

3 november 2022

Programma Seminar Resolutie Verzekeraars

- Opening
- De EU Insurance Recovery and Resolution Directive (IRRD)
- De haalbaarheid en betaalbaarheid van een Nederlands verzekeringsgarantiestelsel (IGS)
- De praktische ervaringen met een IGS van het FSCS in het Verenigd Koninkrijk
- Pauze
- De concept beleidsregel afwikkelbaarheid
- Panel over de afwikkelbaarheid van verzekeraars
- Afsluiting
- Borrel

DeNederlandscheBank

EUROSYSTEEM

3 november 2022

Seminar Resolutie Verzekeraars

Moderator: Michiel Boswinkel

DeNederlandscheBank

EUROSYSTEEM

Opening door Nicole Stolk, directielid DNB

IRRD

DNB Seminar Resolutie Verzekeraars

Presenter: **Irene Doelman**

Department: **Risks and Financial Stability Department**

Date: **3 November 2022**

OVERVIEW

Why do we need an IRRD?

Main elements of the IRRD

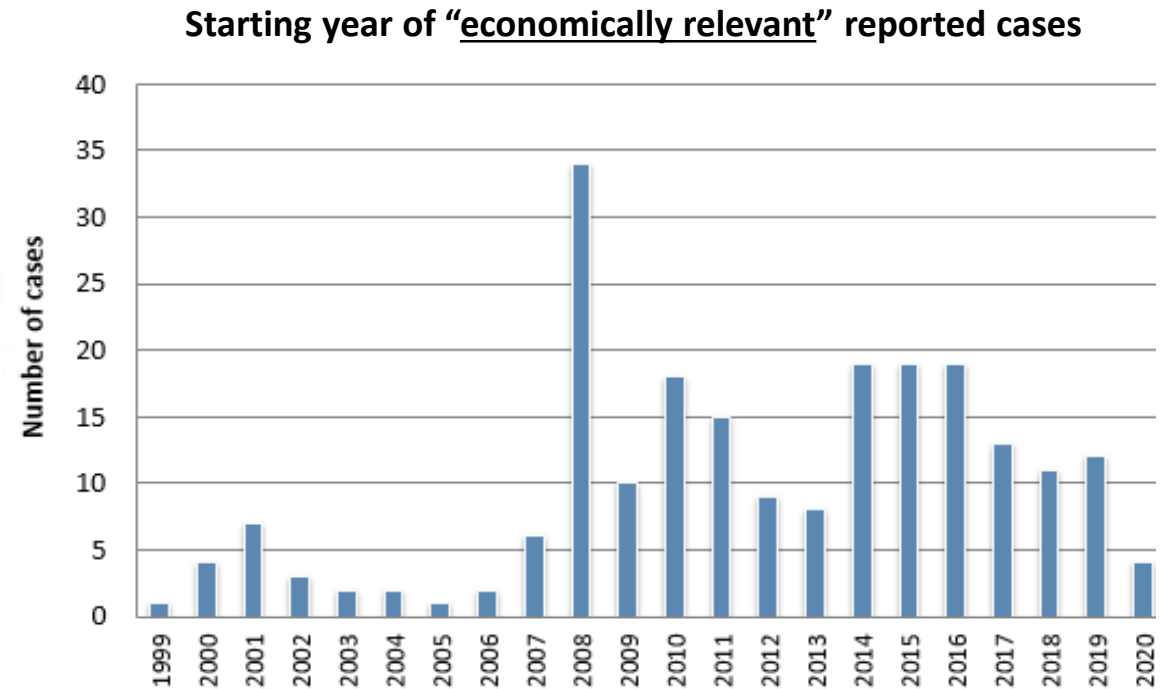
Why do we need an IGS?

Questions

WHY DO WE NEED AN IRRD?

