

To: Economics and Finance Committee

From: ECOFIN Team

Meeting: 7 December 2018

Reference: ECO-18-110

Subject: Recovery and Resolution

## Objective

For discussion

## Input requested

- Participants will be given an opportunity to share any concerns on the topic of recovery and resolution/insurance guarantee schemes.
- Participants will be invited to share their views on the IAIS consultation on a Draft Application Paper on Recovery Planning and to recommend key messages for Insurance Europe's response.

## Background

### **Insurance Europe response to EIOPA's consultation on Insurance Guarantee Schemes (IGS)**

On 26 October, Insurance Europe responded to EIOPA's consultation on resolution funding and national IGS (See ECO-18-094).

The main message in the response is that it is premature to elaborate EU-level rules concerning insurance guarantee schemes (IGS) in the absence of a consistent application of the Solvency II framework at national competent authority (NCA) level. Solvency II has been in force for less than three years and more time is needed before conclusions can be drawn which may result in substantial changes. Rather than considering new rules for IGS, existing tools and powers should be fully used and resources adequately assigned towards their proper enforcement. In Insurance Europe's view, this would constitute a pragmatic approach.

Therefore, Insurance Europe strongly supported maintaining the status quo and emphasised that any substantial discussion on IGS requires an efficient and sustainable supervision of Freedom of Service / Freedom of Establishment (FoS / FoE) as a precondition. In order to satisfy the fundamental principles of proportionality and subsidiarity, the establishment, functioning and funding of IGS have to be left to the discretion of member states. Any further work at European level should be outcome oriented and abstain from harmonising, for example, the organisation or funding of IGS.

While Insurance Europe strongly supports maintaining the status quo, it has responded to the questions in the discussion paper that relate to minimum harmonisation in order to highlight particular concerns and views. Insurance Europe said that national authorities should be allowed significant flexibility to choose the features that best suit their market, to reflect that there are important differences between member states regarding social welfare systems, winding-up process for insurers and insurance product lines.

Next steps: EIOPA is expected to publish its opinion on IGS in the first half of 2019. The current Commission is not planning any work on IGS by the end of its mandate next year. At EIOPA's seminar on recovery and resolution that took place in Amsterdam in October, the EC re-confirmed this and also said that, while there was good work done by EIOPA on this topic, the case for harmonisation is not clear to them yet, even though it was obvious that cross-border cooperation should be improved.

### **IAIS Application Paper on Recovery Planning**

On 12 November, the IAIS launched [a consultation](#) on its Draft Application Paper on Recovery Planning. Comments are invited by the IAIS before 7 January 2019. Feedback received by this deadline will enable the IAIS to further develop the paper for finalisation.

Under IAIS procedures, an Application Paper can provide additional material related to one or more ICPs that help with practical application of ICPs, but an Application Paper is not binding and does not establish new standards. Application Papers can provide examples of good practices, as well as further advice and recommendations on how ICPs may be implemented.

This application paper aims to provide guidance with respect to draft supervisory material related to recovery planning in the ICPs (primarily ICP 16.3) and ComFrame. The IAIS Glossary defines "recovery plan" as a plan that identifies in advance options to restore financial strength and viability if the insurer comes under severe stress.

The paper addresses issues that were identified in the development of previous IAIS supervisory material, including feedback received from members and stakeholders during public consultations. The main issues addressed include:

- The relationship between recovery plans and enterprise risk management (ERM) tools, including Own Risk and Solvency Assessment (ORSA), contingency plans and other preventive or corrective measures;
- The circumstances in which it is appropriate for the supervisor to require a recovery plan; and
- Implementing the proportionality principle with respect to a recovery plan.

The secretariat has launched the internal consultation process in view of responding to the IAIS' consultation document (ECO-IAR-18-156).