GUIDELINES

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on supervisory powers to remedy liquidity vulnerabilities

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European Insurance and Occupational Pensions Authority

GUIDELINES ON SUPERVISORY POWERS TO REMEDY LIQUIDITY VULNERABILITIES

INTRODUCTION

1. In accordance with Article 16 of Regulation (EU) No 1094/2010 (EIOPA Regulation)[1] and Article 144b(8) of Directive 2009/138/EC (Solvency II Directive)[2], after having consulted the ESRB, EIOPA issues Guidelines on supervisory powers to remedy liquidity vulnerabilities. These Guidelines further specify: (a) the measures to address deficiencies in liquidity risk management and the form, activation and calibration of powers that supervisory authorities may exercise to reinforce the liquidity position of undertakings where liquidity risks are identified and not adequately remedied by those undertakings, (b) the existence of exceptional circumstances that justify the temporary suspension of redemption rights, and (c) the conditions for ensuring the consistent application of the temporary suspension of redemption rights as a last resort measure across the Union and the aspects to consider for equally and adequately protecting policy holders in all home and host jurisdictions.
2. In line with Article 144b of the Solvency II Directive, the Guidelines are based on an escalation process to address deficiencies in liquidity risk management. In case of such deficiencies, insurance and reinsurance undertakings are expected to implement timely remedial actions and communicate those to supervisory authorities. Supervisory authorities then follow up to monitor the progress of the implementation. Should the remedial actions of the undertakings prove insufficient, supervisory authorities may impose measures to safeguard the undertaking's liquidity position.
3. The escalation process of the Guidelines should be read in conjunction with undertakings' pre-emptive recovery plans, where applicable, established in accordance with Article 5 of Directive (EU) 2025/1, which constitute firm-prepared recovery planning instruments setting out indicators and measures to restore the financial position where that position has significantly deteriorated. The existence of such plans may support an undertaking in demonstrating its capacity to address emerging liquidity vulnerabilities through timely remedial actions. Where relevant indicators defined in those plans are triggered and the liquidity position continues to deteriorate, supervisory authorities may take them into account under Guideline 3 when assessing whether to activate supervisory powers pursuant to Article 144b.
4. When undertakings face material liquidity risks that may cause an imminent threat to the protection of policy holders and beneficiaries or to the stability of the financial system, supervisory authorities have the power to take more invasive measures, even though on a temporary basis. In exceptional circumstances, insurance undertakings can be subject to significant liquidity risks.

[1] Regulation (EU) No 1094/2010 of the European Parliament and of the Council of 24 November 2010 establishing a European Supervisory Authority (European Insurance and Occupational Pensions Authority), amending Decision No 716/2009/EC and repealing Commission Decision 2009/79/EC (OJ L 331, 15.12.2010, p. 48–83).

[2] Directive 2009/138/EC of the European Parliament and of the Council of 25 November 2009 on the taking up and pursuit of the business of Insurance and Reinsurance (OJ L 335, 17.12.2009, p. 1-155).

Therefore, Article 144b(3)(e) of the Solvency II Directive provides supervisory authorities with the power to temporarily suspend redemption rights on life insurance policies of such undertakings concerned by significant liquidity risks for no more than three months and only as a last resort measure where it is in the collective interest of policy holders and beneficiaries of the undertakings. The measure can be renewed if the reasons that justify it are still present and should be interrupted when those reasons are no longer present. The Guidelines provide for a non-exhaustive list of market developments, events and/or undertaking specific conditions that could potentially trigger material liquidity risks for undertakings and should therefore induce supervisory authorities to pay specific attention. The exceptionality of the circumstances is confirmed when the suspension of redemption rights is the last resort mitigating measure and where that is in the collective interest of policy holders and beneficiaries of the undertaking.

5. Given that exceptional circumstances may also be triggered by events in a host Member State, the Guidelines recognise the need for host and home supervisory authorities of undertakings with cross-border activities to exchange information on the details of any relevant events in the host Member State that may justify the temporary suspension of redemption rights of undertakings operating in that host Member State.
6. These Guidelines are addressed to supervisory authorities under the Solvency II Directive.
7. The Guidelines apply from 30 January 2027.
8. If not defined in these Guidelines, the terms have the meaning defined in the legal acts referred to in this Introduction.

