

Final - Guidelines to specify further the range of scenarios in pre-emptive recovery planning

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General Comments

Q1. *Do you have general comments on the consultation paper?*

Insurance Europe welcomes the opportunity to engage in discussion and provide feedback on these draft Guidelines, both here in writing and via the series of webinars EIOPA has hosted. We look forward to continuing to support EIOPA's work as the implementation of the IRRD progresses, with the aim of ensuring the objectives of stronger policyholder protection and enhanced financial system stability are met in a proportionate and streamlined manner for supervisors, resolution authorities and (re)insurance undertakings.

The proposed Guidelines significantly extend the IRRD by introducing prescriptive and operationally demanding scenario requirements (Guidelines 1–5). While the objectives are clear, the cumulative effect materially increases complexity and costs for undertakings. Expectations around interaction effects and multi-horizon severity go beyond Level 1 intent and a stronger reliance on proportionality would better reflect IRRD principles. Supervisory discretion should remain central, with the scenarios only representing broad guardrails on how an adverse situation might materialize. The focus should be on how an entity would recover from a situation of stress and not on the details of the scenario leading to that stress.

To reduce administrative burden and costs, it is important to enable maximum reuse of existing ORSA processes for the scenarios in the pre-emptive recovery plan, while meeting the requirements in IRRD for higher severity. It should be confirmed that climate risk and long-term scenarios in the ORSA can be reused in order to not create parallel reporting requirements.

Against this background, the key concerns are as follows:

- **Extension beyond Level 1**
Several elements go beyond the minimum requirements of the IRRD and introduce additional modelling and governance expectations; for example, the mandatory quantitative analysis of solvency, liquidity, profitability and operational capability and the mandatory modelling of combined system-wide and idiosyncratic shocks.
- **Blurring with ORSA responsibilities**
The explicit integration of recovery scenarios into the Solvency II system of governance risks elevating recovery planning into a continuous risk-management process, potentially blurring responsibilities with the ORSA (e.g. expectations for multi-period scenario monitoring).
- **Scenario design requirements**
Mandatory coverage of system-wide, idiosyncratic and combined scenarios, together with explicit modelling of interaction effects, materially increases complexity beyond IRRD intent (e.g. simultaneous macroeconomic, operational and regulatory shocks).
- **Need for proportionality and reuse**
Proportionality should be more clearly referenced in the Guidelines, and maximum reuse of existing frameworks should be enabled (e.g. adapting ORSA, reverse stress test or EIOPA stress test scenarios rather than developing parallel ones).

Consultation paper overview and next steps

Q2. *Do you have comments on the section 'Consultation paper overview and next steps'?*

The Guidelines introduce new modelling, governance and documentation layers. A phased or pilot-based supervisory approach would be preferable. Early supervisory feedback mechanisms would reduce uncertainty.

Draft Guidelines on the range of scenarios of pre-emptive recovery planning

Q3a. *Do you have comments on the Introduction?*

- N/A

Q3b. *Do you have comments on Guideline 1 – Range of scenarios?*

- **Paragraph 1.8:** Scenarios should consider the risk profile of the undertaking: mandatory coverage of system-wide, idiosyncratic and combined scenarios exceeds IRRD minimum standards. the explicit modelling of interaction effects introduces significant complexity and should be removed.
- **Paragraph 1.10:** The slow-/fast-moving classification is conceptually useful but operationally burdensome. Smaller undertakings may struggle without simplifications and so stronger wording on proportionality is recommended.
- **Paragraphs 1.8 to 1.10:** These require having a "range of scenarios of severe macroeconomic and financial stress" without specifying how many. A clear supervisory expectation on the number of scenarios would help ensure consistency across institutions and supervisory convergence across Member States. We support establishing two scenarios as the minimum requirement, as long as these cover system-wide and idiosyncratic events.