RATIONALE

- **The 2008 financial crisis** point to the need for a proper recovery and resolution frameworks in place to:
 - Reduce the likelihood of insurance failures;
 - Reduce the impact if they finally materialise; and
 - Minimise any reliance on taxpayers money
- Cases of **insurance failures and near misses** happen (despite positive impact of Solvency II)



Source: EIOPA Failures and near misses in Insurance - Overview of recovery and resolution actions and cross-border issues, 2021

WHY DO WE NEED AN IRRD?

RATIONALE

- The resolution of an insurer generally does not require an “over the weekend” process - However, the resolution process is extremely complicated
 - All stakeholders are affected (incl. policyholders)
 - The financial picture changes significantly – valuation impact
 - The undertaking moves from “going concern” to “gone concern” and the role of supervisors is affected
- In the transition from recovery to resolution, there are four steps to consider:

Failing or likely to fail

Need to meet the resolution objectives(*)

No reasonable outlook on a solution in the near term

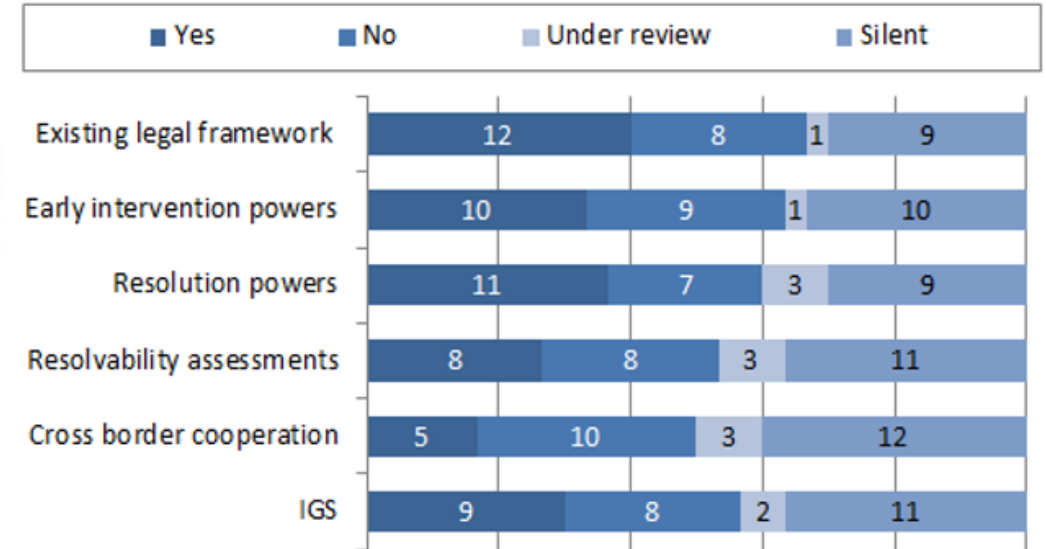
Policyholders are better off in Resolution than in Liquidation

WHY DO WE NEED AN IRRD?

RATIONALE

- **A core part of the FSB action plan following the crisis**, which revolves around the Key Attributes for the financial sector (**incl. insurance**) set out new elements, which are generally lacking
 - Several gaps were identified in different EU Member States
 - MS do generally not have all powers laid down in the Key Attributes
 - Some MS are enhancing their frameworks -> **Need for a EU harmonised approach** to avoid the risk of fragmentation (*next slide*)

Gaps and shortcomings identified



Source: EIOPA Opinion on the Harmonisation of recovery and resolution frameworks for (re)insurers across the Member States, 2017

WHY DO WE NEED AN IRRD?

RATIONALE

- A very **fragmented landscape** - Lack of harmonisation in recovery and resolution practices complicates cross-border cooperation and creates coordination problems:
 - A patchwork of national rules could impede the orderly resolution of cross-border insurers
 - Adhering to several sets of procedural national rules can pose practical problems, such as on timing, conditions, or adhering to safeguards such as court approval
 - Potential legal uncertainty, unequal treatment of policyholders, and potential spill-over effects
 - Effective recovery and resolution measures are necessary to have in place in all Member States
- The **safeguards** in the IRRD appropriately protect the interests of all parties involved
 - The harmonisation provides legal certainty without impeding unjustly on the capabilities of the resolution authorities
- Currently, in the internal market, **insurers based in one country are free to operate in all other EU Member States** by means of freedom of establishment and freedom to provide services....without an EU framework to deal with potential crises!

