AZN
Insurance Supervision Agency

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All insurers, reinsurers and pension companies

RE: Ensuring financial stability during the COVID-19 epidemic by temporarily suspending dividend payments in 2021

Due to the uncertain situation regarding the spread of the COVID-19 pandemic and the consequent unclear impacts on the economy and the insurance industry, the Insurance Supervision Agency (hereinafter: the Agency) expects that until 30 September 2021 insurance, reinsurance and pension companies (hereinafter: supervised entities) suspend dividend payments, undertake no irrevocable commitments to pay out dividends and refrain from buying back treasury shares intended to reward shareholders.

On 15 December 2020, the European Systemic Risk Board issued Recommendation ESRB/2020/15, recommending to extend the restriction on dividend payments, buy-back of treasury ordinary shares and the payment of variable remuneration until 30 September 2021. A similar recommendation was issued on 18 December 2020 by the European Insurance and Occupational Pensions Authority (EIOPA), which expects that supervised entities maintain extreme caution and prudence within their capital management. Any dividend distributions, share buy-backs or variable remunerations should not exceed thresholds of prudency and supervised entities should ensure that the resulting reduction in the quantity or quality of their own funds remains at levels appropriate to the current levels of risk. Supervisory authorities should ensure that supervised entities' assessment of the overall solvency needs is forward-looking, takes due account of the current level of uncertainty on the depth, magnitude and duration of the impacts of COVID-19 in financial markets and on the economy and the repercussions of that uncertainty in their business models and solvency, liquidity and financial position.

On 25 January 2021, the Financial Stability Board issued Recommendation OFS/2021/1, recommending – pursuant to Article 19 of the Macroprudential Supervision of the Financial System Act (Official Gazette of the Republic of Slovenia, No 100/13) – to the supervisory bodies of financial institutions to issue a supervisory measure or instrument proportional to the risk, aimed at restricting or exercising caution in the payment of dividends for 2019, 2020 and 2021, restricting or exercising caution in the buy-back of own interest in favour of the payment of ownership rights to shareholders, and restricting or exercising caution in the payment of profit in 2019, 2020 and 2021, retained earnings and reserves from previous years for these purposes to financial institutions operating in the territory of the Republic of Slovenia and under the supervision of supervisory bodies. Furthermore, the Financial Stability Board recommends that supervisory bodies restrict or exercise caution in all other financial transactions that would lower the profit of supervised financial institutions if they jeopardised the normal provision of support to the economy in its recovery.

Taking into account the above recommendations and due to the high uncertainty regarding the spread of the COVID-19 pandemic and its impacts on the economy and the insurance industry, the Agency expects that until 30 September 2021 supervised entities suspend dividend payments, undertake no irrevocable commitments to pay out dividends and refrain from buying back treasury shares intended to reward shareholders.

However, as the financial stability of supervised entities varies and the operations of supervised entities are affected differently by the COVID-19 pandemic, the Agency exceptionally allows any of the supervised entities not to comply with this recommendation. Such a supervised entity must demonstrate to the Agency that it has complied with the precautionary principle in its decision, which includes the following aspects:

- solvency (even in the event of a possible new financial crisis and regardless of the payment of dividends, the supervised entity must still maintain capital strength and the solvency ratio above 150% in the observed period);
- capital (the supervised entity will not reduce its basic own funds by more than 10% by paying dividends);
- liquidity (the liquidity position of the supervised entity after the dividend payment must not be poorer than the liquidity position before the pandemic);
- profitability (the supervised entity must show profit in both 2019 and 2020 and ensure that the amount of the planned dividend paid does not exceed the average dividend paid in 2017, 2018 and 2019).

The supervised entity that will not comply with the Agency's recommendation is required to notify the Agency at least one month before the intended payment of dividends. In the notification, the supervised entity must demonstrate to the Agency that the precautionary principle has been complied with when making its decision. Evidence must be based on stress test results with precisely defined stress test assumptions and calculations of impacts on assets, liabilities, available capital, capital adequacy and liquidity of the supervised entity for at least until the end of 2024. The notification must also show that the supervised entity took into account the current expected level of uncertainty regarding COVID-19, the vulnerability of its business model, the current low interest rate environment and its exposure to sectors significantly affected by the pandemic. The notification will be examined by the Agency and, if necessary, appropriate measures will be taken in order for the supervised entities to maintain their capital strength so as to ensure smooth operations and the safety of policyholders, insured persons and other beneficiaries from insurance contracts.

Yours faithfully,

Niko Erker
Deputy Director

To be delivered to:

- all insurers, reinsurers and pension companies

With copy to:

- Slovenian Insurance Association, Železna cesta 14, 1000 Ljubljana