to significant variations in business as usual activities. Insurers have to manage operational disruption and bottlenecks. Difficulties also present themselves in predicting levels of business and related processes. Key challenge for insurance companies will be monitoring and ensuring capacity to face these changes. Also in ensuring service delivery and proper management of operations. Both of these are amplified by the new normal of Home-Based-Working.	✔ Claims, surrenders, new business activities will all be impacted depending on the insurance segment ✔ Impact on distribution channels will also be related to the operational set up of the insurer ✔ Traditional approach to manage changes in production (e.g., in case of activity peak) is often satisfied by applying more resources. However, in the current environment such options may be more difficult to orchestrate	***Immediate focus areas*** ✔ Establish end-to-end monitoring or infill gaps using modern technologies which can be deployed remotely. There are a raft of tools that can be quickly put in place to give you greater control and visibility over your business to manage operations and reduce risk ✔ Identify potential bottlenecks in processes and monitor unusual operational behaviours ✔ Engage quick to deploy visual management capacities covering: • Incoming requests: volume/nature of new requests (churn/withdrawals, claims, complaints, etc.) • Financial orders: e.g., cash/assets for life / wealth insurers • People allocation: productivity and continuity • Internal: main impacts of HBW and potentially reduced workforce • External: impacts on partners/distribution networks ***Follow on strategic considerations*** ✔ Assess benefits & feasibility to implement real-time management platforms across key insurance functions ✔ Combine internal and external data sources to better manage operations ✔ Deploy technologies that switch time / effort from sourcing and merging data sets to automated insight that facilitates management	RISK	MEDIUM

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Business continuity	Business continuity plans have had to be implemented to maintain operations. EIOPA highlights need for insurers and reinsurers to focus on and monitor the consequences of COVID-19 on their businesses and ensure operations for clients are maintained. IT capacity and Cybersecurity are key areas of focus (See below)	✔ The majority of insurer / reinsurers have business continuity plans already in place and have successfully put these to the test in recent weeks. However, similar to most industries, deficiencies are evident in many company's ability to handle a fast moving and unknown variables of a situation such as COVID-19 ✔ Typical contingency plans promote operational effectiveness following events like natural disasters, cyber incidents and power outages, among other crises. They don't generally take into account the widespread quarantines, extended school closures and added travel restrictions that may occur in the case of a health emergency.They do also not take into account disruptions across multiple operational lines at the same time and the ripple effect that the current situation is having on global supply chains and markets ✔ People, health impact staff working in new manner should not be underestimated ✔ Most business continuity plans did not foresee the situation of lockdown and near full home-based working	***Immediate focus areas*** ✔ Maintaining regular connection with staff and clients, from the CEO and Exco to business unit heads and team managers ✔ Reinforce ability to monitor operations and performance on a real-time, remote basis ✔ Prepare detailed plan for progressive end of confinement and ensure the safety of staff and clients ✔ Plan for "second wave" pandemic ✔ Implement / upgrade core e-signature capabilities to support advanced requirements *(See support materials we provided to help you manage through extended HBW & progressive deconfinement*) ***Follow on strategic considerations*** ✔ Apply core e-signature capabilities to support advanced requirements across entire organisation ✔ Consider re-assessing the enterprise wide risk management framework. Review outsourced services and inherent processes across the whole value chain. ✔ Re-think IT and operating model. Consider strongly advancing digitisation and cloud strategy to enhance relevance of business continuity success in all environments	RISK	MEDIUM