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PRE-EMPTIVE RECOVERY AND RESOLUTION PLANS

Pre-emptive recovery planning

- Plan made by insurer, assessed by supervisor
- 80% of a Member States' market should be covered

Resolution planning

- Plan made by Resolution Authority
- 70% of a Member States' market should be covered

NATIONAL RESOLUTION AUTHORITIES

- Insurance resolution authorities*, equipped with a minimum harmonised set of powers:
 - Undertake all the relevant preparatory and resolution actions
 - Structural arrangements in place to avoid conflicts of interest between supervisory and resolution functions
 - Operational independence
- Resolution authorities will be “competent authorities” in terms of the EIOPA regulation

RESOLUTION COLLEGES FOR CROSS-BORDER GROUPS

- Participation mirrors participation in supervisory college
- Under the leadership of the group resolution authority
- Joint decisions
- Objective: to coordinate preparatory and resolution measures among national authorities
- Third country authorities may be invited; framework for cooperation arrangements to be made by EIOPA

CONDITIONS FOR RESOLUTION

- Conditions for resolution are:
 - Institution is failing or likely to fail;
 - No reasonable prospect of any private sector measure to prevent failure within reasonable timeframe, and
 - Resolution is necessary in the public interest.
- Safeguards:
 - ✓ Independent (or provisional) valuation
 - ✓ No creditor worse off than in liquidation
 - ✓ Right of appeal

RESOLUTION POWERS OF NATIONAL AUTHORITIES

Bail-in

- Write-down of liabilities or conversion to shares

Solvent run-off

- Withdrawal of authorisation and run-off

Sale of all or part of the business

- To third party / parties

Bridge undertaking

- Public controlled entity where assets and liability are temporarily managed

Asset and liability separation

- Impaired or problem assets and/or liabilities can be transferred to a management vehicle

Additional national tools and powers

- If consistent with framework

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WHY DO WE NEED AN IGS?

- **Recovery & Resolution and IGS are two related topics** – also for IGS minimum harmonisation is needed
- **Policyholders in the EU are protected differently** in the event of liquidation, based on their residence and/or which insurers they contracted with.
- The **current lack of harmonisation** is neither acceptable from a policyholder protection point of view, nor from an internal market perspective
- IGS may also be a **source of resolution funding**
- **Addressing the existing fragmentation in the field of IGS is key** – EIOPA would welcome acknowledgment of the importance to continue working on the topic, with a clear timeline for addressing the issue

OVERVIEW

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Questions

THANK YOU!

For more information visit:
<https://www.eiopa.europa.eu>

EIOPA'S TECHNICAL SEMINAR ON RECOVERY AND RESOLUTION IN (RE-) INSURANCE

- A series of presentations followed by Q&As will focus on technical issues and first-hand experience with setting up different elements of recovery and resolution regimes and insurance guarantee schemes.
- Furthermore, two panels will discuss proportionality and funding.
- 18 November 2022, from 9:00 – 16:00 CEST
- The event will take place digitally, on webex.
- Registration required, via [EIOPA website](#)

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Feasibility and affordability of an insurance guarantee scheme in the Netherlands

