

IRSG

# INSURANCE AND REINSURANCE STAKEHOLDER GROUP

**Advice on EIOPA's consultation paper on  
the Statement on supervisory practices and  
expectations in case of breach of the  
Solvency Capital Requirement**

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# 1. SUMMARY OF THE IRSG ADVICE

The IRSG welcomes EIOPA's initiative on harmonizing supervisory practices and bringing more transparency on the process and expectations on insurers in case of a solvency capital requirement (SCR) breach. After the implementation of Solvency II there has been a mix of various supervisory actions and national requirements around this issue and therefore convergence is highly welcomed. Currently some NSAs defined their national common practice differently and already start increased supervisory measures above the SCR ratio of 100% which is not within the meaning of the Article 138 of the Directive and leads to an uneven playing field. Therefore, we find that a clarification followed by a minimum level of harmonisation within the EU member states would be highly appreciated that a non-compliance with the SCR starts (in accordance with Article 138 of the Directive) when the SCR ratio is below 100%.

We believe that SCR is a reasonable requirement for insurers to hold capital and the last 5 years of Solvency II legislation has not proved this wrong. Looking the average solvency capital levels insurers are holding, it seems evident that Solvency II already provides very high levels of policyholder protection. Even the recent event on interest rates declining or the on-going pandemic have not yet brought any major issues on the solvency ratios. Insurers usually have solvency traffic light dependent management actions plans which have a key role in securing that solvency levels are being kept in a 'business-as-usual' levels.

The IRSG is of the opinion that the maximum recovery period (nine months) in order to restore compliance is too restrictive, and it would be preferable to extend it to twelve months. We find several reasons to this suggestion, as (1) insurers will need some time to verify the actual SCR breach by 'full-running' their solvency processes with are conditional to several technical matters, (2) analysing the cause of SCR breach which can also have internal reasons in addition to external ones and then deciding on the needed actions, (3) executing the actions promptly, yet using suitable discretion in the timing. We find that the twelve months corresponds to the length of accounting period or specific underwriting processes, there is business models in place that would benefit of this approach, and that some recovery measures may last longer than nine months: for example, the suspension of the payment of dividends. In the case where non-compliance with the SCR is observed just after the payment of dividends, the undertaking will have to wait twelve months to implement this recovery measure.

We would like to emphasize the need to take proportionality into consideration in case of SCR breach as each case is likely to be unique and highly dependent on the business model in place, actions already taken to lower the risk profile and possibilities to risk transfer and capitalization

using intra-group or outside the group methods. Also there might be uncertainties on the solvency estimates which are constantly updated and this needs also to be taken into account.

The IRSG finds the harmonization of supervisory practices extremely important but suggest to keep this in a general level. Specific guidance in relation to consideration of Covid-19 in this paper may lead to disproportionate focus on Covid-19 where other variables and/or risk factors merit at least as much attention.

## 2. ANSWERS ON SPECIFIC QUESTIONS

<b>Specific answers on the Consultation on Statement on supervisory practices and expectations in case of breach of the Solvency Capital Requirement</b>		
<b>#</b>	<b><u>Question / topic</u></b>	<b><u>Answer</u></b>
1	The European Insurance and Occupational Pensions Authority (EIOPA) provides this Supervisory Statement on the basis of Article 29(2) of Regulation (EU) No 1094/2010 to promote common supervisory approaches and practices.	
2	This Supervisory Statement is based on Directive 2009/138/EC (Solvency II) and addressed to the competent authorities, as defined in point (i) of Article 4(2) of Regulation (EU) No 1094/2010.	We find that it is important to emphasize that the statement is addressing the NSAs and not undertakings.
3	The supervisory practices addressing the supervisory ladder are necessarily flexible and should consider the specific situation of the insurance or reinsurance undertaking. However, it is important that when certain triggers are reached, such as non-compliance with the Solvency	The IRSG believes that A clarification followed by a minimum level of harmonisation within the EU member states would be highly appreciated that a non-compliance with the SCR starts (in accordance with Article 138 of the Directive) when the SCR ratio is <u>below</u> 100%. Currently some NSAs defined their national common practice differently and already start increased supervisory measures <u>above</u> the SCR ratio of 100% which is not within the meaning of the Article 138 of the Directive and leads to an uneven playing field.”

