

GUIDELINES

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Guidelines on the range of scenarios in pre-emptive recovery planning

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eiopa

European Insurance and
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GUIDELINES ON THE RANGE OF SCENARIOS IN PRE-EMPTIVE RECOVERY PLANNING

INTRODUCTION

1. In accordance with Article 16 of Regulation (EU) No 1094/2010 (EIOPA Regulation)¹ and with Article 5(11), point (a), of Directive (EU) 2025/1², EIOPA issues these Guidelines, to specify further, in cooperation with the ESRB, the range of scenarios of severe macroeconomic and financial stress relevant to the insurance and reinsurance undertaking's (hereafter: "undertakings") or group's specific conditions when assessing the credibility and feasibility of their pre-emptive recovery plans.
2. These guidelines apply in relation to the range of scenarios referred to in Article 5(7) of Directive (EU) 2025/1 for the purposes of pre-emptive recovery planning.
3. These Guidelines have been developed in line with EIOPA's views for better regulation and supervision³, thereby enhancing supervisory convergence through simpler, more efficient frameworks.
4. In accordance with Article 5(1) of Directive (EU) 2025/1, drawing up, keeping up-to-date and application of pre-emptive recovery plans are considered to be part of the system of governance within the meaning of Article 41 of Directive 2009/138/EC⁴.
5. These Guidelines are addressed to supervisory authorities and financial institutions in accordance with Articles 4(1) and 4(2), point (i) of the EIOPA Regulation.
6. These Guidelines apply from 30 January 2027.
7. If not defined in these Guidelines, the terms have the meaning defined in the legal acts referred to in the introduction.

GUIDELINE 1 – RANGE OF SCENARIOS

8. The range of scenarios of severe macroeconomic and financial stress relevant to the undertaking's or group's specific conditions should ensure coverage of:
 - a. a 'system-wide event', which means an event that risks having serious negative consequences for the financial system and/or the real economy;

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 (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, 2025/1, 8.1.2025).

³ Bolder, Simpler, Faster: EIOPA's views for better regulation and supervision (EIOPA-BoS-25/118), 8 April 2025.

⁴ 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 (Solvency II), (OJ L 335, 17.12.2009, p. 1).

- b. an ‘idiosyncratic stress event’, which means an event that risks having serious negative consequences for a single undertaking, a single group or an undertaking within a group rather than for the financial system and/or the real economy;
 - c. a combination of system-wide and idiosyncratic stress events which occur simultaneously.
9. The complexity and features of the scenarios as well as the level of detail, should be commensurate with the factors and principles of proportionality referred to in third subparagraph of Article 1(1) of the Directive (EU) 2025/1.
10. The range of scenarios should indicate whether the events included are:
- a. ‘slow-moving’ which involve a gradual decline in the financial position of the undertaking or group, often due to ongoing internal issues or external market conditions, which may result in a slow deterioration in own funds. Such events could include a prolonged economic recession, gradual decline on certain economic sectors or a prolonged inflationary period. Undertakings and groups should consider whether these events are relevant to the undertaking’s or group’s business model; and
 - b. ‘fast-moving’ which involve sudden, unexpected events that may have a significant impact on the financial position of the undertaking. Such events could include a sudden default by a major counterparty, a natural catastrophe, pandemics, major cyberattack or a sudden crash in markets.

GUIDELINE 2 – DESIGN PRINCIPLES FOR THE RANGE OF SCENARIOS

11. Scenarios used for pre-emptive recovery planning should meet the conditions set out in these Guidelines. While Own Risk and Solvency Assessment (ORSA) scenarios can be used as a starting point, they may need to be adapted, for example to be broader or more severe, due to the different approach and scope of pre-emptive recovery planning. Reverse stress test scenarios in ORSA may also be used provided they meet the required conditions for pre-emptive recovery planning.
12. Undertakings and groups may, where appropriate, use existing tools and analyses⁵ when defining the range of scenarios provided that the selected scenarios meet the conditions set out in these Guidelines.
13. Each scenario should be designed as follows:
- a. the scenario should be based on severe macroeconomic and financial stress events that are most relevant to the undertaking or group concerned, taking into account, among other relevant factors, its size, business model, risk profile, interconnectedness, structure, and, in particular, any identified vulnerabilities or weaknesses of the undertaking or group;
 - b. the events foreseen in the scenario threaten the viability of the undertaking or group, unless remedial actions were implemented in a timely manner;

⁵ These include EIOPA insurance stress tests, ESG or climate-related stress tests, risk analyses and dashboards produced by European Supervisory Authorities (ESAs).