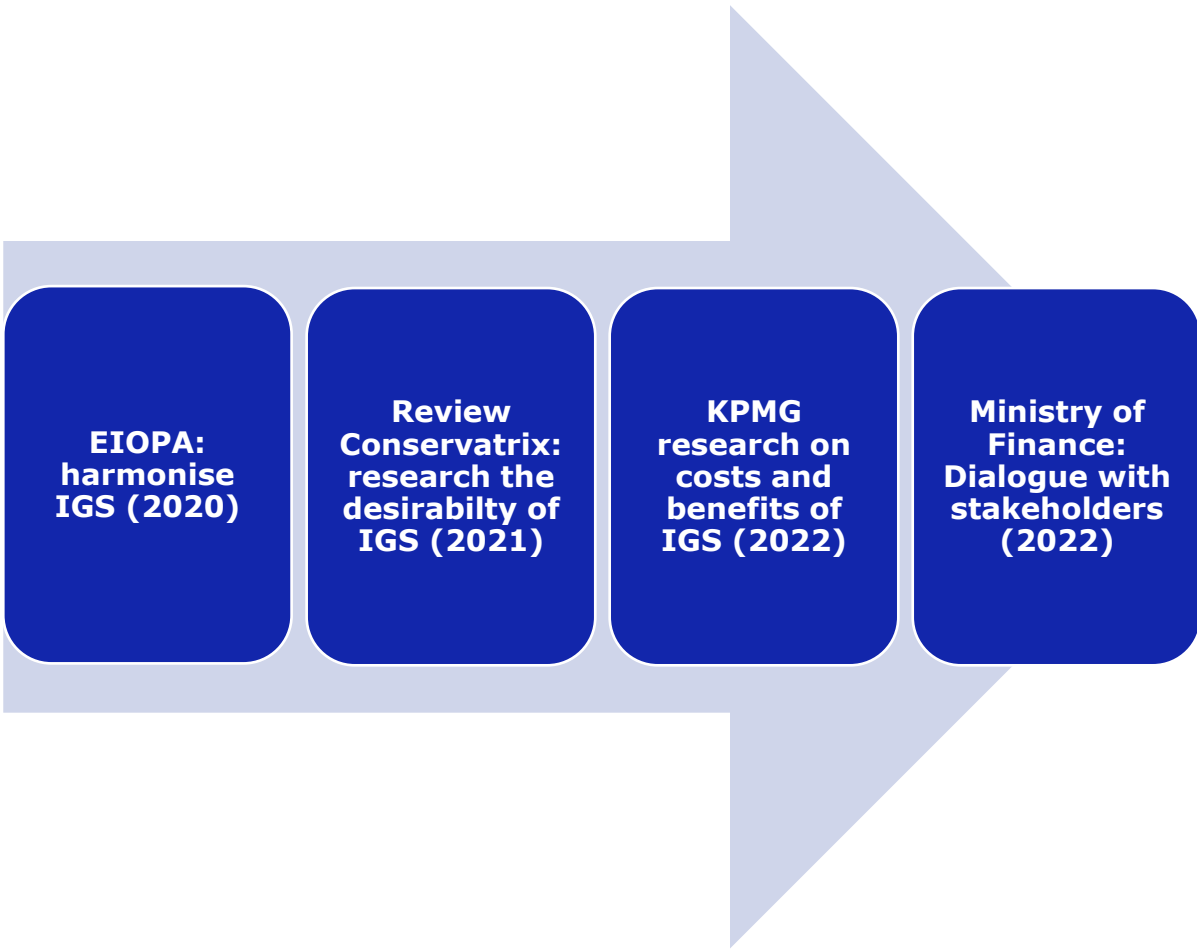
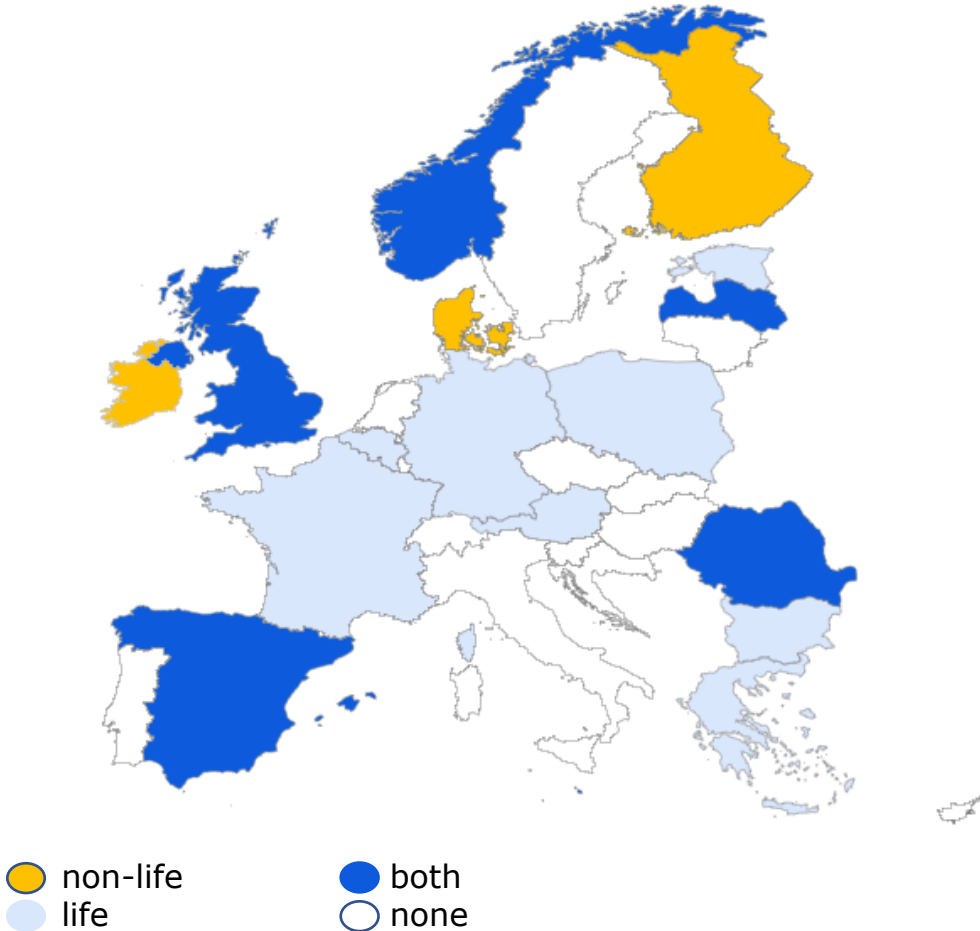
Seminar Insurance Resolution