Q3c. *Do you have comments on Guideline 2 – Design principles for the range of scenarios?*

- **Paragraph 1.11:** Requiring recovery scenarios to be more severe than ORSA scenarios materially extends the expectations of the IRRD. Art. 5(7) IRRD requires insurance undertakings to assess the credibility and feasibility of their pre-emptive recovery plans against a range of scenarios of severe macroeconomic and financial stress. The IRRD does not require these scenarios to be more severe than those used in the ORSA.
- **Paragraph 1.12:**
 - This paragraph requires that “each scenario should meet each of the following requirements”, while Art. 5(7) IRRD requires only that scenarios be “relevant to the insurance or reinsurance undertaking’s specific conditions”. As a result, the insurance undertaking cannot select scenarios solely on the basis of its own specific circumstances; it must apply all of EIOPA’s requirements. This stricter condition should be relaxed.
 - In addition, this paragraph requires scenarios to be “sufficiently severe to threaten the entity’s viability and lead to a breach or near-breach of the regulatory solvency capital requirement” for all scenarios. This requirement will be impossible to reach in a plausible scenario for many undertakings that are in scope due to the market coverage requirement. Such a scenario would likely add little value in terms of insights into the company’s recovery capabilities. This requirement should thus be removed. The ACPR’s approach, which recommends that scenarios be specific in terms of impact (one being critical for solvency, another for liquidity, and the third for profitability), is preferable.
- **Paragraph 1.12(c) and 1.13:** These paragraphs require both that scenarios “should be plausible” and “should not be ruled out on the assumption that they are considered unlikely”, which point in two different directions as to severity. Scenarios should serve to test available remedial actions. To arrive at the required severity, a certain degree of flexibility in scenario design and calibration is needed. The discretion of the supervisory authority is essential and this should be made clear here.
- **Paragraph 1.15:** Analysis of impacts at group level should be sufficient: an application to all legal entities is operationally challenging and not meaningful for large groups. Alternatively, the analysis of impacts on the various entities within a group should be subject to a materiality criterion, in order to avoid disproportionate expectations relative to the actual exposure and to retain only the material entities within the group. Macro-economic scenarios should not be applied to “all legal entities within a group” by default. Their application should be limited to those legal entities in the scope of recovery and resolution planning requirements as defined in Art. 1 IRRD. Extending macro-economic scenarios to entities outside the IRRD/Solvency II scope would exceed the intended regulatory perimeter, conflict with the principle of proportionality and create unnecessary operational burden without clear supervisory benefit. Group-wide assessments of common exposures and interdependencies should therefore remain scope-consistent and risk-based, taking into account non-IRRD entities only where they are materially relevant for the risk profile or interdependencies of IRRD-in-scope entities.
- **Paragraph 1.16:** We strongly support limiting the quantitative assessment to capital and liquidity. In severe stress situations, the primary objective must be the timely restoration of solvency and liquidity, as these are the key determinants of the ongoing viability of the undertaking or group and the basis for supervisory intervention. This approach is fully consistent with Article 138 of Solvency II, which focuses on the insurer’s ability to restore its capital position within a short timeframe, rather than on forward-looking profitability projections.
- **Liquidity risk** is not part of SII capital models and is often managed at the legal entity or even portfolio level. The mandatory integration of a liquidity component in recovery plan stress scenarios will thus require additional analysis and significantly increase the burden on insurers.
- **Profitability**, while relevant in a business-as-usual context, is not a direct determinant of viability in recovery scenarios and should not be treated as such. Recovery or resolution is triggered by deterioration in solvency or liquidity, not by adverse profitability trends per se, provided sufficient capital buffers are available to absorb losses. In particular:

- profitability may be seasonal and fluctuates in line with insurers' business models. For example, natural disasters do not occur every year, but when they do, they have a significant impact on profitability, and
- Market risks are generally reflected in the economic balance sheet before feeding into profitability.
- Similarly, **operational capability** should not be subject to mandatory quantitative assessment. Operational impacts are highly scenario specific, often nonlinear and difficult to capture meaningfully through standardised quantitative metrics, particularly under severe stress. In practice, operational constraints affect the feasibility and execution of recovery options rather than constituting an independent trigger of nonviability. As such, they are more appropriately assessed qualitatively, and only to the extent relevant for the specific scenario considered. Moreover, operational risks are already part of Solvency II (RSR, governance framework, ORSA) and DORA. EIOPA should refrain from adding an additional layer of similar requirements.
- **Paragraph 1.17:** Multi-period scenario design should be removed as it goes beyond IRRD minimum requirements and is not in line with the 1-year time horizon used in Solvency II for capital modelling. It adds further complexity and carries the risk of focusing the work too heavily on analysing the scenarios themselves, to the detriment of the operational effectiveness of the recovery plan. The effectiveness of the framework relies above all on the ability to define and activate credible short-term actions, whose assessment of impacts and benefits can then feed into the definition of medium-term measures. Moreover, scenarios extending over long time horizons risk overlapping with exercises already carried out as part of the ORSA, while increasing the administrative burden and potentially leading to more theoretical work that is less actionable in a crisis situation. If the notions of short-, medium- and long-term are to be retained, they should be defined more precisely—particularly in terms of timelines—in order to ensure a consistent application of the requirements, and alignment with existing stress testing frameworks should be explicitly encouraged.