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Reporting and disclosures	On 17 March 2020, EIOPA released a statement outlining that national competent authorities should be flexible regarding the timing of supervisory reporting and public disclosure for the fiscal year 2019. On 26 March 2020, Luxembourg's Finance Ministry issued a draft bill giving a deadline extension of 4 months for the publication of annual accounts of insurance companies, as well as related reports (e.g. annual report, audit report). On April 14, Luxembourg's Ministry of Justice announced that discussions on the assessment report for Luxembourg by the FATF were postponed to the plenary session of October 2021 (NB: no other changes announced to date).	✔ These measures temporarily lift the liability and sanction risks to which insurance companies and their managers would be exposed in case of delays in the publication of annual accounts and related reports ✔ However, it's not too soon to start thinking about early warning disclosures in financial reporting: assets at risk of impairment, disclosure of risk factors and more. ✔ Due to the current situation, the uncertainty and the different possible scenarios may lead to increased oversight of the supervisor with recurrent and continuous information requirements ✔ These requests from the regulator are aimed at gathering information from different fields, from the very provision of the contracted coverage to its complementary services such as the impact on investment portfolios or on regulatory capital and its coverage ✔ Supervisor requirements also impact prospective exercises and capital projections as well as the actions to be taken to maintain business continuity beyond a single disruptive event. These exercises should consider deferred taxes according to the regulator's requirements	***Immediate focus areas*** ✔ Supervised entities facing a regulatory reporting delay should proactively - and as soon as possible - engage with the *Commissariat aux Assurances* and other relevant authorities through their normal channels ✔ Provide transparency regarding the actual and potential impacts that COVID-19 will have on their operations, financial situation and performance within their 2019 year-end financial report ✔ Define action plans to give solid and worked response to the regulator that takes into consideration the required information ✔ Evaluate the business plans and projections made and incorporate new scenarios considering the current situations ✔ Review business continuity plans to respond to events as they evolve ***Follow on strategic considerations*** ✔ Reassess benefit of deferred taxes within solvency capital, given revised future business plans ✔ Review unprofitable businesses and assess the long-term impacts and different options to ensure that they are reflected in prospective analyses and capital projections ✔ Enhance reporting processes and procedures where technologies can bring substantial improvements ✔ Please refer to section above "Capitalisation levels"	RELIEF	MEDIUM
Solvency 2 impact assessment reporting	EIOPA has decided to extend the deadline of the impact assessment for the 2020 Solvency II review by two months, to 1 June 2020.	✔ This measure allows insurance companies to postpone the release of key financial inputs to the regulator, enabling them to pay more attention to the operational issues that are arising and are relevant for the continuity of the business	***Immediate focus areas*** ✔ It is valuable to manage reporting requirements and deliver on a timely basis and, where possible, adhere closely to original deadlines ***Follow on strategic considerations*** ✔ Reassess deferred taxes incorporated within solvency capital considering the impacts on revised future business plans	RELIEF	MEDIUM

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Dividend distributions and share buy backs	On 2 April 2020, the European Insurance and Occupational Pensions Authority (EIOPA) issued a statement urging insurers to temporarily suspend all discretionary dividend distributions and share buy-back aimed at remunerating shareholders.	✔ The objective is to ensure insurers continue to have a robust level of own funds so as to be able to protect policyholders and absorb potential losses	***Immediate focus areas*** ✔ This measure should be applied by all insurance groups at the consolidated level and also for 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 ✔ However, there appears to be a different response adopted by certain countries (e.g., actions of regulators / actors in Germany, France, Spain, etc.) ✔ Whatever actual decision is taken by an insurer, it should clearly ensure that the company is sufficiently well capitalised to manage these exceptional circumstances and future uncertainties ***Follow on strategic considerations*** ✔ Dividends represent a fundamental element of the return to investors to encourage support for the sector. It is critical to demonstrate that any dividends paid leave your business sufficiently capitalised	RISK	LOW
Indirect taxes and social contributions	The Luxembourg Registration Duties, Estates and VAT Authority has announced lifting the administrative penalty for exceeding a deadline for filing VAT returns. Moreover the CCSS (Centre commun de la sécurité sociale) will put in place the following temporary measures: suspension of moratory interest calculations on payment delays, suspension of start of proceedings for forced repayment of contributions, suspension of procedures involving bailiffs, immediate refund of VAT credit balances below €10,000 and suspension of fines to employers for delays in declarations to the CCSS.	✔ These measures temporarily lift the liability and sanction risks to which insurance companies and their managers were exposed with regard to the measures adopted in relation to indirect taxes and employers' social contributions	***Immediate focus areas*** ✔ Review whether the company meets the criteria of the measures and should apply for interest moratorium, extension of filing, etc. NB: fines for late filing of VAT returns are lifted across the board (till further notice) However, payment delays can only be requested by VAT taxpayers who face financial difficulties and explanations will need to be provided in the request form	RELIEF	LOW