DeNederlandscheBank

EUROSYSTEM

Jeroen Brinkhoff

Context



Source: EIOPA (2020), DNB; note: IGS for compulsory non-life insurance not included

Objective and rational of an IGS

Objective: Policy holder protection

- Continuity of insurance cover
- Limit to financial losses

Rational:

- Policyholders may face losses in case of insurer failure despite supervision and resolution
- Insurance policies are essential for pension accrual, and daily livelihood
- Consumers cannot be expected to predict and assess insurers' solvability decades from now.

The design of an IGS determines the feasibility and costs

1. Function

- Limit cuts of policyholder's rights in case of a sale/relaunch of the failing insurer
- Supplement pay-outs to policyholders in run-off
- Compensate policyholders in case of losses following liquidation

2. Scope

- Products: life, pension, income protection and funeral insurance
- Geographical coverage: home versus host approach

3. Guarantee: relative cap/excess for policyholders, e.g. 5%

4. Funding

- Ex-ante and ex-post risk-weighted levies on insurers
- Target size of fund based on desired capacity, e.g. EUR 500 million

Possible design compared with IGS abroad

	Possible design NL	United Kingdom	Germany	France
Functions	Funding of sale or relaunch, run-off, compensation	Funding of sale, run-off, compensation	Funding of sale, run-off	Funding of sale, compensation
Products	Life, pension, income and funeral	All	Life, pension and income	Life and pension
Home/host	Home	Home + host	Home	Home
Level of guarantee	95%	100%	95%	Absolute caps
Ex-ante levies	0,015% of TP	0	0,02% of TP	0,017% of TP
Size fund	EUR 500 mln.	0	EUR 1100 mln.	EUR 835 mln.

The background of the slide is a photograph of a woman and two children in a park. The woman is wearing a red beret and a yellow top, and is holding a baby in a yellow sling. A young child in a white jacket and a blue knit hat is standing next to her. The background is a blurred green park setting.