- c. the scenario should be based on events that are plausible, provided that they are severe enough to materially impair the financial position of the undertaking, such as leading to the position where the capital regulatory requirements of the undertaking or group are breached or likely to be breached unless the remedial actions were successfully implemented.
14. The range of scenarios should assess the ability of the undertaking or group to withstand severe conditions, and events or scenarios should not be ruled out on the assumption that they are considered unlikely, regardless of their low probability of occurrence or a lack of prior occurrence.
15. In case of groups, consideration should be given to their special features, including intra-group interconnectedness. For the choice of scenarios and of remedial actions it may also be important to understand the potential sequence of defaults within the group by analysing how losses propagate through the group via ownership relations and in case of default of intra-group financing arrangements.
16. Macro-economic scenarios should be applied to legal entities within the group that fall under the scope of recovery planning under Directive (EU) 2025/1 to assess the group's common exposures to risk and interdependencies.
17. Each scenario should include a quantitative assessment of the impact of the events, at a minimum, on the solvency position, liquidity and profitability and, where relevant, on the operational capability of the undertaking or group. The impact of events should be clearly reflected in the framework of indicators and inform the proposed remedial actions as needed.
18. The range of scenarios should cover a reasonable period which should reflect the size, risk profile and business model of the undertaking or group. In particular, the scenarios could range across short-, medium-, and long-term horizons or even extend over multiple periods where risks evolve over several stages.
19. When designing scenarios, undertakings should take into account the timing and sequencing of impacts, including the expected timing of breaches of indicators as well as the timing when remedial actions become effective.

GUIDELINE 3 – SYSTEM-WIDE EVENTS

20. In designing scenarios based on system-wide events, undertakings and groups should take into consideration whether to include the following system-wide events:
 - a. exposure to common shocks affecting a significant share of the national market, such as significant changes in the interest rate environment, including effect on equity markets and credit spreads;
 - b. a macroeconomic downturn, such as those due to geopolitical risks, natural catastrophic events climate-related events or pandemics;
 - c. financial distress caused by geopolitical tensions affecting in particular a significant country of operation of the undertaking or the group;
 - d. the failure of significant counterparties affecting financial stability;
 - e. adverse movements in the price of assets in one or several markets;
 - f. regulatory risk resulting from changes in laws or regulations, in particular where they severely disrupt the business model of the undertaking or the group

GUIDELINE 4 – IDIOSYNCRATIC STRESS EVENTS

21. In designing scenarios based on idiosyncratic stress events, undertakings and groups should take into consideration whether to include the following idiosyncratic stress events:
- a. severe underwriting losses and/or under-reserving;
 - b. adverse movements in the prices of assets to which the undertaking or group is predominantly exposed;
 - c. severe liquidity outflows of liquidity, including but not limited to, margin calls, sharp increase of lapses, material claims;
 - d. the failure of significant counterparties;
 - e. a severe operational risk loss, including fraud and cyber attack;
 - f. legal risk particularly resulting from the failure to comply with laws or regulations or other contractual obligations severely impacting the undertaking or group.

GUIDELINE 5 – COMBINATION OF SYSTEM-WIDE AND IDIOSYNCRATIC STRESS EVENTS

22. In designing scenarios based on a combination of system-wide and idiosyncratic stress events, undertakings and groups should take into consideration whether to include the events laid down in Guidelines 3 and 4⁶.

COMPLIANCE AND REPORTING RULES

23. 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.
24. Competent authorities that comply or intend to comply with these Guidelines should incorporate them into their regulatory or supervisory framework in an appropriate manner.
25. 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.
26. 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 REVIEW

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

⁶ Possible combinations of scenarios are:

- Geopolitical crisis + operational risk event (including cyber attack)
- Global/Regional financial crisis + Reinsurance counterparty default