	<p>Capital Requirement (SCR), a minimum convergent approach is applied in order to avoid supervisory arbitrage.</p>	<p>A higher convergence in supervisory practice is generally important but even more important in areas relating to insolvency situations. The need for legal certainty and transparency is higher in stressed situations. It is therefore a welcome measure to address this.</p> <p>Finally, this section talks about the importance of a “minimum” convergence approach which seems inappropriate in the context of the desire for consistency and convergence expressed in 7 and 8 below.</p>
4	<p>This has always been an area of extreme importance. However, during the last 4 years (2016-2019) only few breaches of the SCR have happened. There were 12 undertakings which have had a breach of the SCR for a period of two consecutive years, which represents less than 0,5% of all undertakings subject of SII. The breaches are spread between 6 Member states.</p>	
5	<p>Since the Covid-19 pandemic has emerged at the beginning of 2020, the world is facing this new risk and more frequent breaches of the SCR could be observed in the future. European undertakings have demonstrated resilience to the impact of the Covid-19 pandemic until now, however, the current environment amplifies the risks of non-compliance.</p>	<p>We find that EU insurers are generally well capitalized and the SII framework has made a positive contribution to aligning capital with the risks incurred by the industry and in strengthening governance models and risk management processes. Undoubtedly this has helped in this Covid-19 crisis as well. Anyway we suggest to keep this in a general level and any specific guidance in relation to consideration of Covid-19 in this paper may lead to disproportionate focus on Covid-19 where other variables and/or risk factors merit at least as much attention.</p>

6	The ongoing uncertainty can lead to breaches of SCR in the future, in which case the Solvency II supervisory ladder of intervention allows supervisory authorities to take early actions including among others the approval of a recovery plan.	We propose that it could be made even clearer that this statement only addresses situations when the SCR is not fulfilled.
7	In this environment and considering a potential increase of non-compliance cases it is of particular importance to ensure consistency in the way the recovery plans are developed, assessed and approved.	The IRSG finds that the supervisory consistency in the way the recovery plans are developed and assessed is welcomed, anyway, it is also essential to take into account case-by-case, each specific situation of the insurance undertakings.
8	The aim of this Supervisory Statement is to promote supervisory convergence in the application of the supervisory ladder, in particular addressing the recovery plan required in case of breach of the SCR. This Supervisory Statement is developed to be applicable at any time. However, one specific paragraph is included addressing supervisory expectations on recovery plans to be developed in the context of the Covid-19 pandemic.	
<b>OBSERVATION OF NON-COMPLIANCE</b>		
9	Insurance and reinsurance undertakings should consider as the date of non-compliance with	We find this clarification as a good progress. Considering the supervisory effects of a breach and the tools given to the NSAs in these situations it is welcome to harmonize how to treat the

	<p>the SCR the date on which non-compliance with the SCR has been observed through their ongoing monitoring. Accordingly, supervisory authorities should consider as the start of the two-months period - prescribed for the submission of the recovery plan - the date of observation of a breach of the SCR as indicated by the undertaking in its notification to the supervisory authority, regardless of quarterly/annual reporting.</p>	<p>starting point. Anyway insurers might have different on-going 'soft' analysis tools to control their solvency ratios. In case of a breach of SCR by any such a reporting would require a confirmation using the 'full and accurate calculation' to ensure the result. With this there might be technical problems on being able to run the calculation before say end month or even in some cases end quartile. Solvency II framework is complex so any official calculations cannot be done without the technical process to be available.</p> <p>Finally, it is important to reiterate that Solvency II already provides very high levels of policyholder protection and safeguards that need to be duly considered.</p>
10	<p>In case an undertaking did not detect and hence did not inform the supervisory authority about the breach of the SCR and this non-compliance is first established by the supervisory authority (e.g. during an on-site inspection), the date of observation of a breach and therefore starting date for submitting a realistic recovery plan should be the date indicated by the supervisory authority in its notification to the concerned undertaking [1].</p> <p>[1] If an undertaking fails to detect a breach of the SCR, this issue should be assessed and followed by the supervisory authority, in particular from a governance perspective.</p>	



