

Ref. No: 40102-31/2020-145

Date: 20 August 2020

All insurers, reinsurers and pension companies

Re: Ensuring financial stability in the situation of COVID-19 epidemic by temporarily suspending dividend payments

Due to the uncertain situation regarding the spread of the COVID-19 epidemic and the consequent unclear impacts of the epidemic on the economy and the insurance industry, the Insurance Supervision Agency (hereinafter: the Agency) recommends that insurance, reinsurance and pension companies (hereinafter: supervised entities) even after 1 October 2020 suspend dividend payments, undertake no irrevocable commitments to pay out dividends and refrain from buying treasury shares intended to reward shareholders until the auditors' opinions on the 2020 annual reports have been published.

In its letter Ref. No 40102-31/2020-59 (hereinafter: the letter) of 31 March 2020, the Agency called on the supervised entities to suspend the payment of dividends as a preventive measure to ensure financial stability during the COVID-19 epidemic pursuant to the Insurance Act (Official Gazette of the Republic of Slovenia, Nos 93/15, 9/19 and 102/20, hereinafter: ZZavar-1) and the Macroprudential Supervision of the Financial System Act (Official Gazette of the Republic of Slovenia No 100/13; hereinafter: ZMbnFS) and in accordance with the international insurance standard IAIS ICP 10 and the guidelines of the European supervisory authority EIOPA. On 7 April 2020, the Financial Stability Board issued the recommendation OFS/2020/01, calling on the supervisory authorities of financial companies to issue a supervisory measure to restrict dividend payments or to proceed with caution when paying dividends. Furthermore, a similar recommendation was issued on 27 May 2020 by the European Systemic Risk Board.

The Agency notes that the situation regarding the COVID-19 epidemic and its impact on the economy and the insurance industry remain uncertain. Certain risks have increased with the outbreak of the epidemic, and some new ones have emerged, but the current uncertainty about the further development of the epidemic does not allow a proper assessment of these risks. The aim of the Agency is for the insurance industry to be part of the solution and not part of the problem, and therefore it recommends that the supervised entities suspend dividend payments, undertake no irrevocable commitments to pay out dividends and refrain from buying treasury shares intended to reward shareholders even after the date stated in the letter, i.e. after 1 October 2020. The Agency recommends that the management boards of supervised entities propose to their supervisory boards and general meetings of shareholders to extend the moratorium on dividend payments at least until the moment of issuing the auditors' opinions on the 2020 annual reports.

However, the Agency is aware that the operations of supervised entities are impacted differently due to their different business models. If any of the supervised entities fails to comply with this

recommendation, it is required to notify the Agency at least one month before the intended payment of dividends. In the notification, the supervised entity must justify its decision and reasons for it, both qualitatively and quantitatively, on previously performed reliable stress test results with precise stress test assumptions and calculations of impacts on assets, liabilities, available capital and capital adequacy of the supervised entity for at least until the end of 2024. The Agency expects that, even in the case of paying out dividends, the supervised entity will ensure the target capital adequacy during that period. The Agency will examine such notification and take appropriate measures in accordance with the law.

Yours faithfully

Gorazd Čibej
Director

To be delivered to:

- all insurers, reinsurers and pension companies

With copy to:

- Slovenian Insurance Association, Železna cesta 14, 1000 Ljubljana