KEY RISKS	ENVIRONMENT/REGULATORY CHANGES	POTENTIAL IMPACT ON YOUR BUSINESS	KEY ACTIONS TO CONSIDER	RISK or RELIEF	IMPACT LEVEL
New business activity (1/2)	The societal and business changes are unprecedented in our lifetime. First and foremost, we experience a human tragedy with so many deaths across the globe. Exiting the crisis is likely to be gradual and difficult to predict as the efforts to increase testing and also to discover and globally deploy a vaccine will take time. Economic activity crashed abruptly. Governments and central banks are deploying substantial *airbags* in a timely manner. Notwithstanding, unemployment levels have multiplied. There is debate as to the level of economic crisis we will experience and whether the recovery will be V-shaped, U-shaped, W-shaped, etc. What is clear is that our work environment will not be as it was. Insurers, like everyone else, are facing a new normal. Insurance equity valuations have suffered significantly – close to 40% in Europe at its low point with some subsequent recovery. While different for each company, in general new business levels have halted significantly in most segments. Travel insurance has stopped, while health cover remains active. Companies report some activity in the international life sector, especially with clients seeking opportunities in listed securities through unit-linked policies. However, beyond the business already in the pipeline, the absence of stakeholders in key markets and paper-driven processes stifles activity. With lockdown, physical sign-off for the underwriting process are more difficult to obtain while e-signature adoption is lower among insurers than other sectors. Motor insurance reflects the fact that the lock down has dramatically reduced traffic and hence claims activity is down significantly. The corporate segment is impacted by the slowdown in business activity, with many companies seeking to manage their costs and cash flow.	✔ Overall new business is likely to fall in many lines, reflecting contraction in GDP, and is likely to lead to price competition across most European markets. Some personal lines (e.g., home insurance) are known to be more robust in a downturn ✔ Unemployment will rise, causing a reduction in disposable income and an expected increase in competition ✔ Additional constraints in the underwriting process may decrease the number of new contracts ✔ Change in product strategy, including life, variable annuity, deferred annuity, fixed indexed annuity, or other ✔ Likely negative impact on results and profit margins	***Immediate focus areas*** ✔ Maintain connection with staff at all levels ✔ Maintain connection with distributors at all levels ✔ Consider alternatives to in-person sign-offs and promote solutions that include remote advisory capabilities – deploy e-signature ✔ Assess the effects of suspending sales of certain products or modifying the timing of new products ✔ To ensure relevance for the moment, evaluate adjusting price / coverages of existing products ✔ Model "what if" scenarios to estimate sales volumes ✔ Consider enhanced flexibility of premium collections from clients, while retaining customers ✔ Consider new product structures to capture the new environment and evaluate against expected social responsibilities & customer loyalty/empathy ✔ Examine ways to manage cash flow, take actions to reduce and / or variabilise cost base ✔ Get ready to innovate and invest in digitalisation, cloud based model and go-to market strategies e.g., online and end-to-end capabilities to engage with clients and intermediaries, etc. ✔ Train / upskill people. It can be delivered effectively on a remote basis. Click on link for some ideas: https://www.pwc.lu/en/pwcacademy/training-library.html?tags46444=%7B%22tags%22%3A%5B%5B%22pwc-lu%3Apwcs_academy%2Ftype%2Fe-learning%22%2C%22pwc-lu%3Apwcs_academy%2Ftype%2Fwebex%22%5D%5D%7D ***Follow-on strategic considerations*** ✔ Create new business plan – where to focus / exit ✔ Focus on brilliant execution ✔ Place customer obsession & staff well-being at the core. Even if you thought this the case …double down ✔ Adjust to new & forecast customer behaviours	RISK	HIGH