REQUEST OF A RECOVERY PLAN		
11	<p>Insurance and reinsurance undertakings are required to submit to the supervisory authorities a realistic recovery plan within two months upon the observation of a breach of the SCR.</p>	
12	<p>If the undertaking adopted prompt recovery measures which restored compliance with the SCR within two months and these measures are considered by the supervisory authority as adequate to preserve a sustainable solvency situation, including an assessment of a forward-looking perspective of the solvency position, the supervisory authority may consider that the submission of recovery plan is not needed. The undertaking should at least engage in a supervisory dialogue and submit to the supervisory authority, within the same period of two months, relevant and adequate information to allow a proper assessment of the causes for the non-compliance, the solvency situation, including on the assumptions, scenarios and measures supporting the sustainability of the restored solvency position. Based on this</p>	<p>We find this guidance helpful in streamlining procedures in temporary crisis situations that can be easily recovered. We would bring out that there might be technical and operative issues to fully analyse the cause of the SCR breach and find that proportionality here would be certainly useful.</p>

	information, the supervisory authority should assess if additional information, measures or a recovery plan are needed.	
<b>CAUSES OF NON-COMPLIANCE</b>		
13	<p>Supervisory authorities should request from insurance and reinsurance undertakings, as part of the recovery plan, an analysis of the causes of non-compliance and of any shortcomings in their risk management system, including possible inadequacy of:</p> <ul style="list-style-type: none"> <li>a) internal risk appetite;</li> <li>b) quantitative or qualitative indicators/measures;</li> <li>c) overall risk tolerance limits;</li> <li>d) metrics used within the risk management system to measure risks;</li> <li>e) stress test framework;</li> <li>f) monitoring process.</li> </ul>	<p>The IRSG is of the opinion that an analysis of the causes of non-compliance with the SCR is indeed necessary to promote best recovery practices. However, this should be an introductory analysis to the actual recovery plan in which all necessary actions are outlined.</p> <p>It is positive that NSAs consider that the breach of the SCR can have various reasons. If the problems have arisen as a result of shortcomings within the company, certain types of measures may be required to re-establish SCR. However, if the difficulties result from external circumstances, a different approach may be required. (e.g. Covid-19)</p> <p>But it is important not to forget that the plan is an “emergency plan” for restoring SCR and the purpose must first and foremost be to accomplish this. A plan should therefore not be refused when it in fact realistically is likely to lead to fulfillment of the SCR. (Art 138.3)</p> <p>Demanding a long assessment of internal circumstances could prolong the period to much which would not be in harmony with the directive.</p>
14	14. If the causes of the breach of the SCR have impact also on business operations of the undertaking, in particular with regard to critical processes and	

	<p>functions (such as policy administration, claims handling, investment management, reinsurance arrangements or information technology services), the undertaking should indicate, as part of the recovery plan, how it intends to ensure the appropriate day-to-day operation, including governance aspects.</p>	
<p><b>ASSUMPTIONS AND SCENARIOS OF THE RECOVERY PLAN</b></p>		
15	<p>Insurance and reinsurance undertakings should take at least the following into account when preparing their recovery plan in accordance with Article 142 of Solvency II, considering the proportionality principle, the level of non-compliance with the SCR and the possible duration of the deterioration of the undertaking's financial conditions:</p>	<p>We would emphasise that the principle of proportionality has an important role here that needs to be taken duly into account.</p>
15 a)	<p>the forecast balance sheet and estimates should be based on realistic assumptions both in relation to the economic scenarios and business of the undertaking, supported by justifications;</p>	
15 b)	<p>the assumptions should be tested for the different business lines, involving the key</p>	

	functions, and where applicable and appropriate the parent company, subsidiaries and branches;	
15 c)	the scenarios should consider any foreseeable and probable relevant adverse events that can occur in the forecasted period considering undertaking's business model and strategy;	
15 d)	the forecast balance sheet and estimates should reflect a recalculation of the future cash-flows considering the economic scenarios defined;	
15 e)	the forecast balance sheet and estimates should reflect an assessment of the business exposures related to the risk coverages or guarantees of the insurance products and explain how that assessment was reflected in the valuation of liabilities; this should include the assessment of probable adverse events and policyholder behaviour including lapses, cancellations, increasing claims and potential litigation over compensation disputes, depending on the risk exposures if justified by the economic environment;	

