

## **Covid-19 and Insurance: An Evaluation of the Response to the Pandemic and the Insurance Market Position in Greece**

*Opinion, 2.4.2020- Dr. K. Noussia, Prof. Dr. I. Rokas*

### **Measures taken by the Greek Government to prevent the spread of the virus**

The Greek Government, in an effort to limit the spread of the Covid-19 pandemic and control the outbreak by “flattening the curb” so as to help the Greek National Health System to continue to be able to respond, announced lockdown measures for many categories of businesses (such as hotels with some special purpose exclusions, dining areas, places of religious worship, theaters, cinemas etc., while a lot of undertakings have closed down due to minimised/ zero demand for their services) in early March 2020. Secondly, as of 22.3.2020 a curfew for all citizens has been implemented, save for their ability to exit their residence to go to work where this cannot be done remotely and for some basic needs transactions, while considerable fines are imposed for the violation of such measures. In addition, citizens are required to send an sms to a designated State number stating the purpose of their exit, as long as it is allowed (e.g. food shopping, getting prescribed medication from pharmacies, or for limited personal physical exercise etc.). Employees who have to be physically present at work, must carry with them a certificate issued and signed by their employer certifying that they are working for this employer, in order to justify their movement to their working place. However, and in an effort to help, the State contributes considerable monetary amounts for all affected business employees, to enable them to cover their living needs. A package of supportive state measures aiming to mitigate the impact on the economy from the above restrictions has been enacted in favor of businesses, the Business Activity Numbers of which have been included in the list of businesses, the activities of which have been severely impacted. Such measures indicatively include the suspension of deadlines for payment of taxes and social security obligations, the ability to suspend employment relationships while the affected personnel is entitled to a monetary state compensation, the suspension of deadlines concerning payment of bank cheques, et. al.

The precautionary measures against the pandemic have been taken early on and on time in Greece and citizens have responded in their vast majority, complying with the hard restrictions, so that at the moment the losses are under control and relatively limited.

With regard to the Insurance Supervising measures, the Bank of Greece, abiding by the EIOPA Statement on actions to mitigate the impact of the coronavirus on the insurance sector, has extended the regulatory deadlines for regulatory reporting. It is also expected to respond to the market calling for extension of the premium payment obligations in case of MTPL and other compulsory insurances, for which insurers may not extend the cover if the premium is not paid in advance.

### **Implications for Insurance**

The pandemic affects almost all insurance classes. Nonetheless, insurance companies in Greece are unexpectedly exposed to fewer claims at this moment compared to the period before the COVID-19 outbreak. This is due to the huge decline of motor vehicle accidents, which affect not only MTPL, but also accidents insurers. Further, coronavirus patients are admitted only to public/ state hospitals, which do not usually maintain business relations with insurance companies providing sickness insurance coverage. Nevertheless, this will not result necessarily to higher profits for the insurance companies, because of the expected non-performance premiums' wave. For now, given the citizens' cautiousness, accidents and diseases' (other than COVID-19) outbreaks covered by insurance have diminished. The coverage is meanly granted not from the insurance industry, but the State that pays for all business enterprises that are closed down, including a reasonable part of the employees' salary.

From a premium collection point of view, however, insurers in Greece are faced with multiple challenges. With respect to consumer insurances, the restrictions to public circulation have highlighted the need to swift to electronic payment methods, rather than payments with cash via intermediaries. For some customers, however, not accustomed to the use of electronic payment methods, it is expected that they may delay the payment of premiums, thus, raising the issue of whether coverage may be extended due to the exceptional circumstances. The issue is of particular concern in mandatory insurance, where, under Greek law, the prepayment of premium is a condition precedent for the cover. Insurers' income could further decrease in the

coming months, mainly in relation to commercial insurance, due to the suspension of the time limits for payment of bank cheques.

