

# LRMP consultation

November 2024



# Topics

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*Disclaimer: the following slides only provide a preliminary view of the CFO and CRO Forum for the purpose of the EIOPA workshop and is based on our current understanding of the draft RTS.*

# General observations

- **New Article 144a of Solvency II Directive:**

- Requires insurance undertakings to maintain a **Liquidity Risk Management Plan (LRMP)**
- The LRMP should cover **liquidity analysis** over the short term (mandatory) and medium/long term (if requested)
- The LRMP is intended to be a plan outlining principles, processes, governance and minimal data aligned with company practice for the purpose of understanding how it manages liquidity risk. It should not be a strictly standardized report of specific numbers, the latter is more the execution of the plan

- **Emphasis on flexibility:**

- Flexibility is critical to allow insurers to align their LRMP with their risk profiles and internal governance structures
- The flexibility is evident also according to 144a(5) where - for companies applying the MA or the VA - the new LRMP could be combined with the **existing liquidity plan** already set-up by those companies

- **Avoiding standardized reporting:**

- The industry highlights the need to prevent rigid frameworks like EIOPA's liquidity monitoring templates, which is a separate process
- The current way the proposals are structured with extensive splits to *available and required liquidity sources* in multiple sources is not desired since this will already be very close to prescribing templates instead of keeping it principles based
- LRMPs should support strategic liquidity management, not become an administrative reporting burden

# Time horizon

- **Threshold for Medium/Long-Term LRMP:**

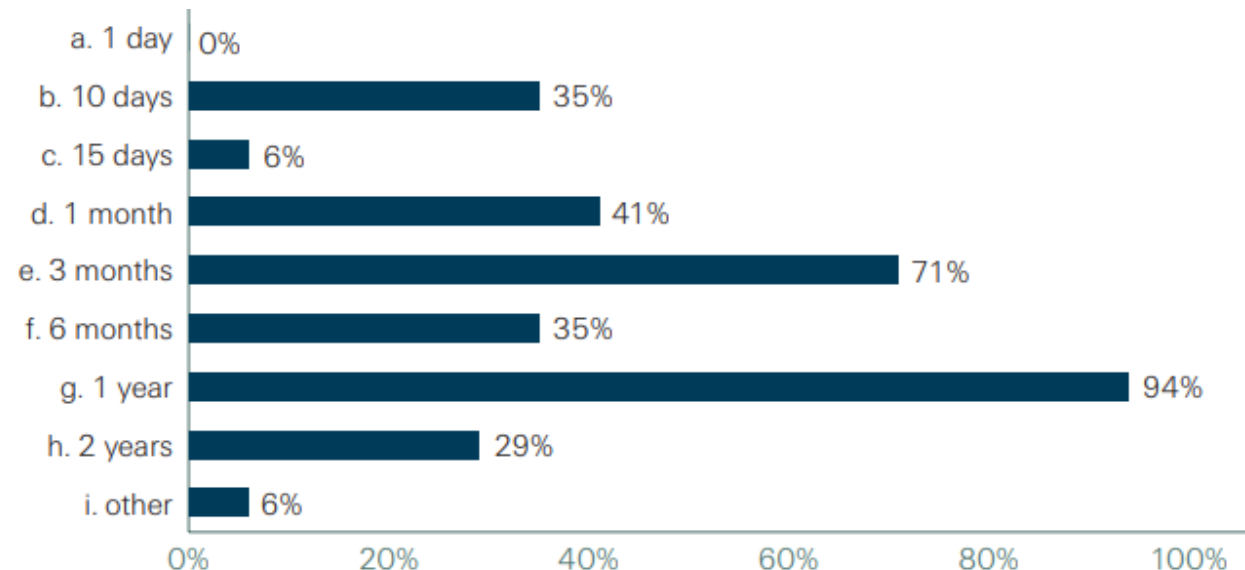
- Noted that the total assets amount to 12bn, which suggests that **many insurers will be involved**
- This should apply at both solo and group levels, but if a group-level LRMP exists, solo entities within the group (even those exceeding the 12bn) are not obligated to create separate plans as per Art.246a

- **Alignment on time horizon definitions:**

- EIOPA's definition align with industry standards i.e. Short-term *of up 3 months* while Medium/Long-term *from 3 months to 1 year*

- Flexibility is essential to accommodate the various time horizons used by groups as per the following graph:

Answers provided question:  
Which time horizons are used to  
assess liquidity risk/coverage?



Source: CRO Forum working group survey conducted in early 2019

# Group vs solo

- **Operational models:**

- Insurers may manage liquidity at the solo entity level or adopt a centralized group approach
- EIOPA in its RTS emphasizes solo-level LRMPs but Solvency II (Art. 246a) provides for the **exemption** of LRMPs at solo level if the entities are in the scope of group supervision
- Flexibility is essential to accommodate **different operational models** without imposing unnecessary burdens e.g. if liquidity is managed at solo level, there is no need or benefit for artificial group consolidation

- **Avoiding Standardized Reporting:**

- LRMPs should support strategic liquidity management of solo/groups and not become an administrative reporting burden
- The governance structures of insurers should be respected, avoiding duplication of requirements
- Existing reporting structures and processes should be relied on rather than duplicating liquidity reporting via the LRMP
- Insurers and supervisors can agree on a process to inform the supervisor on the outcomes of the liquidity analysis

# Frequency and content

- **Excessive frequency for updates:**

- **Quarterly updates** for short-term analysis are **disproportionate** given the stable liquidity profile of most insurers
- Even in the case of an insurer with material liquidity risks (Art 144b), the measures taken by supervisory authorities shall be reviewed at least every **six months**
- Frequency should be aligned with actual liquidity risk (e.g. annual or multi-annual updates) unless significant changes arise

- **Content:**

- The level of granularity should be balanced to avoid unnecessary administrative burdens and to avoid prescription of metrics
- LRMPs should serve as **strategic tools** for governance rather than mere compliance documents
- The plans should outline **principles and processes** for managing liquidity risk, with flexibility to adapt to changing circumstances

# CROF/CFOF recommendations

- **Focus on governance:**

- Treat LRMPs as strategic tools (policies) rather than operational reports and allow insurers and their supervisors agree a suitable approach to share the results of the liquidity reporting
- Clearly differentiate between solo and group-level obligations to avoid conflicting interpretations and respect different approaches of insurers due to e.g., different business profiles or group structures
- Allow insurers to tailor LRMPs and subsequent reporting processes to their risk profiles, reducing administrative burden while maintaining regulatory objectives
- Avoid imposing uniform quarterly updates