15 f)	in case the forecast balance sheet and estimates reflect the implementation of management actions leading to investment gains, reduction of expenses/commissions or release of technical provisions, those actions should be consistent with the business strategy and with any re-calculation of the technical provisions, loss absorbing capacity of deferred taxes or loss absorbing capacity of technical provisions;	
15 g)	following the assessments referred to in the previous points, the expected future profits should be reassessed based on a revised plan for the next business period(s).	
16	16. When preparing recovery plans in the context of the Covid-19 pandemic, undertakings should take the following specific points into account in addition to Point 15:	The IRSG would like to bring out that the context of Covid-19 is just one example of the abovementioned situation when the breach is due to external occurring. It is important that the statement is not limited to a single phenomena but is given a more general wording and therefore applicable in situations of crisis or other extraordinary events.
16 a)	realistic assumptions both in relation to the economic scenarios and business of the undertaking are expected to reflect a possible economic downturn and its impact on the undertaking's business models including premiums estimates,	

	to consider (i) volatility of the financial markets, (ii) changes in yield curves, (iii) probable mass downgrades of credit ratings and (iv) possible positive correlation of some asset classes under the current environment;	
16 b)	the economic scenarios should consider how the Covid-19 pandemic might evolve including possible further waves;	
16 c)	the forecast balance sheet and estimates should reflect an assessment of the business exposures related to the risk coverages or guarantees of the insurance products, including possible new products launched and/or products stopped being commercialised or substantially changed in light of the Covid-19 pandemic, and explain how that assessment was reflected in the valuation of liabilities. This should include the assessment of possible decrements and policyholder behaviour including lapses, cancellations, increasing claims and potential litigation over compensation disputes, depending on the risk exposures.	
17	Supervisory authorities should assess the reliability of the	

	assumptions and methods based on the rationale provided by the undertakings and considering the marketability of assets under the different scenarios, plausibility of valuations, risk concentrations and the undertakings' business model.	
18	Concerning projections for cross-border underwriting activities, supervisory authorities should exchange information to capture local specificities, in particular to assess the reliability of the economic scenarios for the cross-border business and enhance a common understanding of the economic scenarios being considered and of the solvency position of the undertaking.	
19	Supervisory authorities should make use of European cooperation forums, where appropriate, such as colleges of supervisors and cooperation platforms to foster convergence of approaches across Member States.	
RECOVERY MEASURES		
20	Insurance and reinsurance undertakings should detail the	We would remind that as indicated in the SII Directive (art. 138), the focus of the recovery measures should be on the re-

	<p>realistic and timely recovery measures to restore their solvency position and sustain it in a medium to long-term period, also considering the internal risk of tolerance limits established in the undertakings' risk appetite framework.</p> <p>Changes and improvements for the risk management system to address possible shortcomings as referred in Point 13 should be detailed.</p>	<p>establishment of the level of eligible own funds covering the SCR or the reduction of the risk profile to ensure compliance with the SCR within a required timeframe. The reference to the solvency position in a "medium to long-term period" is vague and does not appear to be fully in line with the requirements of the Directive.</p>
21	<p>The recovery plan should document the feasibility of the recovery measures, including foreseeable and probable relevant adverse events and explain:</p>	
21 a)	<p>the impact on the undertaking's solvency and liquidity;</p>	
21 b)	<p>the timeline for implementation and the expected time needed to observe the benefit of the measure;</p>	
21 c)	<p>where applicable, past experience, interconnectedness' implications, changes to the business model and to the risk profile.</p>	
22	<p>Undertakings should include in the recovery plan a comprehensive implementation</p>	



