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INSURSIGHTS

A focus on the insurance market

INSIDE

Solvency II under construction

In September, the European Commission adopted comprehensive proposals to revise the Solvency-II directive, which came into force on January 1, 2016. It was due a routine review anyway, but the need to rebuild an economy hit by the pandemic accelerated the process. „The aim of today's review is to strengthen European insurers' contribution to the financing of the recovery, progressing on the Capital Markets Union and the European Green Deal", the European Commission says. (Re)insurers, in their capacity as private investors, are expected to be able to leverage about EUR 90 billion as private investors to help Europe recover from the COVID-19 pandemic.

The new draft law puts the long-term promises of life insurers on a more secure footing despite low-interest rates. In other words: insurers likely have to set aside more capital (reserves) to fulfill these promises. At the same time, and seemingly controversially, insurers are encouraged to invest more in long-term capital for the economy (sustainability). Simplified and more proportionate rules are also introduced for certain smaller insurance companies. A new class of insurers with particularly low risk emerges. They will be subject to fewer obligations in terms of corporate reporting, own-risk assessment and data disclosure. Very small insurers are exempt from the new directive completely. Another key topic is the contribution to the European Green Deal: Climate stress tests in the (re)insurance sector and dialogues on climate resilience envisages as well as an improvement in data collection on insured losses will be investigated. The European Parliament and the Council will now discuss the Commission's proposals.

World’s first volcano catastrophe bond

The International Red Cross and Red Crescent Movement dedicate themselves to preventing and alleviating human suffering in warfare and in emergencies such as earthquakes, floods, refugee crises, epidemics, hurricanes or armed conflicts. For example, emergency teams of logistics and health experts will be dispatched to the scene in the shortest possible time. But it is not just human resources. These rescue operations require immense financial resources. The Danish Red Cross has been particularly creative and launched a catastrophe bond for volcano-related disasters. As a high investment risk involved, catastrophe bonds offer investors high yields, but do not pay out if a named catastrophe occurs. They typically cover areas prone to hurricanes and typhoons. The volcano CAT bond of the Danish Red Cross is based on an insurance linked securities blockchain. This reduces costs by $200,000-400,000 per issue compared to traditional settlement systems. There is a trigger mechanism to set in motion a pay-out when a volcanic ash plume reaches a certain height and the prevailing wind directs the ash fall towards vulnerable communities. The bond focuses on 10 active volcanoes in Cameroon, Chile, Colombia, Ecuador, Guatemala, Indonesia and Mexico.

Nontraditional players enter the insurance market

Technology companies like eBay or Google keep trying to get closer to the insurance business. Amazon also recently offers insurance solutions to small and medium-sized U.K. business customers. Its offerings initially include business liability insurance, cyber policies, content insurance policies and D&O. The risks would be underwritten by larger U.K. insurers. But are such market entries seen as a threat to the insurance world? Probably not. Rather, the newcomers see themselves as business partners than competitors.

GO THE EXTRA MILE According to the Geneva Think Tank Association, COVID has more long-term impacts than just on our health: Based on the annual premium income of $30 billion for business interruption insurance, the insurance companies would have to collect 150 years of premiums to cover global production losses caused by pandemic in 2020.