

DRAFT RTS ON LIQUIDITY RISK MANAGEMENT PLANS

Workshop on new technical standards

27 November 2024

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Changes to the Solvency II Directive

- The Solvency II review will introduce the requirement for undertakings and groups to have liquidity risk management plans
 - ✓ Aim is to ensure that undertakings maintain adequate liquidity to settle their financial obligations towards policy holders and other counterparties when they fall due, even under stressed conditions
 - ✓ Liquidity risk management plan should cover liquidity analysis, projecting the incoming and outgoing cash flows in relation to their assets and liabilities
 - ✓ Undertakings should develop and keep up to date a set of liquidity risk indicators to identify, monitor and address potential liquidity stress

Mandate for technical standards

EIOPA is mandated to develop draft RTS that specify:

- Criteria for defining which undertakings/groups should have plans with medium/long-term horizon
- Content and frequency of update of the plans
- Content and frequency of update of the plans at group level

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Consultation proposal for technical standards

Principle-based and proportionate approach

- Balance between a consistent application and recognising the heterogeneity of business models and liquidity risk exposures
- Undertakings should report their own assessment of liquidity risk in the liquidity risk management plan, in line with existing risk-management requirements in Solvency II
- Small and non-complex undertakings (SNCUs) and non-SNCUs which obtained prior supervisory approval do not have to draw up a liquidity risk management plan
 - ✓ EIOPA to provide separate advice to the European Commission on conditions for exempting non-SNCUs

Criteria for doing medium- and long-term liquidity analysis

- Assets exceeding EUR 12 bn
- Opt-out if risk exposure is not material, opt-in if risk exposure is material
- Exposure to liquidity risk over medium and long term, considering insurable events, policyholder behaviour, asset structure/composition, counterparty risk and economic and market developments

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Consultation proposal for technical standards (continued)

Content and frequency of update of liquidity risk management plans

- Definition of short-term analysis (time horizon < 3 months) and medium- and long-term analysis (time horizon at least 1 year)
- Structure and minimum information requirements:
 - (i) assumptions underlying projections
 - (ii) results of cash flows projections
 - (iii) buffers of liquid assets
 - (iv) liquidity risk indicators
 - (v) overall assessment
- Frequency of update: short-term analysis at least every three months, medium- and long-term analysis at least every year

Content and frequency of update of liquidity risk management plans at group level

- Same as at solo level, but additional information on risk concentrations, intra-group transactions and restrictions on liquidity transferability

THANK YOU!