



RESOLUTION PLANNING IN FRANCE

EIOPA's Public Event on recovery and resolution in (re-) insurance
ACPR Resolution Directorate

18 NOVEMBER 2022



1. French recovery and resolution regime – context
2. ACPR experience with preparing pre-emptive resolution plans
3. Resolvability assessment



1. FRENCH RECOVERY AND RESOLUTION REGIME - CONTEXT

- Legislative process:
 - **27 November 2017**: an ordinance passed and entered into force
- Leading grounds for the implementation of an insurance resolution regime in France:
 - Legal security: in 2015, the French Constitutional Court limited the ability of ACPR to transfer insurance portfolios*
 - France is the largest European insurance market
 - ↳ **Need to strike a balance between FSB framework and the necessity:**
 - To maintain a homogeneous competitive level playing field for French undertakings until a European regime is in place
 - To remain compliant with the French legal framework

1. FRENCH RECOVERY AND RESOLUTION REGIME – FOCUS ON RESOLUTION PLANNING

What?

Description of the group and of the strategy mobilizing resolution tools

Idiosyncratic and systemic scenarios

Based on the recovery plan

Cannot rely on exceptional public aid

Who does it concern?

Groups that submit a recovery plan

These groups must provide all necessary information to the Resolution Board

A synthesis of the plan can be shared with the insurer

Resolution planning

To whom are resolution plans submitted?

ACPR's Resolution Board, after consulting the insurance Supervisory Board

Proportionality

Only groups with critical functions* will have a resolution strategy (normal insolvency proceedings for others)

**According to article L. 311-2 of the French insurance code, "critical function" shall mean a person's activities, services or operations matching the following characteristics:*

- they are provided by said entity to unrelated third parties;
- **the inability of said entity to perform them would be likely to have a significant impact on financial stability or on the real economy;**
- said entity's contribution cannot be replaced at a reasonable cost and within a reasonable time.

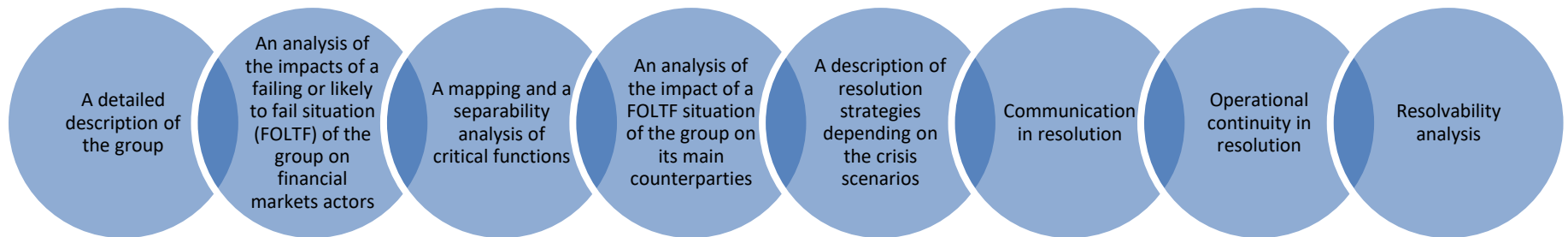


1. FRENCH RECOVERY AND RESOLUTION REGIME – FOCUS ON RESOLUTION PLANNING

- According to the French regime, ACPR shall establish a pre-emptive resolution plan for each of the insurance groups subject to the pre-emptive recovery plan requirement, that is to say for each insurance undertaking of which the total assets exceeds the **EUR 50 billion threshold** (at least once in the last three financial years).
 - according to this threshold, **14 French insurance undertakings** are subject to resolution planning
 - almost 90% of the French insurance market is covered
- In addition, ACPR can also require **other insurance groups to be subject to resolution planning, even if their balance sheet is under the EUR 50 billion threshold**. Indeed, ACPR can assess that some insurers provide critical functions or that their activities would present specific risks in case of disruption, after an adversarial debate between the Supervisory College and the insurer in question (article L. 311-5 of the French insurance code).
 - Since 2022, this has been applied to **two insurance undertakings, in addition to the other 14 mentioned before**.