	<p>plan, breaking it down into specific actions and timelines for each step with a feasibility assessment having in mind the potential situation of the market, the extent to which implementation depends on third parties, risks, mitigation measures and where relevant alternatives.</p>	
23	<p>Supervisory authorities should assess if there is sufficient evidence that the proposed recovery measures can be implemented in a timely and effective manner in the current environment and over the recovery period. Recovery measures without a properly described and justified impact and feasibility assessment should not be considered reliable.</p>	
24	<p>Supervisory authorities should further consider contagion effects, including cross-sectoral and possible procyclical effects.</p>	
<p>RECOVERY PERIOD</p>		
25	<p>Insurance and reinsurance undertakings can foresee in the recovery plan a period longer than six and up to nine months to restore compliance,</p>	<p>The IRSG is of the opinion that the maximum recovery period (nine months) in order to restore compliance is too restrictive, it would be preferable to extend it to twelve months at least which correspond to the length of accounting period or specific underwriting processes. Indeed, some recovery measures may last longer than nine months: for example the suspension of the</p>

	explaining the reason why six months would not be enough.	payment of dividends. In the case where non-compliance with the SCR is observed just after the payment of dividends, the undertaking will have to wait twelve months to implement this recovery measure.
26	<p>When a period longer than six months (up to nine months) is requested by the undertaking in the recovery plan, the supervisory authority should, as a first step, review the recovery plan[2], evaluate the recovery measures, assess the reasons for the additional time requested, assess if the time proposed is consistent with the implementation of such measures and if the market conditions allow for such implementation.</p> <p>[2] If the extension of the recovery period is requested before the recovery plan is formally submitted, then at least the main points of the plan need to be communicated to the supervisory authority.</p>	
27	In case the extension is requested towards the end of the sixth months of the recovery period, the supervisory authority should consider whether sufficient progress or positive outlook is observed during the initial recovery period, whether the extension is in the best interests of	

	policyholders and whether there is not a significant risk for the breach of the Minimum Capital Requirement.	
MONITORING AND NON-COMPLIANCE AT THE END OF THE RECOVERY PERIOD		
28	After a recovery plan has been submitted, insurance and reinsurance undertakings should notify supervisory authorities of any significant change in the extent of the solvency or liquidity shortfall.	
29	If compliance with the SCR is not restored within the prescribed recovery period, the supervisory authorities should impose additional measures. These measures may vary depending on the specific situation and national laws and should be proportionate, taking into account in particular (i) the level of non-compliance with the SCR, (ii) the duration of the deterioration of the undertaking's financial conditions and (iii) the sustainability of the applied measures by the undertaking to restore its solvency for a medium to long time horizon. These measure should always	We welcome a clarification of Article 138 of the Directive that only when the SCR ratio is <u>below</u> 100% that the compliance should be restored.

	<p>consider the interests of policyholders, which may justify restrictions to writing new business and/ or constraints to the free disposal of assets. Depending on supervisory powers under national laws, supervisory authorities should also consider subjecting certain operations to prior supervisory approval or impose specific governance changes or transactions.</p>	
30	<p>If the non-compliance situation has not improved or if at any time the supervisory authority concludes that the measures in place will not allow the recoverability of the solvency position in a sustainable manner and that the interests of the policyholders are not properly safeguarded, the supervisory authority should consider to withdraw the undertaking's authorisation in accordance with the conditions of Article 144 of Solvency II.</p>	<p>We would mention that if the non-compliance situation has not improved and the solvency position of the undertaking continues to deteriorate, art. 141 specifies that supervisory authority shall have the power to take all measures necessary to safeguard the interests of policy holders. Those measures shall be proportionate and thus reflect the level and duration of the deterioration of the solvency position. The withdrawal of undertaking's authorization, according to art. 144, is a further step, in the event that the undertaking does not comply with the Minimum Capital Requirement (MCR).</p>
<p>QUESTIONS TO SUPPORT THE IMPACT ASSESSMENT</p>		
3	<p>In preparing the Statement on Supervisory practices and expectations in case of breach of the Solvency Capital Requirement, EIOPA took into consideration the general</p>	

