

ICIR Digital Insurance Forum Insurance Recovery and Resolution: Open Issues

31 March, 13-14 h CEST, Zoom

Summary

As moderator of the Digital Insurance Forum, Helmut Gründl opened by highlighting the importance of continuing to build a democratic European house and introduced the focus of the day: the EU Commission's proposal for Insurance Recovery and Resolution (the IRRD). He outlined the main goals of the proposal, including the protection of policyholders and public funds by minimising reliance on government-financed bailouts, before bringing to the forefront questions that need to be addressed before the proposal be transposed into legislation.

Petra Hielkema, Chairperson of EIOPA, then spoke about the importance of such legislation and the tools needed to make it effective. The first tool, Hielkema explained, should be a comprehensive framework including cooperation and coordination; the second, -preventive planning to ensure risks are managed effectively and efficiently; the third, the creation of resolution authorities to work alongside supervisory bodies whilst avoiding conflicts of interest. Objectives, she continued, include policyholder protection, the maintenance of financial stability, the continuation of critical functions, and the protection of public funds. She highlighted the importance of conditions for resolution, such as the conclusion that the institution is either failing or likely to fail, a public interest test, and an assessment concluding that resolution will lead to a better outcome than liquidation.

Jörg Asmussen, CEO of the German Insurance Association GDV, took a more critical stance. It would be welcome to see the aims outlined, he said, but that the proposal itself needs considerable improvement. The main problems outlined included: an overreach of the planning requirements, especially 70% for resolution planning is too far-reaching from a risk perspective as well as in comparison with international standards of the FSB and the IAIS, inconsistencies of the IRRD with Solvency II which, as he stated, is fit for purpose, a lack of specifics for the insurance sector, and the tension between a harmonised and a national framework.

The panel then moved onto a discussion on potential improvements. Emphasis was placed on the need for a risk-based approach as to determining recovery and resolution triggers, as well as issues on harmonisation. Hielkema expressed disappointment that insurance guarantee schemes (IGS) hadn't been included in the directive proposal, whilst Asmussen – although agreeing that a more harmonised consumer protection in a digital world was necessary – highlighted the different roles of resolution (linked to public interest) and IGS (linked to policyholder interest), and the importance of not undermining national provisions proven to be fit for purpose.

Regarding the proposal's new resolution authorities, their independence was singled out as key. Early in the process, there should be close cooperation between those in the resolution authority and those who understand the business, but once beyond Solvency II's remit, very

clear rules are required to ensure an independent resolution authority. One of the most important questions is: how can policyholders be best protected? Policyholders should be helped to find a new insurer with the comparable product for the comparable price.