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# Insurers in crisis

A brief introduction to Preparatory Crisis Plan (PCP)

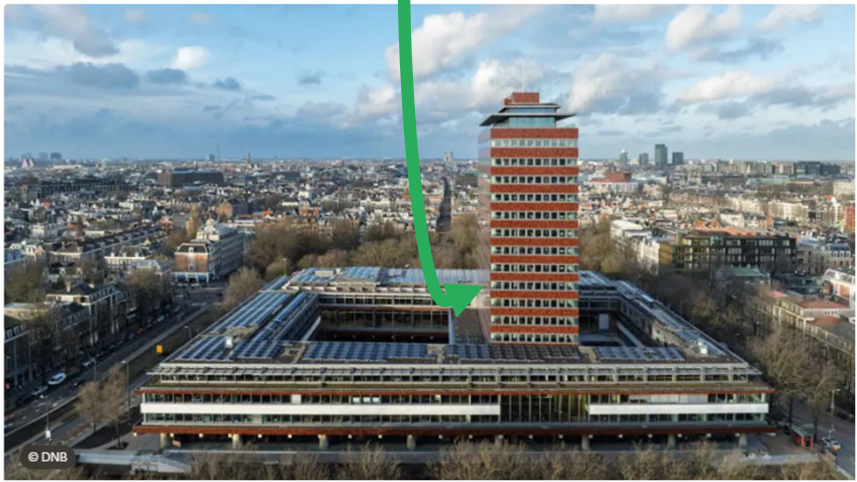
DeNederlandscheBank

EUROSYSTEM

Marc Uiterdijk  
Youssef Achnine

# Introduction: Insurance Supervision at DNB

DNB organisation chart as of 1 January 2025



## Our team: International Insurance Groups

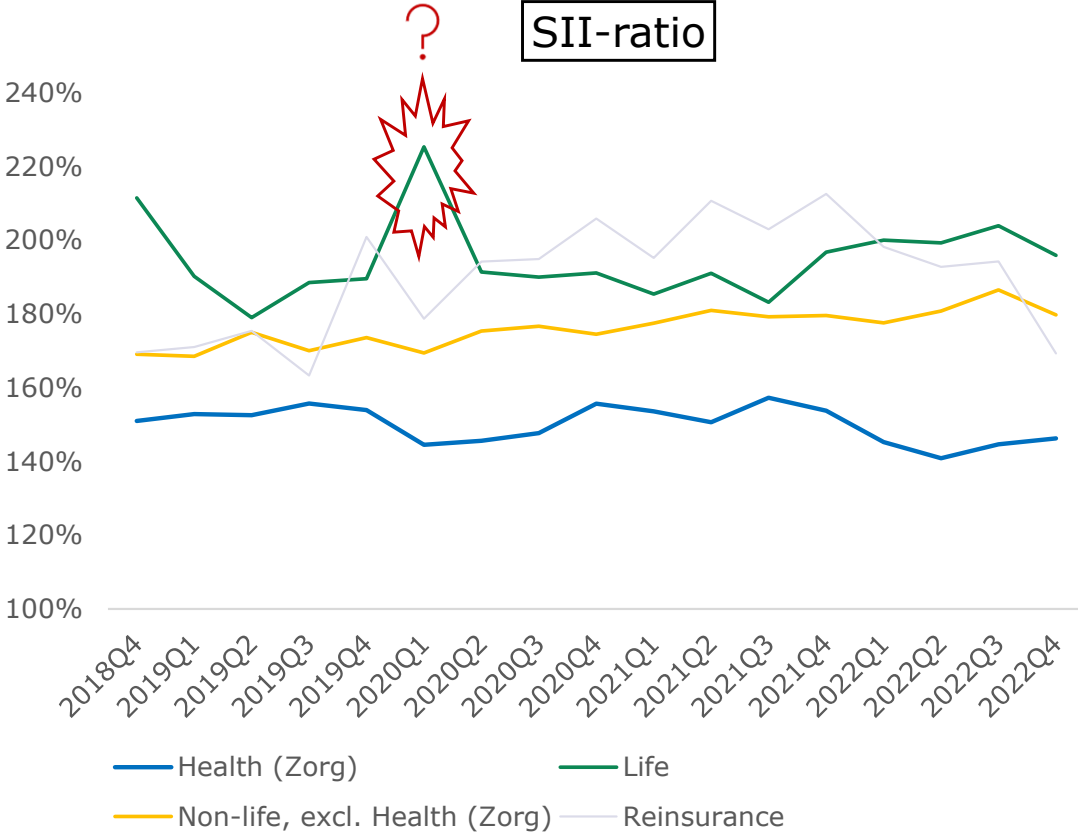
- Team exist of 12 people (1 year to > 25 year working experience)
- First point of contact with DNB for the international insurance groups
- General supervisors with different work and educational backgrounds (“huisartsen”)
- Extensive collaboration with expert departments (“medisch specialisten”)
  - Business models, governance and behavior
  - IT/Cyber, Operational Risk & Resilience
  - Financial Risks
  - Capital and actuarial risks
- Youssef Achnine: actuary, ~ 5 years at DNB, 13 years experience in insurance sector
- Marc Uiterdijk: actuary, 13 years at DNB, 25+ years experience in insurance sector