Q3d. Do you have comments on Guideline 3 – System-wide events?

- **Guidelines 3, 4 and 5:** Some elements are overly prescriptive, in particular:
 - The lists of events to be considered “at a minimum” in the systemic, idiosyncratic, and combined scenarios. These requirements should be relaxed or removed, preferably by amending the wording of Paragraphs 1.18 – 1.20 from “should be” to “could be”.
 - The need for economic and non-economic shocks to be simultaneous, as well as the manifestation of regulatory and operational risk, undermines the plausibility of the scenarios.
 - “Minimum” assumptions complicate the exercise by mobilising resources for scenario calibration and multiple projections, whereas the value of the exercise appears to lie primarily in governance and recovery measures.
- **Paragraph 1.18:** The wide range of prescribed system-wide events goes well beyond IRRD’s illustrative approach. Inclusion of regulatory and geopolitical risks reflects supervisory priorities but risks overlap with macroprudential exercises. There should be a principles-based obligation to assess the relevance of the listed system-wide events for the undertaking’s specific risk profile, rather than a requirement to model all events mechanically which risks create additional modelling burden without additional risk insight. In particular, strong correlations between market, macroeconomic and geopolitical shocks may lead to duplicative stress outcomes. Scenario design should therefore reduce redundancy, avoid overly granular differentiation of similar market shocks, and focus on material transmission channels to solvency and liquidity rather than exhaustive event enumeration. Paragraph 1.18 should only serve as examples and the wording “at least” should be removed and “should” should be changed to “could”.
- **Paragraph 1.18:** This paragraph includes regulatory risk within the list of system-wide events. Most regulatory risk events cannot be modelled using objective quantitative assumptions in the same way as financial or macroeconomic variables. Their timing, scope, probability and impact typically cannot be

estimated in a robust or credible manner. We propose to explicitly clarify that only objectively quantifiable regulatory risk events should be included in the list of possible system-wide events.

Q3e. *Do you have comments on Guideline 4 – Idiosyncratic events?*

- **Guideline 1.19:** The explicit enumeration of idiosyncratic risks significantly increases the burden of IRRD. The requirement to apply severe stresses to cyber, legal and liquidity risks improves realism, but also increases modelling burden. Regarding liquidity, it needs to be noted that insurers - unlike banks - often manage the liquidity position and liquidity risk locally and that a group perspective does not exist and is not meaningful. Existing analysis and calculations from insurers' liquidity stress testing frameworks should be taken into account for stress scenarios in recovery planning.
- **Paragraph 1.19:** This paragraph includes legal risk within the list of idiosyncratic events. Similar to regulatory risks, most legal risk events are not amenable to objective quantitative modelling: their occurrence, scale, and impact generally cannot be forecasted with sufficient reliability. We therefore recommend explicitly stating that only objectively quantifiable legal risk events may be included in the list of possible idiosyncratic events.

Q3f. *Do you have comments on Guideline 5 – Combination of System-wide and Idiosyncratic events?*

- **Guideline 1.20:** The explicit requirement to model combined shocks represents a major extension beyond IRRD. Interaction and amplification effects are inherently uncertain and model-sensitive. Simplified approaches should be explicitly permitted.

Compliance and reporting rules

Q4. *Do you have comments on the section 'Compliance and reporting rules'?*

Annex I: Impact Assessment

Q5. *Do you have comments on Policy Issue A: Inclusion of "Reputation" as a dimension against which the impact of scenarios is measured?*

- The decision not to include reputation as a standalone impact dimension is appropriate and consistent with IRRD and Solvency II.
- A clear confirmation that qualitative treatment suffices would reduce uncertainty.

Q6. *Are there any elements in the proposed Guidelines which could be modified to reduce the administrative burden or improve the (cost) efficiency of the requirements? If so, please provide a (monetary) assessment of the expected efficiency brought by the proposed change.*

- Allowing reuse of existing stress scenarios (e.g. from the ORSA) would materially reduce duplication.
- Limiting quantitative scenario analysis to capital only.
- Simplified combined scenarios for smaller undertakings could significantly lower costs.
- Greater supervisory tolerance for approximations would improve efficiency.

Any other comments

Q7. *Do you have any other comments?*