

Any views provided in this presentation are tentative views at working group level and should not be understood as EIOPA positions.



Call for Advice items

3.10 Macroprudential issues

3.11 Recovery and resolution

3.12 Insurance guarantee schemes

EIOPA-RFSD-19/031

Workshop on the 2020 review of Solvency II

Frankfurt, 6 June 2019

- COM's **Call for Advice** includes a request on
 - CfA 3.10 Macroprudential issue
 - CfA 3.11 Recovery and resolution
 - CfA 3.12 IGSs
- EIOPA will incorporate the three items in the response to the Call for Advice (i.e. EIOPA's **Solvency II Opinion**)
- **Next steps:**
 - Consultation of CfA 3.12 during summer
 - Consultation of CfAs 3.10 and 3.11 as part of the general Solvency II Opinion consultation in Q4 2019

Macroprudential issues

- Extensive discussion in the banking sector
- Debate **slowly spreading over** to the non-banking sector, including insurance
 - ✓ The debate is useful and necessary
 - ✓ Not much work (research, policy papers, etc.) available
- EIOPA seeks to ensure that **the debate takes into account insurance specific features**
 - ✓ Business model
 - ✓ Specific risks
- A **sequential approach** was followed

1) Does insurance create or amplify systemic risk?

Topic 1 : Systemic risk and macroprudential policy in insurance

2) What tools are already in place?

Topic 2: Solvency II tools with macroprudential impact

3) Are other tools needed?

Topic 3: Assessment of other potential tools

1) Does insurance create or amplify systemic risk?

Conclusion 1 - Insurance sector can create and/or amplify systemic risk under certain circumstances

	Sources of systemic risk	Operational objectives
Entity-based sources	<ul style="list-style-type: none"> ➤ Deterioration of the solvency position leading to: <ul style="list-style-type: none"> • Failure of a G-SII, D-SII • Collective failures of non-systemically important institutions as a result of exposures to common shocks 	<ul style="list-style-type: none"> ➤ Ensure sufficient loss-absorbency capacity and reserving
Activity-based sources	<ul style="list-style-type: none"> ➤ Involvement in certain activities or products with greater potential to pose systemic risk ➤ Potentially dangerous interconnections 	<ul style="list-style-type: none"> ➤ Discourage excessive involvement in certain products and activities
Behaviour-based sources	<ul style="list-style-type: none"> ➤ Collective behaviour by insurers that may exacerbate market price movements (e.g. fire-sales or herding behaviour) ➤ Excessive risk-taking by insurance companies (e.g. 'search for yield' and the 'too-big-too fail' problem) ➤ Excessive concentrations ➤ Inappropriate exposures on the liabilities side (e.g. as a result of competitive dynamics) 	<ul style="list-style-type: none"> ➤ Discourage excessive levels of direct and indirect exposure concentrations ➤ Limit procyclicality ➤ Discourage risky behaviour

2) What tools are already in place?

Conclusion 2 - Solvency II is not a macroprudential framework, but has some macroprudential impact

- The design of the framework itself
- The elements whose impact is indirect
- The elements with direct macroprudential impact

Tools	Sources of systemic risk	Operational objectives
<ul style="list-style-type: none">➤ Symmetric adjustment➤ Volatility adjustment➤ Matching adjustment➤ Extension of the RP➤ Transitional measure on TP	<ul style="list-style-type: none">• Collective behaviour by insurers that may exacerbate market price movements	<ul style="list-style-type: none">• Limit procyclicality
<ul style="list-style-type: none">➤ Prohibit or restrict certain types of financial activities(*)	<ul style="list-style-type: none">• Involvement in certain activities or products with greater potential to pose systemic risk• Excessive risk-taking by insurance companies	<ul style="list-style-type: none">• Discouraging excessive involvement in certain products and activities• Discourage risky behaviours

(*) This tool is not within Solvency II, but is inline with its spirit and scope

3) Are other tools are needed?

Conclusion 3 - Given, however, that not all the sources of systemic risks are covered, there is room for potential new instruments to address these gaps

✓ Identification of potential new instruments/measures

- Capital and reserving
- Liquidity tools
- Exposure tools
- Pre-emptive planning



- Enhanced monitoring and reporting
- Intervention powers

✓ Description of each tool and maps them with sources of systemic risk identified

✓ Consideration of the interaction of instruments with Solvency II

✓ Preliminary analysis and conclusion

3) Are other tools are needed?

