IRRD: Addressing the key implementation issues

Practical solutions for a simpler, more effective framework

IRRD – What are its objectives?

Why have the IRRD?

- The Insurance Recovery and Resolution Directive (IRRD) aims to achieve minimum harmonisation in the treatment of failing insurers across the EU, drawing on the FSB Key Attributes of Effective Resolution Regimes.
- The key objectives of the IRRD are:

Improving policyholder protection

Maintaining financial stability and market discipline

Promoting orderly resolution of companies

Continuation of critical functions

Preventing use of public funds

- The insurance industry supports these objectives as important to the smooth functioning of the insurance sector: however, any regulatory and supervisory measures taken should be proportionate to the risks.

IRRD – What is it?

Main features of the Directive

Pre-emptive recovery plans	Companies covering at least 60% of the market in each Member State must draw up plans to restore financial health under stress. These should include scenario analyses and a list of indicators to identify when remedial action may be needed.
Resolution authorities	Each Member State must nominate a resolution authority to oversee the implementation of IRRD. Resolution authorities have resolution powers (e.g. write-downs, bridge institutions) and the right to remove perceived impediments to resolution.
Resolution planning and tools	Resolution authorities must create resolution plans for companies covering at least 40% of the market in each Member State.

IRRD – Why do we need to stop the clock?

A pause to assess what is truly needed to meet objectives

Costs vs benefits

- Wide-ranging requirements require significant resource from undertakings and supervisors.
- Essential to carry out a full cost-benefit analysis to ensure additional burden is justified given wider simplification agenda.

Limited levels of systemic risk

- EIOPA notes “a broad agreement that traditional insurance activities [do not] contribute to systemic risk”.
- The limited level of risk is already addressed by the comprehensive Solvency II regime: extensive recovery and resolution requirements beyond this do not bring significant benefits.

Scope beyond international standards

- EU proposals go beyond the FSB’s Key Attributes for Resolution.
- Internationally, volumes of regulation are lower, risk-based assessments are used rather than minimum market thresholds, and regular reporting is rare.

Challenging timelines

- A ‘big bang” implementation in early 2027 does not allow time for an iterative process.
- The clash with the Solvency II review implementation increases resource pressure for both companies and supervisory and resolution authorities.

IRRD – Solving the key issues

How do we fix the key issues with IRRD as it stands?

Reduce reporting

Only requesting truly necessary data reduces costs for undertakings and supervisors that are eventually borne by policyholders.

Rationalise timeline

A phased approach removes the clash with Solvency II review implementation and allows time for iterative dialogue and development of robust processes.

Allow re-use of existing work

To minimise duplication of effort, it is crucial that undertakings can re-use analyses carried out within the existing comprehensive risk-management framework.

Reduce burden from resolvability assessments

Resolution authorities should have greater discretion over the scope of resolvability assessments and onerous provisions such as playbooks should be removed.

Link indicators directly to ongoing operations

A targeted set of indicators that reflect viability directly is more useful and less complex to administer than a larger set with limited relevance.

Reduce scope of scenarios

Setting a clear expectation of a small set of focused scenarios with the focus on recovery from financial stress rather than the details of how it arises.

Reduce the reporting burden

Supporting the simplification agenda

Problem: Excessive levels of reporting

- 20 compulsory templates to be reported at least biannually.
- Topics covered include:
  - Self-assessments of critical functions and their impact on the broader financial system.
  - Detailed information on ownership and liability structures, and financial connections.

What issues does this cause?

- Lack of clarity about rationale for collection of data – only limited additional data is necessary, and there is potential for double reporting where supervisors already collect data.
- Introduction of multiple new templates is contrary to the European Commission’s simplification objectives.
- High operational costs caused by introduction of large number of new reporting templates and requirements.
- Difficulty of carrying out self-assessments of market-wide impacts.

Our solution: Reduce the extent of the templates

- Approximately 50% of the current templates could be removed by:
  - Removing assessments the resolution authority is best placed to carry out, e.g. on critical functions.
  - Deleting templates where information is already available to supervisors, e.g. IR.06.01 on IGS.
- Divide reporting into core templates to be reported automatically and additional templates with clear triggers for use, reducing costs and ensuring only genuinely necessary data is collected.

Rationalise the implementation timeline

Clarify and streamline the sequencing of requirements

Problem: "Big bang" implementation

- IRRD becomes operational on 30 January 2027.
- All requirements are immediately in-force, including pre-emptive recovery plans, resolution plans, and requirement for fully operational resolution authorities.

What issues does this cause?

- These requirements cannot all be done at once: for example, the preparation of resolution plans and the proposed reporting templates require critical functions to already be defined (which they will not be).
- IRRD going into operation clashes with the Solvency II review implementation, leading to resource "crunches".
- Variation in progress across Member States – none have confirmed which undertakings are in scope.

