



ALBERTO CORINTI

Member of the Board of Directors,
Italian Insurance Supervisory
Authority (IVASS)

Lessons learned by insurance supervisors from Covid-19 crisis

What lessons can insurance supervisors draw from the pandemic crisis? At the outset of the crisis, the main response from supervisors would most likely have focussed on the need for emergency and crisis tools. After experiencing more than one year of ongoing crisis, I think the response would mainly focus on lessons for enhancing supervision in normal circumstances. **In some way, the pandemic has served as a catalyst and has made visible gaps that are not directly related to the crisis.**

The first area to mention is certainly IT innovation. The crisis has boosted the use of digital tools to design, price and distribute products, with a number of implications in terms of collection, storage and use of data. These developments can certainly help to better satisfy consumers' need, promote insurance protection and streamline contract relationships. At the same time, they could expose to risk of market misconduct, endangering consumer protection, or to a number of risks, such as cyber, operational, legal and reputational risks, which are relatively new for supervisors, but represent a potential threat to companies' solvency and financial stability. The challenge for supervisors is therefore to ensure a "healthy" use of technologies. A proper understanding of these changes and their risk implications is the first, challenging goal for supervisors.

IT innovation could also simplify the relationship between firms and supervisors. During the emergency, supervisors took a set of measures to help insurers ensure business continuity. We must now think about whether and how we might permanently introduce simplification in the prudential framework. We should avoid unjustified reporting burden and reduce complexity in supervisory processes. Here I think there is room for improvement in many jurisdictions.

This leads to another important lesson: it is essential, now more than ever, that consumers remain at the centre of the business. This is not only a principle of good market conduct. It is the only way for companies to reinforce and stabilize their relationship with consumers, which is characterized by a progressive reduction of physical contacts, in a context of dynamic markets with multiple players and innovative ways to design and offer products. How supervisors will promote and enforce this principle will be key. For example, the extent of lockdowns has not only affected consumer's behaviour, but also the

"value" of some insurance products (i.e. MTPL, travel). In this context, insurers should assess potential unfair treatment for policyholders and take remedial actions. In Italy, some companies have lost an opportunity to show their attention to consumers' rights when making this assessment. This is an attitude that supervisors have to address, even though traditional tools are sometimes not effective in this regard.

Another area where the crisis has highlighted the need for improvement is the macro-prudential dimension of supervision. As shown by the pandemic, supervisors should be able to monitor risks that, in one shot, could affect a large part of the sector and generate reactions that, in turn, could impact the financial system. These types of inward and outward risk call for specific tools. We need forward-looking tools, what-if analysis, effective cross border cooperation and proper powers of intervention. This is key in the context of the potential longer-term effects of the current situation. The expected persistence of low interest rates, the economic uncertainties and the potential materialization of increased credit risk require a supervisory focus that goes beyond the microanalysis.

Finally yet importantly, the crisis has highlighted a significant protection gap. Households, businesses and professionals experienced a crisis that was unique in terms of size and extent, and often found themselves without the necessary protection. We must now ask ourselves how the insurance industry can improve its ability to protect the society and contribute to a new phase of development in the post-COVID economic system. Here, there is a variety of areas to focus: regulation, solutions for public-private cooperation, technology, insurance product range, distribution networks, insurance and financial education. This is something that goes beyond supervision, but where supervision should be part of the solution.