Tool	Type of tool	Proposed for further consideration?
Enhanced reporting and monitoring		
Leverage ratio	Capital and reserving-based	Yes
Enhanced monitoring against market-wide under-reserving	Capital and reserving-based	Yes
Additional reporting on liquidity risk	Liquidity-based	Yes
Liquidity risk ratios	Liquidity-based	Yes
Enhancement of Prudent Person Principle (PPP)	Exposure-based	Yes
Enhancement of own risk and solvency assessment (ORSA)	Exposure-based	Yes
Recovery plans	Pre-emptive planning	Yes
Resolution plans	Pre-emptive planning	Yes
Liquidity Risk Management Plans (LRMP)	Pre-emptive planning	Yes
Systemic Risk Management Plan (SRMP)	Pre-emptive planning	Yes
Intervention powers		
Counter-cyclical capital buffer	Capital and reserving-based	No
Capital surcharge for systemic risk	Capital and reserving-based	Yes
Liquidity requirements	Liquidity-based	No
Temporary freeze on redemption rights	Liquidity-based	Yes
Concentration thresholds	Exposure-based	Yes

A Discussion paper was published

ESRB does not rule out

Overview

- Launched on 29 March 2019
- Based on the three published papers
- Focus in particular on all tools classified “for further consideration” in Topic 3
- 13 Stakeholders replied during apply
 - Mainly insurers and insurers associations
- Feedback is being analysed
- **This should not be interpreted as a formal proposal!**

Some relevant comments



General comments

- ❖ Only COM's Call for Advice tools should be considered
 - Need to have a holistic approach for a macroprudential framework
- ❖ Need to have consistence between ESRB and IAIS approaches
 - EIOPA participates in all relevant fora and takes into account the discussion...but an own stance is needed
 - Broadly, same conclusions reached
- ❖ Limited evidence of systemic risk in the insurance (re)sector
 - The potential systemic risk originating from the insurance sector is less prominent, but it could indeed materialise
 - Conclusion fully in line with ESRB, IAIS or IMF

Some relevant comments



Solvency II tools with macroprudential impact

- ❖ Solvency II is already a comprehensive framework
 - EIOPA has considered main elements already existing in the framework
 - The macroprudential framework should supplement not duplicate Solvency II

- ❖ Integrate macroprudential tools in the current prudential supervisory tools instead of adding new tools
 - Approach followed to the extent possible

- ❖ Need to assess potential changes and flaws of LTG measures
 - A dedicated work stream is looking into potential improvements in LGT measures

Some relevant comments



General comments on the tools

- ❖ Work still needs to be done before including macro in Solvency II
 - “Principles” vs “operational challenges”
- ❖ Clear triggers for the activation of the different tools are needed
 - Triggers cannot be too prescriptive. Flexibility needed
 - However, need to have consistent application throughout the EU
- ❖ Proportionality is a fundamental principle
 - EIOPA fully agrees. This should be one of the overarching principles
- ❖ The suggested measures should not distort global competition
 - EIOPA fully agrees, but...
 - In addition to global consistency, also sectoral consistency is needed