It should be also noted that insurance activities have been included in the list of severely impacted businesses by the Ministry for Finances, falling into the scope of the supporting framework “2”. In this regard, the companies falling into this scope, may benefit from a series of state measures, including the suspension of VAT and other tax payment until 31.08.2020, monetary compensation and full cover of the social security obligations concerning personnel whose employment contract is suspended by the employer, et. al., provided that they do not proceed with any redundancies

### **Business Interruption Insurance (BI insurance)**

Losses of business undertakings deriving from the COVID-19 crisis occur almost exclusively due to their obligatory lockdown or necessity to close down due to minimized/ zero demand for their services. However, BI insurance policies in force in Greece entail the standard BI clause, according to which coverage presupposes the insured to be covered under property insurance and its business interruption to be exclusively the result of damage to property. The occurrence of COVID-19 does not (at least *prima facie*) cause damage to property. That said, we cannot exclude that in the near future businesses and people that incurred losses will attempt to reach a judicial interpretation against the standard wording of the BI clause. Thus, the damaged business undertakings and their employees who have no work/lost their jobs will, at least at this point, be covered not from the insurance industry, but from the State, as described above.

### **General Liability Insurance**

Contrary to business interruption coverage, lawsuits should be expected to be brought against employers who are covered by professional liability insurance. Particularly, it is expected that lawsuits will be brought against D&Os for their allegeable omission to comply with measures of occupational safety and health. In this respect, professional liability and particularly D&O insurers might cover part of the claims, because service providers are likely to have allowed the transmission of the virus by negligence. Still, while D&O insurers are expected to receive

a lot of claims, other professional liability insurers will be less affected, because the core coverage is focused on the services and not on their management.

## **Exclusions**

Insurance policies only exceptionally cover risks from pandemics. Since insurers do not cover hospitalization in public hospitals (which exclusively receive and treat in Greece coronavirus patients) some insurers voluntarily delete the exception of the pandemic resulting to covering the daily fixed sum, which is provided commonly in the health policies for a designated in the policy period (e.g. 10 days x X€ amount). This extra insurance money which is not included in the premium will not affect the minimum capital requirements, because of the robust economic situation of the insurers who decided to proceed with this voluntary benefit and the reduction of their obligations, because of the curfew.

It is possible that many governments might introduce laws as per which such exclusions from cover in case of pandemics might be inoperable, forcing insurers to pay so as to protect the policyholders. However, this depends on the extent of the economical «aftermath» to be seen after the end of the crisis.

In addition, given that the COVID-19 outbreak has spread worldwide and is now widely recognized, a possible exclusion for future policies will be the insertion of a commonly found “known events” clause, which would imply that there is no cover for COVID-19 related expenses for all policies concluded from a cut-off date (e.g. the date when the WHO elevated the situation to a pandemic status) onwards.

## **Specific Remarks for Life and Health Insurance in the Greek Insurance Market**

For Greek insurance businesses, the possibility to provide cover for COVID-19 is as follows: the risk due to coronavirus, according to current data, is relatively low in life insurance policies. This is because the ages that the virus most commonly struck so far were in their majority over 70 years (mortality), while life insurance expires at 65-70 years unless they are lifelong. However, this may have to be re-evaluated as new data of the last month have shown that the virus now strikes also younger in age people.

In addition, the risk of death due to a pandemic is estimated more easily by dispersal models and is more easily insured than the risk of morbidity which entails also medical expenses compensation, as it gets wide reinsurance coverage. This is so, because insurance companies have the ability to purchase annually their reinsurance coverage due to a pandemic, or, due to the fact that even if they have not done so for 2020, there is still the option of purchasing this cover from reinsurers who have free capacity at present.

For the sector of A&H insurance, mainly health insurance, whereby also sickness is covered, usually in the Greek insurance market, insurance cover is categorized into cover for Outpatient treatment or cover for Hospitalization. Generally speaking, the same as in the life insurance sector applies and there can be reinsurance cover bought in time for a pandemic.

A potential problem might arise with group life insurance or group health insurance which is usually acquired by companies for their employees. In the case of COVID-19 such policies may leave insurers more exposed to the possibility of having to indemnify multiple policyholders at a very large scale, due to the risk of aggregation as a result of the accumulation of multiple claims from group policies. However, even in such cases or where the compensation ratio goes beyond 90% to 100%, extra reinsurance cover might be the solution.