# Agenda

1. Overview SII-ratio during Covid-19 on the insurance sector
2. DNB supervision & Covid-19 pandemic
3. Sector-wide survey 2021: Observations on insurers
4. Introduction to Preparatory Crisis Plan for insurers (PCP)

# SII-ratio on quarterly basis

- A lot of financial uncertainty (investments & claims)
- Final impact remained rather 'manageable' (SII-ratio, COR,..).
- However, the operational impact was huge (Health insurance)
- 2 insurers with SII-ratio <100%: 1 in YE 2019 & 1 in YE 2020 → (Original) cause is unrelated to Covid-19



## DNB-Supervision during / after Covid-19 pandemic

- Covid-19 required closer monitoring of the financial and operational health of the institutions
- Several statements / recommendations from [EIOPA](#) including:
  - A temporarily suspend of all discretionary dividend distributions and share buy backs aimed at remunerating shareholders
  - Flexibility with some deadlines (supervisory reporting / public disclosures and assessments)
- Increased (in-) formal contacts with insurers: Calls and update meetings
- Increased contacts with the Ministry of Finance and (inter-)national supervisors including supervisor on the Health insurers (de Nederlandse Zorgautoriteit (NZa))
- Sector-wide surveys after Covid-19: Operational and financial risks (see next slides)
- Calibration of Health Risk Equalization System parameters '24 ➡ Relevant for Health insurers



# Observations on insurers & Covid-19 pandemic

- DNB Good Practice (December 2021)
- The good practice considers several aspects: We focus here on **Plan** and **Do**
- The good practices should be considered together with other DNB publications



# Observations on insurers & Covid-19 pandemic

## Plan - Preparation

- Governance:



- Insurers had a Business Continuity Plan (BCP) that is frequently tested (Uitvraag Niet-Financiële risico's)

- Risk management



- Risk identification: Almost all insurers mentioned in their risk management report the risk of a pandemic (before Covid-19) as a potential risk and about 32% discussed indirect consequences including a possible lockdown.
- Scenario analysis: Direct operational and/or financial impact on 80% of insurers. Only 33% of them had a pandemic scenario in the ORSA of 2019 or earlier.



# Observations on insurers & Covid-19 pandemic

## Do – Execution

- Risk management
  - Performance of Governance: 90% of insurers fell back on existing policy documents (BCP, ORSA, working from home policies, governance as in PCP). Also, early establishment of a Crisis Management Team (CMT) was very useful
  - Risk identification and management: Overall satisfaction by insurers on their risk management, speed of the risk assessment, identification of the risks and scenarios, and cooperation with the Board of Directors and Supervisory Board
  - Decision making: Adjustment of product conditions, postponement profit distribution etc.. with testing to risk appetite and tolerance. Risk management function involvement was positively experienced

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- 4. Introduction to Preparatory Crisis Plan for insurers (PCP)**