Way forward



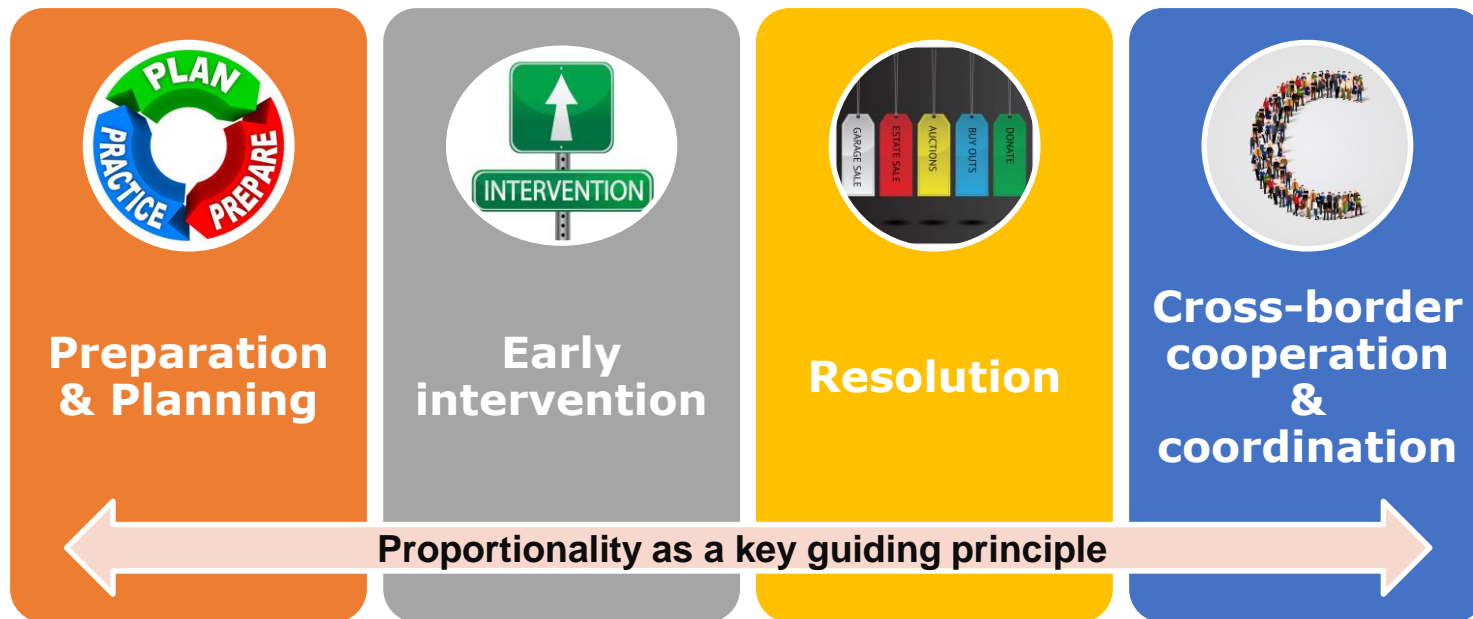
Tool	Observations
Enhance reporting on liquidity risk and potential market-wide underreserving	<ul style="list-style-type: none"> ➤ Part of the general consultation
Monitoring tools such as leverage ratio or liquidity risk ratio	<ul style="list-style-type: none"> ➤ No specific proposal in the macroprudential section
Capital surcharge for systemic risk	<ul style="list-style-type: none"> ➤ May be interesting as a discretionary measure where duly justified (not as a default measure) ➤ Proportionality would be key
Concentration thresholds	<ul style="list-style-type: none"> ➤ Concentrations, <i>per se</i> do not point at a risk to financial stability. No automatic triggers ➤ "Soft" tools may be a useful supplement in certain cases where NSAs deem it necessary
Expansion of ORSA and Prudent Person Principle	<ul style="list-style-type: none"> ➤ Macroprudential concerns should also be considered, if not done already ➤ It should not lead to a prescriptive ORSA
Temporary freeze on redemption rights	<ul style="list-style-type: none"> ➤ May be useful in "exceptional circumstances"
Pre-emptive planning	<ul style="list-style-type: none"> ➤ Proportionality is key, particular on the scope

- **General question:** What are your views on EIOPA's macroprudential approach and the need to supplement Solvency II?
- **Capital surcharge:** Which overarching principles should guide the use of this tool?
- **Concentration thresholds:** What should be taken into account when defining the "soft" threshold and what should be the consequence of an excessive risk based on it?
- **Expansion of ORSA and PPP:** What should be taken into account to expand these tools to take into account macroprudential concerns without being prescriptive?
- **Temporary freeze on redemption rights:** In which scenario ("exceptional situation") could this tool be activated?
- **Pre-emptive plans:** In your view, what should be the scope for each of the plans?

Recovery and Resolution

- EIOPA **published an Opinion** addressed to the EU Institutions in July 2017
 - ✓ Prior to the Opinion, EIOPA gathered the feedback from stakeholders via a Discussion Paper on recovery and resolution
- EIOPA concluded there is a need for a **minimum degree of harmonisation** at the EU level
 - ✓ Ensures a comprehensive and effective framework across all Member States
 - ✓ Facilitates cross-border cooperation and coordination
 - ✓ Enhanced protection of policyholders
 - ✓ Contribution to financial stability and internal market

- EIOPA proposed the following **building blocks** for a harmonised recovery and resolution framework



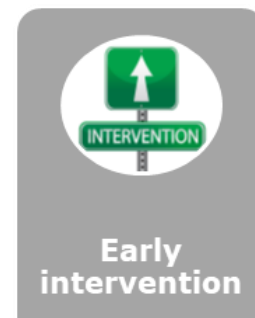
Preparation and planning

- Pre-emptive recovery planning by (re)insurers
- Resolution planning by NSAs/resolution authorities
- Scope includes in principle all (re)insurers subject to Solvency II
- But proportionality is key
 - ✓ Power to **waive (re)insurers** based on eligibility criteria
 - ✓ **Simplified obligations**
 - ✓ Scope resolution planning likely to be **smaller** than recovery planning



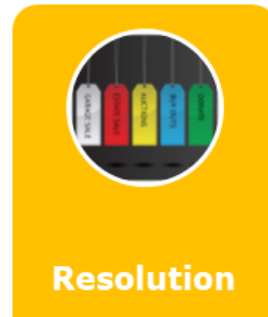
Early intervention

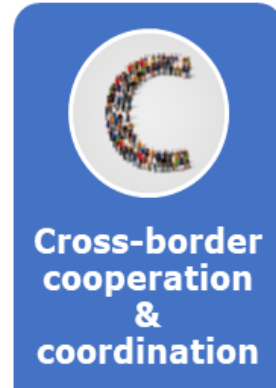
- **Convergence** of supervisory practices by common set of early intervention powers
 - ✓ Solvency II prescriptive about actions in case of non-compliance with SCR
 - ✓ Alignment with supervisory framework (Article 136 SII)
- Exercise of powers at **an early stage** when deterioration of financial conditions, i.e. before the breach of the SCR
 - ✓ **No hard triggers** for early intervention