An introduction to FSCS (Insurance)

@ De Nederlandsche Bank

Guy Enright & Martin Greetham

3 November 2022

Aim and agenda

Aim

- > To introduce and help improve your understanding of FSCS

Agenda

- > FSCS' role and coverage
- > Some recent insurance failures & the lessons learnt
- > FSCS levy & our work to reduce the levy generally
- > The Insurance Resolution Regime

About FSCS

- > FSCS exists to **protect** customers of financial services firms that have failed.
- > We were set up in **2001** under the Financial Services and Markets Act 2000.
- > We are **independent** of the government and financial services industry.
- > We can pay **compensation** thanks to levies that authorised financial services firms pay.

What FSCS Covers



*Compensation paid would depend on date of failure and type of product.

The value in our protection

‘Knowledge of FSCS protection encourages more investment’

81%

of those aware of FSCS say they feel more confident in their financial decision-making in the knowledge that FSCS exists

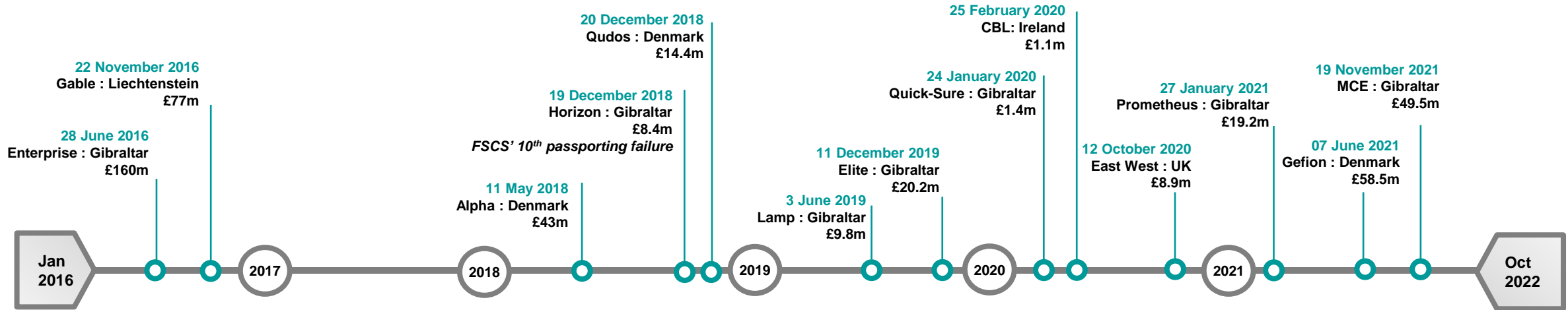
92%

felt that providers should mention FSCS protection at the moment they decide on a product

Recent insurance insolvencies

Key: Date of Default
Firm Name : Jurisdiction
FSCS spend (at Oct 2022)

FSCS



Case study: East West Insurance Company (EWIC)

1
EWIC was a UK authorised insurance company & insured 10 year building guarantees

2
EWIC was declared 'in default' in October 2020

3
EWIC had c. 18,400 'live' building guarantee policies

4
Many of EWIC's policies cover high-rise residential buildings with fire safety issues

5
A key challenge for FSCS in the EWIC failure is to ensure work to remediate fire safety issues continues

6
A key challenge for customers is they are living in homes with unsafe cladding in place

- Customers are unable to sell or remortgage their home.
- Customers face significant costs whilst remedial work is carried out.
- Costs to carry out fire safety remedial work are extremely high.

- FSCS is working with the joint administrators (EY) & the run-off agent (Weightmans) to prioritise buildings with fire safety risks.
- FSCS' protection limit for building guarantee claims was increased to 100%.