GUIDELINE 1: SUPERVISORY MEASURES TO ADDRESS DEFICIENCIES IN LIQUIDITY RISK MANAGEMENT

9. When supervisory authorities identify material liquidity risks in an insurance or reinsurance undertaking in accordance with Article 144b(1) of the Solvency II Directive, the undertaking should be requested to submit formal written communication to the supervisory authorities outlining the remedial actions planned to be taken, their implementation timeline (including the expected short-, medium-, or long-term nature of the actions), and the expected impact on the adequacy and effectiveness of the framework. The undertaking is expected to ensure consistency between this communication and their liquidity risk management plan. Supervisory authorities should monitor the implementation of the remedial actions, in particular where actions are expected to be implemented over the medium- or long-term.
10. Where, following such supervisory monitoring, there is sufficient evidence that an undertaking has failed to take timely and effective actions to address the material deficiencies, the supervisory measures referred to in Article 144b(2) of the Solvency II Directive may include, but are not limited to, requiring undertakings to:
    a. improve internal control systems, roles and responsibilities of key functions, and governance arrangements relevant to liquidity risk management, within the undertaking's system of governance, and ensure that such improvements are appropriately reflected in the own risk and solvency assessment (ORSA);
    b. conduct training and/or reassessment of key staff involved in liquidity risk management to ensure adequate expertise;

c. improve the liquidity risk management plans, including through clearer articulation of liquidity risk tolerance limits, liquidity risk indicators, and escalation procedures, as well as ensure that the plan is subject to more frequent updates where appropriate, and that it reflects adequate operational capacity to respond to deteriorating liquidity conditions;
d. improve the design, frequency, granularity, and credibility of liquidity stress testing and scenario analysis, to ensure that results appropriately reflect the undertaking's exposure to liquidity risk under adverse conditions;
e. activate relevant actions following clear escalation procedures, set out, where applicable, in the last submitted liquidity risk management plan and, where applicable, in the most recently submitted pre-emptive recovery plan established in accordance with Article 5 of Directive (EU) 2025/1[3];
f. restore the liquidity position to adequate levels, including through the establishment or strengthening of liquidity buffers.

GUIDELINE 2: FORM AND CALIBRATION OF SUPERVISORY POWERS TO REINFORCE THE LIQUIDITY POSITION

11. Supervisory measures should be:
    a. time-bound, subject to periodic review at least every six months, in accordance with Article 144b(2) of the Solvency II Directive;
    b. applied in a timely manner, including before liquidity constraints escalate into financial distress;
    c. proportionate to the nature, scale, and complexity of the liquidity risks identified.
12. The assessment of the existence of material liquidity risk should be based on a forward-looking evaluation and should take into account the liquidity assessments included in the ORSA and the liquidity risk management plan. This assessment should also consider the liquidity risk indicators referred to in Article 144a(2) of the Solvency II Directive. The calibration of supervisory interventions should reflect the severity and persistence of the potential liquidity shortfall, and the effectiveness of prior remedial actions taken by the undertaking.
13. When applying supervisory measures, supervisory authorities should ensure that:
    a. undertakings are granted a timeframe that reflects the urgency of the situation, and the time already elapsed since the deficiencies were first identified;
    b. the interests of policy holders remain adequately protected, avoiding unnecessary disruption or adverse effects on the undertaking;
    c. broader implications for financial stability are duly considered.
14. In conducting regular reviews of supervisory measures, supervisory authorities should assess whether the interventions remain proportionate and effective in addressing the underlying

[3] Directive (EU) 2025/1 of the European Parliament and of the Council of 27 November 2024 establishing a framework for the recovery and resolution of insurance and reinsurance undertakings and amending Directives 2002/47/EC, 2004/25/EC, 2007/36/EC, 2014/59/EU and (EU) 2017/1132 and Regulations (EU) No 1094/2010, (EU) No 648/2012, (EU) No 806/2014 and (EU) 2017/1129 (OJ L, 8.1.2025, p. 1.)

vulnerabilities. Based on updated liquidity risk assessments, interventions should be modified or lifted as appropriate.