2. ACPR EXPERIENCE WITH PREPARING PRE-EMPTIVE RESOLUTION PLANS

- At this stage, ACPR has started to develop first plans, which focus mainly on the identification of potential critical functions carried out by the insurance groups on the French market, and on resolution measures and tools aimed at maintaining these functions, when appropriate.
- Preparing resolution plans is a step by step process:
 - In the long run, the plans shall include, according to article. A. 311-4 of the French insurance code:



- Many of those topics require the development of a methodological approach:
 - Critical functions: need to design a methodology to identify critical functions in a harmonised way*
 - Public interest assessment: in order to comply with resolution objectives, entry into resolution must be decided only if normal insolvency proceedings do not meet resolution objectives to the same extent as resolution (article L. 311-18 III. 3 of the French insurance code).
- Some topics require information from the groups concerned: critical functions, interconnections, separability analysis etc.
- Some parts of the plan are mainly based on pre-emptive recovery plans written by the groups (description of the group, crisis scenarios...).

* ➡ [link of the ACPR methodology to identify critical functions of French insurance undertakings: https://acpr.banque-france.fr/sites/default/files/medias/documents/20210226_critical_functions_identification_edit_20-07-2022.pdf](https://acpr.banque-france.fr/sites/default/files/medias/documents/20210226_critical_functions_identification_edit_20-07-2022.pdf)

2. ACPR EXPERIENCE WITH PREPARING PRE-EMPTIVE RESOLUTION PLANS – FOCUS ON CRITICAL FUNCTIONS IDENTIFICATION

- Based on the methodological principles developed by ACPR, **six functions** have been identified as critical by nature, during this first identification exercise:

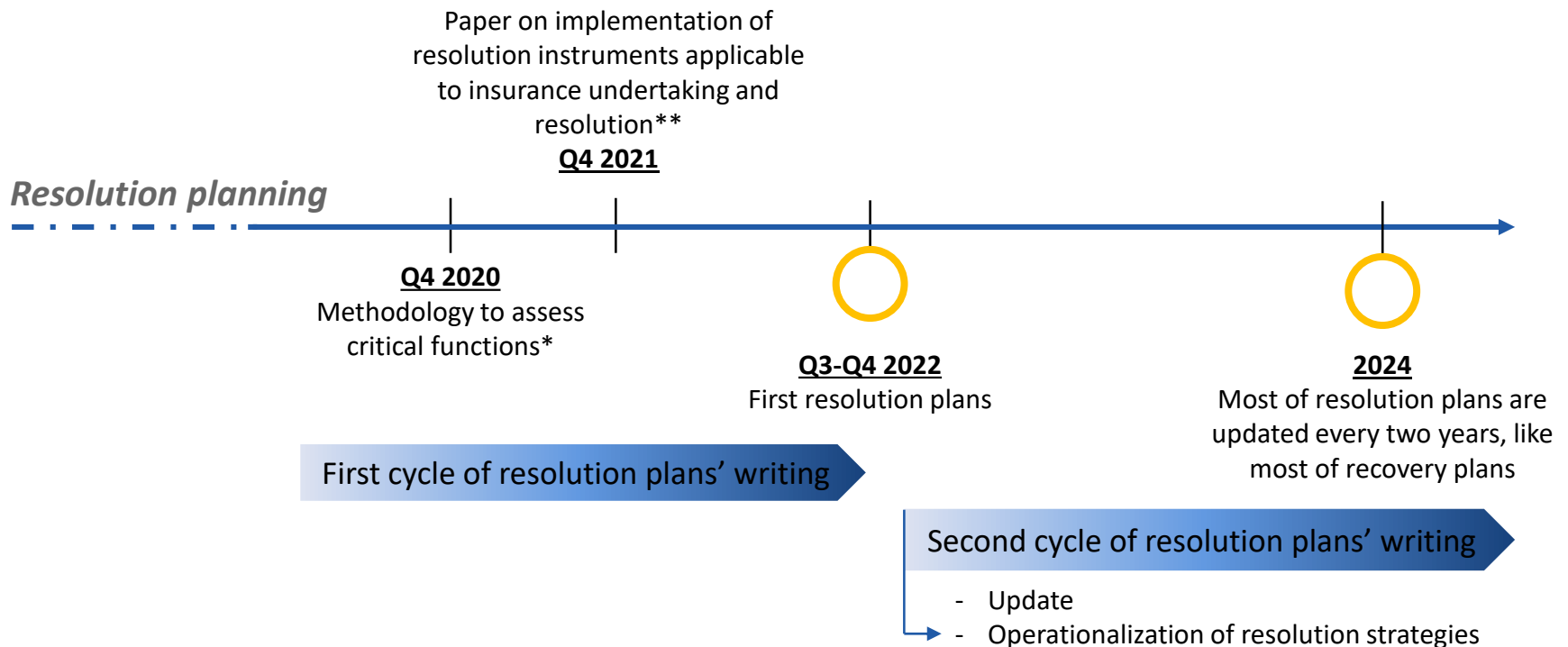
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|---|---|
| <ul style="list-style-type: none"> savings, in euro and unit-linked; motor vehicle including civil liability; | <ul style="list-style-type: none"> medical liability; construction; agricultural insurance; credit insurance. |
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- Example: motor vehicle insurance, including civil liability