<p>objectives of the Solvency II Directive, namely:</p> <ul style="list-style-type: none"> <li>- adequate protection of policyholders and beneficiaries, being the main objective of supervision;</li> <li>- financial stability; and</li> <li>- proper functioning of the internal market.</li> </ul> <p>The drafting of the Statement is also guided by EIOPA’s statutory objectives, as reflected in the Regulation of the Authority, notably:</p> <ul style="list-style-type: none"> <li>- improving the functioning of the internal market, including in particular a sound, effective and consistent level of regulation and supervision,</li> <li>- ensuring the integrity, transparency, efficiency and orderly functioning of financial markets,</li> <li>- preventing regulatory arbitrage and promoting equal conditions of competition,</li> <li>- ensuring the taking of risks related to insurance, reinsurance and occupational pensions activities is appropriately regulated and supervised, and</li> </ul>	
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	<p>- enhancing customer protection.</p> <p>To analyse the impact of the proposed supervisory convergence measures, the final impact assessment to be developed ex-post this public consultation foresees that a baseline scenario is applied as the basis for comparing supervisory convergence options. This will help to identify the incremental impact of each action considered in this supervisory statement. The aim of the baseline scenario is to explain how the current situation would evolve without additional intervention creating level playing field in the application of the supervisory ladder, in particular addressing the recovery plan required in case of breach of the SCR. The answers of the four last questions in the survey will be taken into account when assessing the impact of the suggested convergence practices.</p>	
3.1	<p>Insurance and reinsurance undertakings should consider as the date of non-compliance with the SCR the date on which non-compliance with the SCR has been observed through their on-going monitoring and they are</p>	<p>Yes, we find this to be a correct clarification to foster convergence processes. Anyway on the observation date we would bring out that insurers might have different on-going 'soft' analysis tools to control solvency ratios. In case of a breach of SCR by any such a reporting would require a confirmation using the 'full and accurate calculation' to ensure the result. With this there might be technical problems on being able to run the calculation before</p>

	<p>required to submit to the supervisory authorities a realistic recovery plan within two months upon the observation of a breach of the SCR. In case non-compliance being first detected by the supervisory authority, the date of observation of a breach and therefore starting date for submitting a realistic recovery plan should be the date indicated by the supervisory authority in its notification to the concerned undertaking. Is the suggested approach in relation to the observation of non-compliance expected to achieve more convergence in terms of undertaking's internal functioning, interaction with the NCAs and level playing field a national and European level?</p>	<p>end month or even in some cases end quartile. Solvency II framework is complex so any official calculations cannot be done without the technical process to be available. Insurers could inform their supervisors of any non-compliance detected via their soft tools but any more official process would require the official solvency reports to be available. Sufficient time to provide this should be allowed. Also any deep analysis of the causes of non-compliance would require the official solvency reports to be available.</p> <p>We would also welcome more specific definition of “the date on which non-compliance has been observed through their ongoing monitoring”. For instance, would this be the date on which the non-compliance is first notified to the Board of the undertaking? Where non-compliance is first detected by the supervisory authority, the proposal that the starting date for submitting the recovery plan would be at the discretion of the supervisory authority may lead to divergence in practice between authorities.</p> <p>Finally, according to the regulation (<i>Article 136 of Directive 2019/138</i>)</p> <p>) insurers should also warn supervisory authorities of SCR breaches not only once they occurred but anytime they foresee such a breach from their forward-looking assessment. Therefore, an action should be expected to be undertaken towards a recovery plan not only upon the point of observation of a breach but also upon the point of observation of a future breach within 3 months (as under the context of article 138)</p>
3.2	<p>If the undertaking adopted prompt recovery measures which restored compliance with the SCR within two months in a sustainable matter considering as well the forward-looking perspective, the supervisory authority may consider that the submission of recovery plan is</p>	<p>Yes, the IRSG believes that it seems reasonable to bring flexibility into situations where the insurer has been able to make fast and efficient actions in order to increase its solvency position. A market practice is to have well defined solvency ratio based traffic lights with actions that can be executed efficiently. This approach is very helpful in streamlining procedures in temporary crisis situations that can be easily recovered, seems to promote the use of the principle of proportionality and hopefully would also limit the burden on undertakings in this</p>