GUIDELINE 3: ACTIVATION OF SUPERVISORY POWERS TO REINFORCE THE LIQUIDITY POSITION

15. In deciding whether to activate supervisory measures in accordance with Article 144b(2) of the Solvency II Directive, supervisory authorities should assess whether there is sufficient evidence that material liquidity risks persist despite earlier remedial actions. This assessment should be based on a range of indicators or deficiencies – some of which may have already emerged during the regular supervisory review process under Article 144b(1) of the Solvency II Directive -— and may include, but are not limited to:
    a. the undertaking is unable to demonstrate the adequacy of its liquidity position under stressed conditions, as required under Article 144a(1) of the Solvency II Directive;
    b. liquidity risk indicators, as required under Article 144a(2) of the Solvency II Directive and further specified in Article 7 of the Regulatory Technical Standards on liquidity risk management plans, signal liquidity stress or show that exposures exceed established risk tolerance limits. In such cases, supervisory authorities may rely on notifications made under Article 136 of the Solvency II Directive, where undertakings are required to inform supervisory authorities of deteriorating financial conditions;
    c. the undertaking fails to comply with the measures, including escalation procedures, set out in its most recent liquidity risk management plan, or the remedial actions taken have proven insufficient to address the identified material liquidity risks;
    d. the undertaking fails to maintain adequate liquidity buffers in line with Article 144a(1) of the Solvency II Directive and ensure the appropriateness of their composition under Article 260(1)(d)(ii) of Commission Delegated Regulation (EU) 2015/35;
    e. cash flow projections, as required under Article 144a(2) of the Solvency II Directive, indicate significant mismatches between incoming and outgoing cash flows, with specific items to be reported as per Article 5 of the Regulatory Technical Standards on liquidity risk management plans;
    f. stress tests and scenario analysis, as required under Article 259(3) of Commission Delegated Regulation (EU) 2015/35, are found to be inadequate, unrealistic, or produce results that raise concerns;
    g. one or more qualitative or quantitative indicators identified in the undertaking’s pre-emptive recovery plan, as required under Article 5(8) of Directive (EU) 2025/1, are triggered and the undertaking’s liquidity position continues to deteriorate, taking into account the timeframe envisaged in the pre-emptive recovery plan for the implementation of remedial actions;
    h. intra-group liquidity support is unavailable or significantly constrained, where the undertaking belongs to a group and depends on liquidity support from the group;
    i. liquidity risk tolerance limits are inadequate to ensure the undertaking can meet its financial obligations as they fall due under stressed conditions, as required under Article 144a(1) of the Solvency II Directive and Article 260(1)(d)(ii) of Commission Delegated Regulation (EU) 2015/35.

16. The indicators in points (a) to (i) should be considered only insofar as they are relevant for material liquidity risk in accordance with Article 144b of the Solvency II Directive.

GUIDELINE 4: EXCEPTIONAL CIRCUMSTANCES THAT JUSTIFY THE TEMPORARY SUSPENSION OF REDEMPTION RIGHTS

17. Before deciding on the temporary suspension of redemption rights pursuant to Article 144b(3) of the Solvency II Directive, supervisory authorities should assess whether the circumstances justify the exercise of that measure. The assessment should consider the nature, severity and potential impact of those circumstances on the protection of policy holders and beneficiaries or on the stability of the financial system.
18. Supervisors may gather evidence from different sources to assess the circumstances. Evidence leading to the identification of exceptional circumstances may derive from an assessment of internal liquidity frameworks, including contingency funding plans, developed by insurance or reinsurance undertakings and the supervisory review process, including a forward-looking assessment (example given stress testing, sensitivity analyses) of the liquidity position of the undertaking concerned. The assessment should enable supervisory authorities to identify material weaknesses and actual or potential deficiencies or non-compliances that could lead them to imposing the temporary suspension of redemption rights.
19. Supervisory authorities should also assess the market and economic developments that could lead to exceptional circumstances for insurance or reinsurance undertaking facing material liquidity risks. Supervisory authorities should consider at least the events listed below, or a combination of these events, as potential triggers of exceptional circumstances:
    a. unforeseen, sharp and steep changes of interest rates;
    b. market-wide liquidity freeze or inability to sell assets without material impairment;
    c. rapid changes in policy holders' behaviour towards insurance products, including sudden increase in lapses or drops in underwritten premia;
    d. significant repricing in risk premia, including widespread credit rating downgrades;
    e. increased risk associated with derivative positions, and margin calls;
    f. unforeseen, sharp and steep deterioration of financial markets conditions;
    g. high-impact catastrophic, including exceptional health emergency, natural catastrophe or other extreme events resulting in unexpected large-scale claims and/or significant underwriting losses;
    h. reputational events and / or loss of confidence in the ability of the insurance sector to meet its obligations.
20. Supervisory authorities should assess whether one or more of the events set out in paragraph 19 has the potential to generate material liquidity risks for undertakings, in particular through the reduction in the cash inflows (e.g. drop in written premia, contraction in investment's income, cut in reinsurance receivables) and/or the increase in cash outflows (e.g. claims inflations, mass lapse) forcing fire sales with potential implications to the financial position of the undertakings and/or to financial stability.
21. Supervisory authorities should consider the undertaking's specific conditions that could lead to the identification of exceptional circumstances. Supervisory authorities should consider at least the