Impact/ Breach of protection	Impact/ inability to comply with commitments	Substitutability
<ul style="list-style-type: none"> ➔ Third party liability: compulsory insurance ➔ Inability for policyholders lacking insurance to use their vehicle or company fleet with major repercussions ➔ Large spill over effects (isolation, impacts on companies in the transportation sector etc.) 	<ul style="list-style-type: none"> ➔ High impact for third party liability: very large sums to be paid ➔ For damages: economic difficulties for the policyholder ➔ Large spill over effects (cash flows difficulties, impact on the activity of professional repairers/ garages) 	<ul style="list-style-type: none"> ➔ Concentrated market (top 3 > 40% of market shares) Difficulty for the market to absorb several million customers over a short period of time ➔ Highly competitive market, standard product, relationship entry point

2. ACPR EXPERIENCE WITH PREPARING PRE-EMPTIVE RESOLUTION PLANS

- A step by step implementation

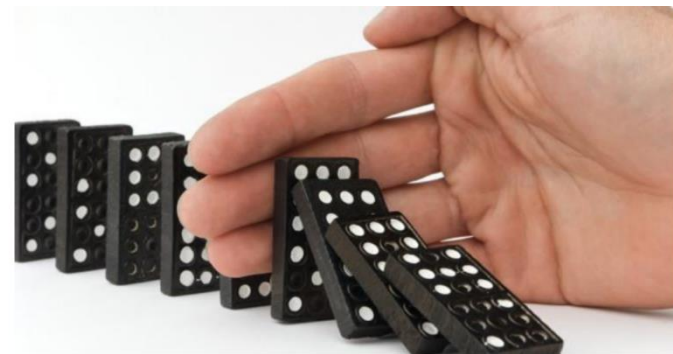


*https://acpr.banque-france.fr/sites/default/files/medias/documents/20210226_critical_functions_identification_edit_20-07-2022.pdf

**https://acpr.banque-france.fr/sites/default/files/medias/documents/20211117_note_instruments_de_resolution_vpublication_en.pdf

2. ACPR EXPERIENCE WITH PREPARING PRE-EMPTIVE RESOLUTION PLANS – KEY CHALLENGES

- Resolution tools operationalization
- Have a good understanding of internal interconnectedness and their consequences in a resolution context
- Large conglomerate business: coordination between the European banking resolution regime and the French insurance resolution regime.
 - ACPR works to ensure consistency between the banking pre-emptive resolution plan and the insurance pre-emptive resolution plan of a same conglomerate. It implies the inclusion of insurance resolution information, interconnectedness with the insurance undertaking in the banking resolution plan, and vice versa.
- Good practices:
 - Exchange practices between resolution authorities
 - Exchange with insurance groups
 - Use a step by step approach



3. RESOLVABILITY ASSESSMENT

- Article A. 311-6 of the French insurance code precisely describes the way ACPR should assess resolvability. **As for example**, ACPR should assess:
 - The existence of transitional procedures and mechanisms in case critical functions are separated from the group;
 - The capacity of information systems to extract exhaustive and reliable data in a timely manner;
 - The contagion risk within a group linked to the existence of risk transfers or intragroup guarantees, etc.
- Provisions regarding potential obstacles found, following a resolvability assessment (article L. 311-11 & 12 of the French insurance code):
 - Take into account the pre-emptive recovery & resolution plans
 - Potential decisions should be taken after supervisory board gave its view and insurer was heard



- Resolvability assessment is a building block of resolution strategies operationalisation. **Therefore, ACPR will perform this assessment in a second phase, after resolution strategies and resolution tools have been clearly defined.**



Thank you for your attention

Any questions?

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