KEY RISKS	ENVIRONMENT/REGULATORY CHANGES	POTENTIAL IMPACT ON YOUR BUSINESS	KEY ACTIONS TO CONSIDER	RISK or RELIEF	IMPACT LEVEL
New business activity (2/2)	continued… In certain markets, regulators have requested that insurers share the burden associated with the cost of insurance and decreased economic activity. There is a wider debate regarding the coverage gap in relation to the pandemic itself and the business interruption it has caused.		✔ For the whole area of technology disruption, see the recent piece by our colleagues at Strategy& *"Harnessing the power of Disruption: Insurance"* https://image.s50.sfmc-content.com/lib/fe31117075640475701c74/m/1/20890ce5-7be0-4e58-93bd-35bd47de089b.pdf Key to navigating a successful outcome through the turmoil is early identification of material beneficial strategies followed by decisive action. Management who react to signs of distress on a timely basis are able to give themselves more options		

KEY RISKS	ENVIRONMENT/REGULATORY CHANGES	POTENTIAL IMPACT ON YOUR BUSINESS	KEY ACTIONS TO CONSIDER	RISK or RELIEF	IMPACT LEVEL
Client impact mitigation	EIOPA urges insurers and intermediaries to continue to take actions to mitigate the impact of Coronavirus/COVID-19 on consumers. Consumers remain reliant on insurance during this difficult time and it is key for insurers to continue to maintain essential services even if customers do not fully comply with contractual obligations. Examples include: • Not being able to submit a claim within a prescribed timeframe • Not being able to carry out a check (e.g. a car check-up or a medical check-up) • Using their usual residence as a workspace, which may be in breach of their household policy	✔ EIOPA expects all market participants to continue to act in the best interests of consumers, throughout the lifecycle of their relationship with the consumer. ✔ It is critically important to react to the new political environment in which we will find ourselves	***Immediate focus areas*** ✔ Provide clear and updated information to clients ✔ Ensure clients remain informed about contingency measures adopted ✔ Continue applying product oversight and governance requirements and, where necessary, carry out a product review ✔ Consider the interests of consumers and exercise reasonable flexibility in how they are treated ***Follow on strategic considerations*** ✔ As mentioned above…client obsession, digitisation, cloud, AI, combine internal & external data to better serve clients and predict behaviours. Seize the opportunity to enhance client experience	RISK	HIGH

KEY RISKS	ENVIRONMENT/REGULATORY CHANGES	POTENTIAL IMPACT ON YOUR BUSINESS	KEY ACTIONS TO CONSIDER	RISK or RELIEF	IMPACT LEVEL
Reputation	A global pandemic has usually been regarded as a low risk and has consequently been overlooked by businesses and consumers, who now realise that many basic policies do not protect them now that the situation has arisen (e.g. repatriation). Despite not being the insurers' final responsibility, these situations lower trust in the sector.	✔ Greater number of claims and customer queries, higher volume of requests from the media, individuals and businesses ✔ Consequently longer response time to demands for explanation / info regarding policies ✔ Reputational risks or even litigation risks if the company is not perceived to be committed to the concerns of policyholders or employees or does not prioritise their safety ✔ Instead, there may be an opportunity to demonstrate the company's cause and value to society through rapid response, coverage, waiver of certain deductibles, and provision of technical expertise *The sector will encounter reputational risk as it navigates the crisis. Similarly, there will be significant opportunity for the sector to speed the recovery of people and economies alike* *Governments and society will see it as paramount that each sector, including insurance, plays its role to optimise and contribute to the recovery, protection of employment and support of those who have suffered or are in duress. This will be evident globally but also at the level of individual countries and insurers/subsidiaries*	***Immediate focus areas*** ✔ Determine a plan to manage the increase in requests, by clearly defining responsibilities and relevant authorities to contact in case of doubts. Be prepared for a spike in calls to customer advisors and efforts to support customers. You may need to redeploy staff, or scale up or down by using contingent workers. Automated systems can help, but your clients may appreciate human empathy ✔ Assess potential reputational risks arising from the current environment and determine possible responses ✔ Determine a strategy to turn the current situation into an opportunity to build customer loyalty and increase employee satisfaction *Enhancing your reputation and that of the sector through the crisis can have many benefits that last into the long-term. Consider now more than ever, your societal role – your purpose - as an insurer and ways in which your company can use their skills and resources to best contribute to the well-being of people and the recovery in Luxembourg and beyond*	RISK	HIGH
Physical locations	The COVID situation has led insurance companies to quickly close physical locations and deploy HBW measures in order to protect employees and clients.	✔ Your existing processes may not be flexible enough to support the new way of working ✔ Some workers become less engaged, reducing productivity and quality, and harming customer experiences	***Immediate focus areas*** ✔ See points above ✔ Seek to adjust, at all levels, to the likely permanent adoption of Home-Based-Working *at scale* as part of the new normal. Engage with all participants: CAA, ACA and tax authorities amongst others ***Follow on strategic considerations*** ✔ Assess space & technology infrastructure requirements in light of business levels, staffing, HBW, etc.	RISK	MEDIUM

