

GENERAL ASPECTS OF THE IRRD

Second event in IRRD series of online events with stakeholders

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AGENDA

1. Introductory remarks
2. On the content of pre-emptive recovery plans
3. Determining the companies subject to pre-emptive recovery plans
4. Relation with other plans and analysis
5. Q&A

1. INTRODUCTORY REMARKS

- Preventive planning is a fundamental element of the IRRD
- The underlying idea is that crisis prevention is less expensive and more effective than crisis management
- In essence, pre-emptive recovery plans seek to reflect on what scenarios could undermine the stability of an undertaking and what measures would this undertaking take
- This is considered good risk-management practice in all type of undertakings, but...
- ...Proportionality is a key element
- This presentation will provide you with some initial ideas related to EIOPA's work related to pre-emptive recovery plans

2. ON THE CONTENT OF PRE-EMPTIVE RECOVERY PLANS

- **Pre-emptive recovery plans shall contain all of the following:**
 - A summary of the key elements of the plan
 - A description of the undertaking or the group
 - A framework of indicators
 - A description of the governance around the plan
 - A range of remedial actions
 - A communication strategy
 - In case of an actual breach of the SCR in the last 10 years: the recovery plan as well as an assessment of the measures taken

2. ON THE CONTENT OF PRE-EMPTIVE RECOVERY PLANS

- **Credibility and feasibility of the plan shall be assessed:**

- In particular the framework of indicators and the remedial actions
- Against a range of scenarios of severe macroeconomic and financial stress relevant to undertaking's specific conditions
- System-wide events, idiosyncratic stress events and combinations

- **Requirements with respect to the framework of indicators:**

- Qualitative and quantitative indicators that identify the points at which remedial actions should be considered or taken
- Indicators relating to capital, liquidity, asset quality, profitability, market conditions, macro-economic conditions and operational events may be included
- Regular monitoring of the indicators should be in place

3. DETERMINING THE COMPANIES SUBJECT TO RECOVERY PLANS

- **Groups + Insurance and reinsurance undertakings that are not part of a group based on:**
 - Size
 - Business model
 - Risk profile
 - Interconnectedness
 - Substitutability
 - Importance for the economy of the MS in which operate
 - Their cross-border activities, in particular, significant cross-border activities
- **At least 60 % of the Member State's life insurance and reinsurance market and at least 60 % of its non-life insurance and reinsurance market** – the life market share being based on gross technical provisions and the non-life market share being based on gross written premiums

3. DETERMINING THE COMPANIES SUBJECT TO RECOVERY PLANS

- **Small and non-complex insurers** shall **not** be subject to pre-emptive recovery planning, unless supervisory authority considers that such an undertaking represents a particular risk at national or regional level
- Any insurance or reinsurance undertaking which is **subject to a resolution plan** shall be subject to pre-emptive recovery planning requirements
- Supervisors shall review the pre-emptive recovery plans in **9 months**. If deficiencies were found, insurers shall submit a revised plan demonstrating how those deficiencies or impediments are addressed in 2 months (possibility to extend by one month)
- EIOPA shall develop **draft regulatory technical standards** to specify further:
 - the **criteria**, in particular as regards cross-border activity.
 - the **methods** to be used when determining the market shares

4. RELATIONS WITH OTHER PLANS AND ANALYSIS

■ IRRD pre-emptive recovery plans and ORSA

- Both are part of the risk management process
 - ORSA includes an analysis of continuous compliance with capital requirements and should allow for the identification and assessment of future (possible) breaches of the capital requirements
 - Pre-emptive recovery plans should assume a breach/ drop in the capital requirements as a result of a severe stress and identify possible measures to restore financial position where that position has significantly deteriorated
 - Pre-emptive recovery scenarios are wider in nature
- In summary, ORSA can inform pre-emptive recovery plans, but can not replaced them as the starting assumption, the approach and scope are different

4. RELATIONS WITH OTHER PLANS AND ANALYSIS

■ **Pre-emptive recovery plans and Solvency II recovery plans**

Different moments in the crisis flow:

- IRRD pre-emptive recovery plans are drafted in a “business-as-usual” environment
- Solvency II recovery plans are required in case of non-compliance with the SCR

Objective

- IRRD pre-emptive recovery plans seek to identify possible vulnerabilities and analyse the available tools and impact
- Solvency II recovery plans should set out the measures the insurer will take to achieve, within six months from observation of non-compliance with the SCR, the re-establishment of the level of eligible own funds covering the SCR or the reduction of the risk profile to ensure compliance with the SCR

➤ IRRD plans can be expected as a starting point for the Solvency II plan after a breach of SCR

4. RELATIONS WITH OTHER PLANS AND ANALYSIS

■ IRRD Pre-emptive recovery plans and Liquidity Risk Management Plans (LRMPs)

- The LRMP must cover liquidity analysis over the short-term, projecting the incoming and outgoing CFs in relation to the undertakings' assets and liabilities. Supervisory authorities might require longer periods
 - Objective of LRMP is ensuring that undertakings maintain adequate liquidity to settle their financial obligations towards all counterparties when they fall due, even under stressed conditions
 - Liquidity position and needs are important to consider also in pre-emptive recovery planning
 - Depending on the scenario, LRMP can inform the pre-emptive recovery plan helping in the identification of vulnerabilities, the indicators used, or the measures taken
- As stated in recital 21 of the IRRD “Existing tools may be taken into account when preparing such pre-emptive recovery plans, including the own risk and solvency assessment, contingency plans or liquidity risk management plans”

6. Q&AS



Your turn...





THANK YOU!

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