# Prudential Legislation for Insurers in the EU

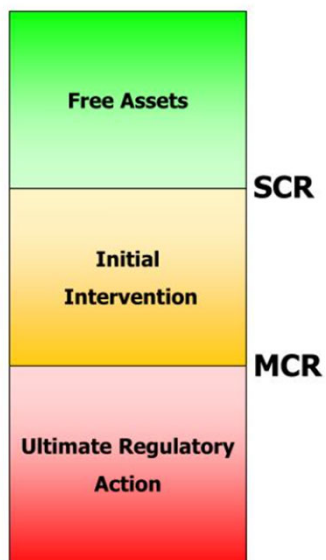
- **Level 1: Solvency II Directive 2009/138**
  - Lays down the general principles
  - Must be incorporated in the local law of each EU state
- **Level 2: Solvency II Delegated Regulation 2015/35**
  - Contains more a detailed elaboration of the Directive
  - Has direct effect (no need to incorporate in local law)
- **Level 3: EIOPA guidelines**
  - National supervisory authorities are required to incorporate them following a “comply or explain” process.

# Solvency Requirements for Insurers in the EU

**Double trigger:** If the financial position of an insurer deteriorates, then first the **SCR** is breached. This gives an insurer recovery time. However, if the solvency position further deteriorates, then the **MCR** will be breached. If this situation persists, then after 3 months its permit will be withdrawn.

## Solvency Capital Requirement (SCR)

- Higher than MCR
- Complicated calculation
- Risk based (more risk -> higher SCR)
- Possibility of internal model
- 6 months recovery time after non-compliance



## Minimum Capital Requirement (MCR)

- Lower than SCR
- Simple calculation
- Not (very) risk based
- No internal model
- 3 months recovery time after non-compliance
- Permit is withdrawn in case no recovery is reached after 3 months

# The Insurers Recovery and Resolution Act (1)

- Dutch law, not European law
- Largely aligns with the recently published but not yet implemented Insurance Recovery and Resolution Directive (**IRR**D)
- The objective of the law is the orderly resolution of a failed or failing insurer:
  - In practice, the regulatory toolbox proved to be insufficient
  - No more state support at the expense of the taxpayer
  - Payments to policyholder may be reduced (as a last resort)
  - Separate resolution authority
  - Preparation including (i) recovery and resolution planning and (ii) the removal of impediments

# The Insurers Recovery and Resolution Act (2)

## 1. Preparatory requirements

- Preparatory crisis plan (PCP) by insurer: ex ante exploration of the recovery possibilities for a failing insurer.
- Resolution plan by DNB: ex ante exploration of the orderly resolution of a failing insurer.
- Removal of impediments for resolution (on the request of DNB given the outcome of the resolution plan).

## 2. Framework for the actual resolution

- Beyond the scope of this presentation.

# Confusing (legal) terminology

Plan	By whom?	When?	Legal basis
<b>Recovery plan</b> Herstelplan	Insurer	In case of actual <u>non-compliance with SCR</u> ; must lead to recovery in 6 months.	Article 3:135 Wft
<b>Short-term finance scheme</b> Financieel kortetermijnplan	Insurer	In case of actual <u>non-compliance with MCR</u> ; must lead to recovery in 3 months.	Article 3:136 Wft
<b>Preparatory crisis plan</b> Vorbereidend crisisplan	Insurer	Required preparatory measure; ex ante exploration of <u>recovery</u> possibilities after a substantial deterioration of the financial position.	Article 3:288i1 Wft
<b>Resolution plan</b> Afwikkelplan	DNB	Required preparatory measure; ex ante exploration of the <u>resolution</u> possibilities in case the insurer is failing or likely to fail; may identify impediments for resolution which must be removed on request of DNB.	Article 3a:81 Wft





# Preparatory crisis plan

## What is the PCP?

- Analyzing opportunities in the situation that there is an underrun of the capital requirements and the going concern starting position may come under pressure. The main goal is to think in advance about measures can be taken in crisis situations
- PCP focuses on a **financial** crisis situation for the insurer
- Mandatory since the 1<sup>st</sup> of January 2019 (The Insurers Recovery and Resolution Act): Set up and updated at least once every three years

## PCP should contain

- A thorough description of the insurer
- Identification of recovery measures;
- Degree of deployability and indication of the financial and operational effect of the recovery measures;
- Elaboration of crisis scenarios that fit the risk profile;
- Triggers for activation of the preparatory crisis plan such as breaking the SCR and/or MCR