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You can also visit our dedicated Covid-19 website under: www.pwc.lu/covid-19

Explanatory Notes

INSURANCE
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pwc

Management attention dashboard explanation

- We have developed a dashboard to support you in determining where within your organisation you need to focus attention given the volatile environment caused by COVID-19

- We define four main areas of attention namely: Balance Sheet Impact, Operations & Data, Regulatory & Compliance as well as Business Impact. Although regulatory changes and risks are drivers there are some impacts such as regulatory and risk reporting that will demand attention.

- The temperature of each of these four areas shown by the thermometer demonstrates the attention required and will change overtime

- This is based on various triggers of regulation, risk and operations which are being set off due to current circumstances. This is shown and broken down in the various relevant factors in the speedometers below the thermometers.

- For further detail of the factors you can get an initial explanation of the impact and key actions on slides 4 to 10. For further information you can contact us through email or phone at anytime. The contact details of relevant persons are on slide 11.

Market dashboard explanation

- **Corporate high-yield bond spreads** measure the gap between the yield of low-grade bonds and that of stable high-grade bonds of similar maturity. A spike in the spread signals low market's risk tolerance, increased perceived risk of junk bonds' default, as well as higher risk premia demanded by investors.

- **10-years government bonds yield spreads**: Low ten-year government bonds yield capture investors' tendency to divest towards longer term bonds once they expect a slowdown in real economic activity and in inflation in the short-term. If the impact of a foreseen recession is expected to be asymmetric among countries, bonds from riskier countries are likely to rise more compared to those from countries whose debt-to-GDP ratio is considered to be more sustainable.

- **VIX and Volatility Indexes**: As a consequence of sharp stock price declines, we usually observe high volatility in the markets. Commonly known as the "Fear Index", the role of VIX is to reflect increasing or decreasing market volatility by using option contracts on the S&P 500. Given that stock market downturns are a leading indicator for economic slowdowns (because companies are expected to have less revenues, thus investors sell them), rising volatility (which is usually a product of declining stock markets) could be an important indication that a recession is close.

- **Sovereign CDS**: By definition, a Contract Default Swap (CDS) offers protection to its buyer in case the bond that the contract is based on defaults. In other words, the owner of a CDS will receive an amount of money if the underlying bond defaults. If the price of such contracts increases for a specific sovereign bond, this means that the probability of that particular bond defaulting is higher. Therefore, by looking at CDS contracts for sovereign bonds we can form an opinion on whether a country will face issues servicing its debts (high CDS price) or if there is no such risk (low CDS price).

- **The Corporate CDS Spread:** Same principle as Sovereign CDS but applied to a corporate instead of a country. The higher the CDS spread, the higher the probability of a particular corporate to default.