conditions listed below, or a combination of these conditions, as potential triggers of exceptional circumstances for insurance or reinsurance undertaking facing material liquidity risks:

a. the undertaking does not comply with the SCR or there is a risk of non-compliance in the following three months, and it has informed the supervisory authorities in accordance with Article 138(1) of the Solvency II Directive. In addition, the undertaking fails to submit a realistic recovery plan, or the undertaking presents a recovery plan which is not approved by the supervisory authority, or the undertaking fails to comply with it or despite compliance with it, the solvency and liquidity position of the undertaking continues to deteriorate;
b. the undertaking presents material exposure to liquidity risk, while it fails to demonstrate that it is able to realise investments or other assets to settle its financial obligations when they fall due.

22. Supervisory authorities should assess whether it might be possible to remedy the impact of market and economic developments referred to in paragraph 19 and/or the undertaking-specific conditions referred to in paragraph 21 by the application of any supervisory measure, including the ones pursuant to Article 144b(2) and (3) of the Solvency II Directive, or a combination of these measures, other than the temporary suspension of redemption rights.
23. Supervisory authorities should consider exceptional circumstances to exist when the suspension of redemption rights is the last resort measure, having regard to the potential unintended consequences of such suspension, and where that is in the collective interest of policy holders and beneficiaries of the undertaking.

GUIDELINE 5: PROTECTION OF POLICY HOLDERS IN ALL HOME AND HOST JURISDICTIONS AND CONSISTENT APPLICATION OF THE TEMPORARY SUSPENSION OF REDEMPTION RIGHTS

24. Supervisory authorities should assess the cross-border implications of the temporary suspension of redemption rights when undertakings operate in more than one Member State under the freedom to provide services or the right of establishment, to ensure that policy holders are treated equally and adequately in all home and host jurisdictions.
25. Before temporarily suspending redemption rights, the home supervisory authority should inform the host supervisory authorities. That information should include at least the following aspects:
    a. the intention to suspend temporarily the redemption rights;
    b. the underlying reasons, including an assessment of the solvency and liquidity position of the undertaking concerned and how the application of this measure is in the collective interest of policy holders and beneficiaries of the undertaking, including in a cross-border context;
    c. the intended application date of the measure and its intended duration.

    The host supervisor should provide to the home supervisory authority the information about the market developments in the host jurisdiction which is essential for the assessment of exceptional circumstances by the home supervisory authority.

26. The information should be provided through collaboration platforms in case such platforms have been established in accordance with Article 152b of the Solvency II Directive.

27. The home supervisory authority should provide the information referred to in paragraph 25 to the host supervisory authorities on the date on which it informs the undertaking on its intention to apply the measure but not later than five working days before the intended application date of the measure.
28. The home and host supervisory authorities should continue to exchange information and cooperate closely throughout the duration of the suspension of redemption rights, including on aspects concerning public communication.
29. As soon as the home supervisory authority decides that the reasons justifying the suspension of redemption rights do not longer exist, it should inform the host supervisory authorities providing them the details of its assessment.
30. After having suspended the redemption rights, supervisory authorities should perform an ex-post assessment of the application of the temporary suspension of redemption rights, in terms of its impact and efficiency and share possible lessons learned with EIOPA. Such ex-post assessment should enhance the consistent application of the temporary suspension of redemption rights.

COMPLIANCE AND REPORTING RULES

31. This document contains Guidelines issued under Article 16 of the EIOPA Regulation. In accordance with Article 16(3) of the EIOPA Regulation, competent authorities and financial institutions are required to make every effort to comply with guidelines and recommendations.
32. Competent authorities that comply or intend to comply with these Guidelines should incorporate them into their regulatory or supervisory framework in an appropriate manner.
33. Competent authorities are to confirm to EIOPA whether they comply or intend to comply with these Guidelines, with reasons for non-compliance, within two months after the issuance of the translated versions.
34. In the absence of a response by this deadline, competent authorities will be considered as non-compliant to the reporting and reported as such.

FINAL PROVISION ON REVIEWS

35. These Guidelines will be subject to a review by EIOPA.