Case study: Alpha insurance

1

Alpha insurance was a Danish firm that operated in the UK

2

Alpha was declared 'in default' in May 2018

3

FSCS' insurance protection can result in various outcomes for customers

4

In total 229,000 customers were supported, and £31m paid in refunded premiums

5

A key challenge for FSCS in the Alpha failure was incomplete customer data

6

A key challenge for customers was finding appropriate cover if their premium was returned

In this case we arranged transfer of cover to new insurers or refunded any unused insurance premium so that customers could purchase a new policy

Often the sum they received wasn't enough to fund cover, as FSCS can only refund the 'un-used' portion, and compensation doesn't include other expenses such as broker or arrangement fees

FSCS Levy

£625m

2022/23 levy for all classes



Decreased pay-outs expected for insurance provision class (£212m levy)



Rise in complex pension advice claims & SIPP operator failures

Reducing the impact of failures



Prevent pillar –
part of our
strategy '**FSCS
into the 2020s:
Protecting the
future**'



Closer working
with regulators
and industry



Phoenixing



Scams

Recoveries



Failures lead to increased levies

£20bn

Recovered £20bn from the 2008 bank failures

£108m

From non-life insurers in the last five years to March 2022

Q&A

Break/pauze

- *Opening*
- *De EU Insurance Recovery and Resolution Directive (IRR)*
- *De haalbaarheid en betaalbaarheid van een Nederlands verzekeringsgarantiestelsel (IGS)*
- *De praktische ervaringen met een IGS van het FSCS in het Verenigd Koninkrijk*
- **Pauze**
- De concept beleidsregel afwikkelbaarheid
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De concept-beleidsregel afwikkelbaarheid verzekeraars

Seminar Resolutie Verzekeraars

DeNederlandscheBank

EUROSYSTEEM

Emile Schmieman

Waarom (nu) deze beleidsregel?



Wenselijk dat afwikkelbaarheid vroeg wordt bereikt. Niet “pas dak repareren als het regent”.



Bevorderen afwikkelbaarheid door sector te ondersteunen in het boeken van vooruitgang.



Daarom vergroten inzicht in:

- Wanneer DNB een verzekeraar of groep in voldoende mate afwikkelbaar acht;
- Welke criteria DNB bij die beoordeling aanlegt;
- Welke informatie DNB voor die beoordeling nodig heeft.

Proportionaliteit en verhouding gone concern/going concern

- Proportionaliteitsbeginsel maakt deel uit van wettelijk kader waarbinnen DNB haar taken uitoefent.



- Geldt dus ook voor de afwikkelbaarheidsbeoordeling en de beleidsregel.



- Niet overvragen en niet over-specificeren.

Wat staat er in de beleidsregel/waar let DNB op?

1. Governance

2. Operationele continuïteit

3. Financiële continuïteit

4. Management informatiesystemen

5. Communicatie

6. Structuur, bedrijfsvoering en strategische keuzes

Slot

Bekijk hier de concept beleidsregel:

dnb.nl > Voor de sector > Resolutie > Resolutie van verzekeraars

Reageer op de consultatie als u zaken mist of anders wilt zien:

consultatie-resolutie.verzekeraars@dnb.nl

Sluiting consultatie 15 december 2022

Vaststelling definitieve tekst voorzien voor K1 2023



Panel: beleidsregel afwikkelbaarheid

- Matthijs van Oers (Head of Recovery and Resolution, ING)
- Menno Harkema (Chief Financial Risk Officer, Lifetri)
- Pieter Bouwknecht (Head of Balance Sheet Management, NN)
- Leonard Flink (Afdelingshoofd Resolutie Verzekeraars, DNB)

Stellingen met het panel

Stelling 1: De wet eist dat verzekeraars afwikkelaar zijn. De kosten en gevolgen voor de bedrijfsvoering die dat meebrengt zijn acceptabel.

Stelling 2: Afwikkelaarheid is pas daadwerkelijk van belang zodra het risico van falen ontstaat.

Stelling 3: De afwikkelaarheid van verzekeraars is de verantwoordelijkheid van de verzekeraars zelf.

Stelling 4: Het is moeilijk in te schatten wanneer DNB vindt dat een verzekeraar afwikkelaar is. De beleidsregel brengt daarin verandering.

Afsluiting