Resolution

- Common set of **triggers** for entry into resolution
 - ✓ Point of non-viability
- Broad set of resolution **powers**
 - ✓ Transfer powers without prior consent;
 - ✓ Power to stay the rights on financial/reinsurance contracts;
 - ✓ Power to restructure liabilities
- Exercise of powers subject to strong **safeguards** (e.g. NCWOL)





Cross-border cooperation and coordination

- Establishment of **arrangements** for cooperation and coordination for crisis situations (e.g. CMGs)
 - ✓ Proportionality as well confidentiality are key principles

- **General question:** What are your thoughts on EIOPA's views on the core elements of recovery and resolution?
- **Pre-emptive plans:** Do you agree that the scope for resolution planning should be smaller than that of recovery planning?
- **Early intervention:** How to define proper consideration for early intervention without introducing hard intervention triggers?
- **Resolution:** How to define the point of non-viability?

Insurance Guarantee Schemes

- **Publication** of a “[Discussion paper](#) on Resolution funding and national insurance guarantee schemes” in July 2018
- **Feedback received**
 - ✓ 39 responses. Mainly industry (associations) expressed their views against harmonisation of IGSs
 - ✓ Other stakeholders argued that a minimum degree of harmonisation is needed in the interest of policyholders and financial stability
 - ✓ All stakeholders agreed that a single EU-wide IGS is out of scope
 - ✓ Diverging views regarding the potential elements for harmonisation (e.g. scope, funding, function)
- **Work ongoing** on Call for Advice on this topic

Harmonised principles



- Every Member State should have an IGS in place which is **sufficiently harmonised and adequately funded**
 - ✓ More even protection of policyholders
 - ✓ Facilitates cross-border cooperation and coordination
 - ✓ Minimises reliance on public funds by involving industry
 - ✓ Member State flexibility with respect to legal structure/set-up of schemes (i.e. a separate IGS or similar mechanism)
- Harmonisation of national IGSs should **not be regarded in isolation**
 - ✓ In the context of recovery and resolution
 - ✓ Supervisory convergence should be continued

Harmonised principles



Role and functioning

- IGSs should be set up with the **primary aim to protect policyholders**. This can be achieved by:
 - ✓ Paying compensation swiftly to policyholders for their losses when an insurer becomes insolvent; and/or
 - ✓ Ensuring the continuation of insurance policies

Geographical coverage

- National IGSs should be harmonised on the basis of the **home-country principle**
 - ✓ In accordance with the home-country control principle applied in supervision

Harmonised principles



Eligible policies

- IGSs should cover a specific **range of life policies and non-life policies**
 - ✓ Policies where the failure of an insurer could lead to considerable financial or social hardship for policyholders;
 - ✓ Lines of business with a high market share in cross-border business in Europe

Eligible claimants

- IGSs should cover **natural persons and micro- and small-sized legal entities**
 - ✓ Restrictions for connected (natural and legal) persons

Harmonised principles



Coverage level

- IGSs should have a **minimum harmonised coverage level**
 - ✓ Policyholders and beneficiaries should not be exposed to considerable financial or social hardship, while bearing in mind the cost of funding of IGSs

Funding

- IGSs have **adequate funding systems** in place
 - ✓ Available financial means of IGSs should be proportionate to estimated liabilities;
 - ✓ IGSs should be **ex-ante funded**, if needed complemented by ex-post funding;
 - ✓ Appropriate target level to be further defined;
 - ✓ Upper limits to annual contributions into IGSs.

Harmonised principles



Disclosure

- Requirements for **adequate, clear and comprehensive** disclosure to consumers
 - ✓ In accordance with PRIIPs Regulation

Cross-border cooperation and coordination

- Cross-border cooperation and coordination **arrangements between national IGSs**

Review clause

- A review clause to **assess the adequacy** of the European network of harmonised national IGSs

- **General question:** What are your thoughts on EIOPA's views on the harmonised principles for IGSs?
- **Role of IGSs:** Do you agree that the primary objective of an IGS can be achieved by paying compensation and/or ensuring continuation of policies?
- **Geographical scope:** What aspects are relevant to be taken into consideration for the effective implementation of the home-country principle?
- **Eligible policies:** Do you believe that the criteria for selecting the eligible policies capture all relevant policies which should be subject to IGS protection?
- **Coverage level:** What should be the relevant criteria to determine a minimum coverage level at EU level for different types of insurances?
- **Funding:** What should be the relevant criteria to determine the target level for national IGSs?



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Thank you for your attention!
