



MINISTRY OF FINANCE
Insurance Companies Control Service

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25th November, 2020

BY E-MAIL

General Managers
of all Insurance / Reinsurance companies,

Dear Sirs,

The covid-19 pandemic has affected all areas of economic activity and its effects are still uncertain, both in terms of size and duration. However, this crisis has made it imperative that insurance companies evaluate the impact on their business in order to take the necessary actions to the best of their abilities.

2. The ORSA process is performed on an annual basis and in Cyprus most of the insurance companies chose to do so towards the end of the year. As the end of the year is close, with this letter we wish to emphasize the importance of this report, which should be utilized by the Board of Directors, as one of the most fundamental tools in risk management for the effects of the pandemic and ways to deal with it, so as to secure viability of the company.

3. One important element in the ORSA process is the stress testing (which includes a reverse stress scenario). These scenarios should at least reflect on:

- The current situation and any expected effects on the markets, the development of claims for both life and non-life business, as well as the effects on the operational risk of the company (with various measures for working from a distance)
 - The efficiency of the company's business plan for the coming years.
4. We expect that there should be at least two scenarios:
 - a. A scenario considering the current state of the pandemic and a prudent future expectation of the pandemic, and
 - b. A scenario with a more severe extension of the pandemic. The above should be in addition to the other risks valued under the ORSA process.
 5. Due to the fact that the pandemic has created a situation in which no reliance on historical figures can be based and the future is uncertain, the insurance company has to run a number of scenarios in relation to at least premiums, claims, investment income and liquidity.
 6. In case the insurance company is considering either to make any changes to its policies, or to introduce new products, or there are any changes in its reinsurance treaties, e.g. exceptions due to the pandemic etc., then the effect on capital needs should be taken into account.
 7. The effects of any changes in product distribution in light of the pandemic, eg. investment in digitalisation, direct sales, should be taken into account.
 8. In case in any of these scenarios the solvency position of the company is lower than the acceptable limits set by the company itself, then risk mitigating measures and/or management actions that can improve the solvency position should be formulated. We expect that this planning will be mentioned in the ORSA report and

that the Board of Directors of the insurance company takes special consideration to this matter.

Yours sincerely,

(Tonia Tsaggaris)
Ag Superintendent of Insurance