

Ref. no: 40102-31 /2020-136

Date: 20 May 2020

To all (re)insurers, pension companies and their shareholders**Re: Insurance Supervision Agency's measure regarding the dividend payments**

In March 2020, the Insurance Supervision Agency (hereinafter: the Agency) sent a letter to all (re)insurers and pension companies, in which it stated its expectations about the temporary suspension of dividend payments until at least 1 October 2020. The management boards of (re)insurers and pension companies followed the Agency's recommendation.

In April 2020, the Financial Stability Board issued a recommendation¹ to supervisory authorities, stating that the impact of the COVID-19 epidemic on the operations of financial companies may lead to disturbances in the financial system, which will have serious negative consequences for the functioning of the financial system and the real economy, in particular in the form of:

- reduction of capital strength or the ability to absorb the capital losses of financial companies from the possible realisation of systemic risks during the COVID-19 epidemic and in a certain period after it, and
- reduction of liquidity in the economy during the COVID-19 epidemic and in a certain period after it, which will be reflected in the deterioration of liquidity of financial companies.

The above consequences represent an increased systemic risk to financial stability. The COVID-19 scenario² drawn up by the Institute of Macroeconomic Analysis and Development at the end of April predicts an approximately 8% decline in GDP in 2020, taking into account economic policy measures for alleviating the consequences of the epidemic and assuming a gradual recovery of the economy, which should start in June. However, as there is still high uncertainty and risk that the period of severely paralysed economic activity will last longer, GDP could fall by as much as 15% (or more) this year.

In their statements, EIOPA³ and ESRB⁴ also urge that (re)insurers and pension companies take measures to maintain their capital position, which also includes the temporary suspension of dividend payments.

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

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>

A comparison of data on the financial results of Slovene insurers in the first quarter of 2020 with data from the first quarter of 2019 shows that, on average, income from investments in the non-life insurance business decreased by almost 50% and by over 95% in the life insurance business. The profit of companies declined by 40% on average. The capital adequacy ratio fell, on average, by 20 percentage points. These data refer to the first quarter of 2020 and therefore do not include all the consequences of the epidemic, which will be visible in the coming months. In addition, a negative trend is again seen in the risk-free interest rate curve published by EIOPA every 14 days due to the current situation⁵.

In view of all the above and the fact that it is still not clear how the epidemiological situation will develop further or what the impact of economic problems on the insurance sector will be, the Agency expects that the shareholders of (re)insurers and pension companies suspend the dividend payments until at least 1 October 2020.

The Agency calls on (re)insurers and pension companies to inform their shareholders about the Agency's measure regarding the dividend payments by publishing an announcement on their website or in another similar manner.

Yours faithfully

Gorazd Čibej
Director

To be delivered to:

- all insurers, reinsurers and pension companies

With copy to:

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

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