	<p>not needed. The undertaking should at least engage in a supervisory dialogue and submit to the supervisory authority, within the same period of two months, relevant and adequate information to allow a proper assessment of the causes for the non-compliance, the solvency situation, including on the assumptions, scenarios and measures supporting the sustainability of the restored solvency position. Is the suggested convergence approach expected to limit the burden of preparing a recovery plan when considered as not needed by the NCA and to support the dialogue with the supervisor to agree on a plan for preserving stable restored solvency position and support the level playing field a national and European level?</p>	<p>position. We also bring out that it should work on a forward looking perspective, bringing the best ways for the insurer to survive from the difficult situation, ensuring the best protection for the policyholders.</p>
<p>3.3</p>	<p>In the course of preparing recovery plan in accordance to Art. 142 of the Solvency II Directive undertakings should take into account additional specific points in the context of the Covid-19 pandemic, such as: (i) reflecting a possible economic downturn and its impact on the undertaking's business models in the economic scenarios and the</p>	<p>We find that the suggestions brought forward in light of the Covid-19 do make sense but might not need to be specifically mentioned as any recovery plan should have a forward looking perspective in order to be sustainable. Any forward looking perspective for sustainability implies stress testing against adverse scenarios.</p> <p>Moreover, the consultation paper addresses breach of the SCR requirement in all circumstances and is not limited to circumstances in which the Covid-19 pandemic is prevalent or is a cause for a breach. Covid-19 is therefore one of a potentially</p>



	<p>business plans; (ii) considering involvement of the Covid-19 pandemic; (iii) reflecting on possible new products launched and/or products stopped being commercialised or substantially changed in light of the Covid-19 pandemic in the valuation of liabilities. Is the suggested convergence approach in the course of preparation of the recovery plan in the context of Covid-19 expected to help undertakings to better incorporate the expected impact of Covid-19 while assessing the forward looking solvency position?</p>	<p>large number of issues which could give rise to a breach, and its existence (or the possibility of future pandemic) should be part of the consideration of scenarios for the purpose of Section 15. Specific guidance in relation to consideration of Covid-19 in this paper may lead to disproportionate focus on Covid-19 where other variables and/or risk factors merit at least as much attention</p>
<p>3.4</p>	<p>Insurance and reinsurance undertakings can foresee in the recovery plan a period longer than six and up to nine months to restore compliance, explaining the reason why six months would not be enough. Is the suggested approach in relation to the extension of the recovery period (when requested at its beginning and towards its end) expected to bring more convergence in terms of undertaking's effective continuous work on recovering the solvency position, the interaction with the NCAs and level playing field a national and European level?</p>	<p>The IRSG is of the opinion that the maximum recovery period (nine months) in order to restore compliance is too restrictive, and it would be preferable to extend it to twelve months. We find several reasons to this suggestion, as</p> <ol style="list-style-type: none"> <li>(1) insurers will need some time to verify the actual SCR breach by 'full-running' their solvency processes with are conditional to several technical matters,</li> <li>(2) analysing the cause of SCR breach which can also have internal reasons in addition to external ones and then deciding on the needed actions,</li> <li>(3) executing the actions promptly, yet using suitable discretion in the timing. We find that the twelve months corresponds to the length of accounting period or specific underwriting processes, there is business models in place that would benefit of this approach, and that some recovery measures may last longer than nine months: for example, the suspension of the payment of dividends. In the case where non-compliance with the SCR is observed just after the payment of dividends, the undertaking will have to wait twelve months to implement this recovery measure.</li> </ol>

		<p>Finally, where a breach occurs following an “exceptional adverse situation”, potentially affecting a number of undertakings at once, the period in which solvency is required to be restored can be extended to up to seven years. This possibility should also be considered in the paper.</p>
3.5	<p>Is there any other area regarding the supervisory practices and expectations in case of breach of the Solvency Capital Requirement where you believe further supervisory convergence is needed?</p>	<p>In our opinion a way forward to strengthen supervisory practices could be through an increased focus on the set of corrective management actions defined within insurance undertakings and documented well before any point of breach with the foreseen escalation process within the corrective management actions. The approach should be proportionate but seems necessary in order to avoid rushing recovery plans within 2 months upon point of breach. It would enhance protection and convergence.</p>