Our solution: Phasing-in requirements

- A consistent, co-ordinated and sequential phased approach to implementation:
    1. Recovery plans
    2. Core reporting
    3. Resolution strategies (including any additional reporting)
    4. Resolvability assessments and testing
    5. Ad hoc actions to address impediments
- This iterative approach would improve overall quality, consistency and reliability and allow sufficient time for building robust systems, training staff and ensuring reliable data quality.

Allow re-use of existing work

Minimise duplication of effort

Problem: Existing structures resemble IRRD requirements

- IRRD requirements have components (such as scenario analysis) which overlap with existing processes such as the ORSA, liquidity risk management plans and stress testing analysis.

What issues does this cause?

- Duplication of effort where closely related but not identical requirements require work to be repeated.
- Lack of coherence between different frameworks makes supervision more challenging.

Our solution: Make maximum use of pre-existing analyses

- Allow the pre-emptive recovery plans to use existing work where possible to minimize repetition. In particular:
    - Remove the requirement in Para 1.11 from the Guidelines on Scenarios that IRRD scenarios be more severe than those used in the ORSA, allowing their reuse.
    - Allow indicators to use existing analyses prepared as part of wider risk management.

Avoid overly onerous assessments of resolvability

Ensure Level 2 and 3 measures do not add unforeseen burden

Problem: Addition of items beyond IRRD's intent[1]

- The assessment of resolvability exists for the resolution authority to identify preferred resolution strategy(s).
- The draft Guidelines give a list of potential items such as playbooks and self-assessments of resolvability that would be the responsibility of undertakings.
- They also mandate a wide scope for the resolvability assessment.

What issues does this cause?

- Adding in additional items for undertakings to complete will increase operational costs that are unlikely to be matched by accompanying benefits.
- Flexibility for resolution authorities to adapt and tailor the resolvability assessment to specific undertakings will ensure as simple and effective an implementation as possible.

Our solution: Remove these additional requirements

- Delete the list of potential items in Guideline 4, Paragraph 22. This does not prevent resolution authorities from requesting these items if they are needed for specific entities, but removes the requirement to consider them for all entities.
- Amend Guidelines 5 to 9 to be items resolution authorities "could", not "should", consider.

[1] Referring to Guidelines to specify further the matters and criteria for the assessment of the resolvability of undertakings or groups (EIOPA-BoS-25-715)

Keep indicators directly linked to viability

Targeted indicators that provide a true indication of financial health

Problem: Introduction of wide indicator sets[1]

- Art 5 of IRRD states entities should have a framework of indicators to "identify the points at which remedial actions should be considered or taken", listing seven areas (capital, liquidity, asset quality, profitability, market conditions, macro-economic conditions and operational events) that "may" be included.
- Recital 87 of IRRD requires EIOPA to specify "a minimum list of qualitative and quantitative indicators".

What issues does this cause?

- Seven separate potential sets of indicators is operationally burdensome, costly to maintain and does not allow tailoring to an undertaking's specific risk profile.
- Most of these areas are neither relevant to assessing an entity's viability nor directly linked to remedial actions: e.g. a decline in macro-economic conditions may not impact a specific insurer at all.

Our solution: Reduce the minimum list to relevant and targeted items

- Explicitly limit the minimum list to targeted indicators that are directly linked to the company's viability (liquidity and solvency).
- Delete Guidelines 4-7 mandating the use of other indicator types.

[1] Referring to Guidelines on qualitative and quantitative indicators in pre-emptive recovery planning (EIOPA-BoS-26-259)

Use scenarios to facilitate responding to financial distress

Scenarios should focus on outcomes and recovery

Problem: Focus on scenarios rather than responses to issues[1]

- Introduction of prescriptive and complex scenario requirements.
- Requirement to consider six different sources of system-wide events and six of idiosyncratic events.
- Illustrative non-exhaustive list of 17 potential scenarios.

What issues does this cause?

- The requirements focus on the cause of disruption, rather than on how it can best be addressed.
- Having a list of potential scenarios risks becoming a tick-box exercise.
- Modelling expectations such as mandatory quantitative analysis of solvency, liquidity, profitability and operational capability are burdensome and may not be appropriate in all cases.

Our solution: Clarify minimum expectations

- Introduce a clear supervisory expectation of scope in Guideline 1 by stating that a minimum of two scenarios should be considered.
- Remove requirement to consider system-wide, idiosyncratic and combined scenarios: the explicit modelling of interaction effects introduces significant complexity.

[1] Referring to Guidelines on the range of scenarios in pre-emptive recovery planning (EIOPA-BoS-26-257)

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