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To all (re)insurance and pension companies and their shareholders

SUBJECT: Insurance Supervision Agency's measure regarding dividend payment

In the month of March, the Agency sent a letter to all (re)insurance and pension companies expressing its expectations regarding temporary suspension of dividend payment until at least 1 October 2020. The management boards of (re)insurance and pension companies followed the Agency's recommendation.

In April, the Financial Stability Board issued a recommendation¹ to supervisory authorities concluding that the impact of the COVID-19 epidemic on the area of business of financial institutions could lead to disruption in the financial system with serious negative consequences on the functioning of the financial system and real economy, mainly in the form of:

- financial institutions' reduced capital strength or capacity to absorb losses resulting from a possible realisation of systemic risks during the COVID-19 epidemic and in a certain period of time after it;
- reduced liquidity in the economy during the COVID-19 epidemic and in a certain period of time after it, resulting in deterioration of liquidity of financial institutions.

The above-mentioned consequences represent an increased systemic risk for financial stability. A study "COVID19 scenario"², prepared at the end of April by the Institute of Macroeconomic Analysis and Development, shows that GDP will fall by around 8% in 2020. Said scenario takes into account economic policy measures for alleviating the consequences of the epidemic and assumes a gradual recovery of the economy, which should start in June. As uncertainty remains high and there is a risk that the period of severely paralysed economic activity will last longer, GDP could fall by as much as 15% (or more).

¹ <https://www.bsi.si/financna-stabilnost/makrobonitetni-nadzor/odbor-za-financno-stabilnost-ofs/gradiva-ofs>

² https://www.umar.gov.si/fileadmin/user_upload/napovedi/vmesna/marec_2020/PN2020_Covid19_p.pdf

Also EIOPA³ and ESRB⁴ in their statements called on (re)insurance and pension companies to take measures to preserve their capital position, which also include suspension of dividend payment.

Comparing performance of Slovenian insurance companies in the first quarter of 2020 to the first quarter of 2019, one can see that investment income of non-life business and life business decreased on average by almost 50% and by more than 95% respectively. Profit decreased on average by 40%. Capital adequacy ratio decreased on average by 20 percentage points. These are the first quarter of 2020 data and do not contain all the consequences of the epidemic, which will only manifest themselves in the coming months. There is also the reappearance of negative trend in the risk-free interest rate curve, which EIOPA publishes every 14 days due to the current situation⁵.

Based on all of the above and the fact that it is still not clear how the epidemiological situation will develop or what impact will the difficulties experienced by the economy have on the insurance sector, the Agency expects the shareholders of (re)insurance and pension companies to suspend dividend payment until at least 1 October 2020.

The Agency calls on (re)insurance and pension companies to inform their shareholders of the Agency's measure regarding dividend payment by means of publication on their website or by other similar means.

Best regards!

Mag. Gorazd Čibej
Director
[official stamp and signature]

To be served on:

- All insurance companies, reinsurance companies and pension companies

Cc:

- Ministry of Finance
- SDH
- Slovenian Insurance Association (maja.krumberger@zav-zdruzenje.si)

³ https://www.eiopa.europa.eu/content/eiopa-statement-dividends-distribution-and-variable-remuneration-policies-context-covid-19_en

⁴ <https://www.esrb.europa.eu/news/pr/date/2020/html/esrb.pr200514-bb1f96a327.en.html#footnote.3>

⁵ https://www.eiopa.europa.eu/tools-and-data/risk-free-interest-rate-term-structures-0_en#MonthlvRFRcalculations