

The magic of resolution

*Is turning a B into an I sufficient
to turn the BRRD into an IRRD?*

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Contents

Three questions

1. Why do we need a specific framework to address failing insurance undertakings?
2. What should be the main features of this framework? Can we turn a B into an I to get an IRRD?
3. What are the missing pieces of the IRRD?





About resolution

Resolution is an alternative to normal insolvency proceedings :

1. With specific tools
2. Establishing a burden sharing between shareholders, creditors, the industry and taxpayers
3. Also needed because banks are subject to fast moving liquidity crises (maybe less a risk for insurance groups)





Three reasons why we need a resolution framework for insurers

BRRD Resolution objectives

TITLE IV
RESOLUTION
CHAPTER I
Objectives, conditions and general principles

Article 31
Resolution objectives

1. When applying the resolution tools and exercising the resolution powers, resolution authorities shall have regard to the resolution objectives, and choose the tools and powers that best achieve the objectives that are relevant in the circumstances of the case.
2. The resolution objectives referred to in paragraph 1 are:
 - (a) to ensure the continuity of critical functions;
 - (b) to avoid a significant adverse effect on the financial system, in particular by preventing contagion, including to market infrastructures, and by maintaining market discipline;
 - (c) to protect public funds by minimising reliance on extraordinary public financial support;
 - (d) to protect depositors covered by Directive 2014/49/EU and investors covered by Directive 97/9/EC;
 - (e) to protect client funds and client assets.

Some insurance groups do perform **critical functions**

Some insurance groups are **systemically relevant...**

leading to a risk of...

... State aid

US & Canadian companies + Add to myFT
US to take control of AIG
Francesco Guerrera in London, Aline van Duyn in New York and Krishna Guha in Washington
The US Federal Reserve announced that it would lend AIG up to \$85bn in emergency funds in return for a government stake of 79.9 per cent and effective control of the company – an extraordinary step meant to stave off a collapse of the giant insurer that plays a crucial role in the global financial system.

Aegon gets €3bn in government capital
Michael Steen in Amsterdam
Aegon, the Dutch insurance company, on Tuesday took a €3bn capital injection from the state, becoming the latest Benelux financial company to accept government cash after its shares lost 75 per cent of their value over the past year.
The deal came a day after Belgium pumped €3.5bn into KBC, its biggest lender, and just over a week after ING, the Dutch banking and insurance group, accepted a €10bn **government investment**.



BRRD vs IRRD

TOOLS

BRRD

Bail-in

Sale of business

Asset management vehicle

Bridge bank

IRRD

Write-down and conversion

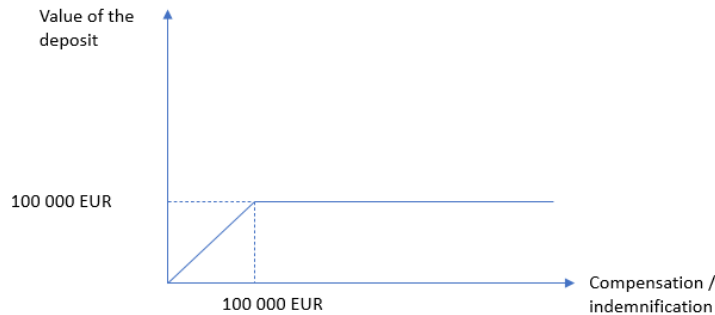
Sale of business

Asset and liability separation

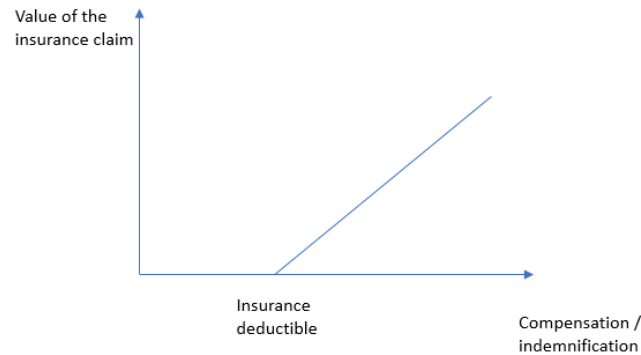
Bridge undertaking

Solvent wind down

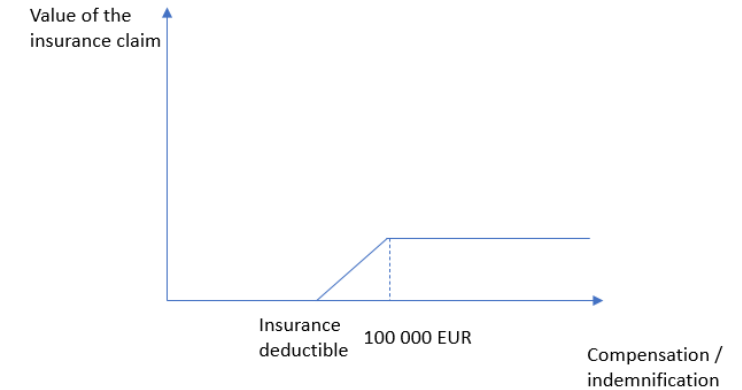
DGS protection



Insurance protection (non-life)



The combination



Is there a case to better protect policyholders in resolution / insolvency?

POLICYHOLDERS VS DEPOSITORS



IRRD : the missing pieces

Missing elements

1. Resolution financing – resolution funds?
2. Conglomerates : who is in charge of which entities at which moment?