

No need for major overhaul of EU recovery and resolution rules for insurers

Solvency II already provides strong consumer protection and financial stability safeguards

A new EU framework on recovery and resolution for insurers is not required, because Solvency II already provides strong safeguards. However, a degree of convergence on certain issues may be beneficial, according to Insurance Europe, the European insurance and reinsurance federation.

In its [response](#) to a European Insurance and Occupational Pensions Authority (EIOPA) consultation on the potential harmonisation of recovery and resolution frameworks for insurers, Insurance Europe said that Solvency II already allows early intervention through its structure based on two capital levels: the Minimum Capital Requirement (MCR) and the much higher target Solvency Capital Requirement (SCR).

Specifically, if an insurer's capital drops below the SCR, supervisors can intervene and require the insurer to take increasingly drastic recovery measures through a ladder of intervention until capital levels reach the MCR. Then, if the MCR is breached, supervisors can take full control of the company while it still has a significant amount of capital and take the best actions to protect policyholders, including recovery or resolution measures, such as sale, portfolio transfer or winding-up.

Nicolas Jeanmart, head of personal insurance, general insurance and macroeconomics of Insurance Europe, commented: "Even before Solvency II, there were few failures and even fewer resulting in losses for policyholders. Under Solvency II, it will be even less likely in the future."

Insurance Europe also pointed out that potential concerns about financial stability do not justify a new recovery and resolution framework. Traditional insurance business has proven extremely resilient to business cycle fluctuations in the past. Almost all insurers weathered the recent financial crisis well, and as EIOPA has noted in its consultation, very limited government support was necessary.

It is also important to note that insurance failures, as well as being rare, do not affect other insurers or the payments system. Should an insurer fail, there is no convincing evidence of a lack of substitutability of products that would justify the introduction of additional measures.

Jeanmart added: "Insurance Europe welcomes that EIOPA highlighted that there are important differences between banking and insurance. These differences have a significant impact on the need for, and design of, recovery and resolution requirements. Unlike in banking, insurers do not fail suddenly, as their liabilities crystallise gradually over time, allowing for a managed wind-down. In addition, insurance liabilities are largely independent of each other, and are not 'callable' on demand since an insurance liability occurs at a specified point in time or following a pre-defined, insured event."

However, a certain degree of convergence of recovery and resolution practices could be beneficial, including:

- Clarification that, for all member states, there should be no implicit or explicit powers of intervention before there has been a breach of the SCR.
- 'Stay and suspension' powers, by which national supervisors can prevent mass lapses, already exist in some markets and Insurance Europe supports extending these across Europe. Although mass lapses are extremely rare and unlikely in practice, such powers can prevent the need for more drastic resolution measures and would address any residual concerns about insurers' potential exposure to significant forced 'fire sales' of assets and contagion.

- Cross-border cooperation and coordination between supervisory and/or resolution authorities can be reinforced, as well as the mutual recognition of resolution actions.

- Ends -

Notes for editors

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