# Preparatory Crisis Plan versus Own Risk and Solvency Assessment

## Preparatory Crisis Plan (PCP)

- **Aim:** to prepare for a recovery if an insurer is failing
- **Starting point**
  - a situation of non-compliance with SCR
  - a situation of non-compliance with MCR
  - a situation of serious liquidity issues
- **Consists of (3 yearly)**
  - Identification and feasibility assessment of recovery measures
  - Elaboration of relevant crisis scenarios
  - Crisis management and its governance
- **Legal basis:** article 3:288i1 Wft

## Own Risk and Solvency Assessment (ORSA)

- **Aim:** to ensure the continuity of the insurer
- **Starting point**
  - actual solvency position
  - actual risk profile and business model
  - actual risk management framework
  - going concern situation
- **Consists of (yearly)**
  - Forward-looking risk assessment via scenario analyses which give insight into the capital needed in a going concern situation
- **Legal basis:** article 45 Solvency II Directive

# Crisis scenarios in the PCP - examples

	Slowly developing (few years)	Quickly developing (few months)
Systematic	?	?
Idiosyncratic	?	?

## General considerations

- Appropriate and relevant scenarios considering the risk profile of the insurer
- For the bigger institutions at least one scenario for each quadrant
- If possible, it is advised to cluster similar scenario's
- The scenario must be sufficiently concrete for the feasibility assessment of the recovery measures

# Preparatory Crisis Plan (PCP): Recovery measures (1)

Overzichttabel herstelmaatregelen

Samenvattende tabel Herstelmaatregel	Eigenaar (comitee)	Potentiële impact Eligible Own Funds (mln)	Potentiële impact SCR (mln)	Potentiële impact liquiditeit (mln)	Geschatte implementatietijd (maanden)	Belangrijkste aannames tav genoemde impact	Belangrijkste geïdentificeerde belemmeringen mbt implementatie	Aantrekkelijkheid in stress-situatie X	Aantrekkelijkheid in stress-situatie Y	... (etc)
korte beschrijving Herstelmaatregel A										
korte										

### Feedback loop between PCP, ORSA and capital policy:

- Start with the assumption that no recovery measures were executed in the run-up to the crisis;
- Assess the effectiveness and feasibility of the recovery measures;
- If not sufficiently effective, assess if measures should be triggered earlier.

## Preparatory Crisis Plan (PCP): Recovery measures (2)

### **Important attributes of the recovery measures**

- Owner of the measure
- Potential impact (OFs, SCR, liquidity)
- Implementation time
- Underlying assumption regarding the potential impact
- Impediments for the implementation
- Attractiveness of the measure given the particular stress scenario



Financial,  
operational  
& legal  
feasibility

# Preparatory Crisis Plan (PCP): Common recovery measures

Recovery measure	Possible attention points (not limited)
External reinsurance (extension)	Reduces earning capacity, increases dependence on reinsurers, Knowledge of the (specific) reinsurance business
Capital injection	Is there capital to inject? Insurer must be able to generate sustainable profits
Sale of portfolios / business units	Transaction price must be higher than balance sheet value Effects on diversification benefits
Adjusting asset mix and reducing SCR market risk	Earning capacity must be sufficient
Reduce project costs and staff	Potentially creates unrest, key person risk
Premium increases (usually en-bloc)	Depending on context and cause, anti-selection, reputational risk and legal risk
Suspension of dividend payment to shareholder	Ability to raise capital in the future is declining
Run-off	Dependent on solvency

## Other aspects of the PCP

### i. **Crisis management governance**

- What is the structure of the crisis management governance?
- When will it come into effect? How is the decision-making?
- How do you ensure continuous operation of critical business processes?

### ii. **Communication plan**

- Breaching SCR / MCR ➡ Possible reason for external publication
- A concrete communication: Maintaining confidence of stakeholders



## Take aways

- Be prepared: A crisis can take insurers by 'surprise': Covid-19 pandemic and geopolitical tensions
  - SII-figures may not tell the whole story (see SII-spike for Life insurers slide 5)
- Avoid surprises: Analyze the effectiveness of recovery measures and possible impediments while thinking in scenarios
  - PCP focuses primarily on financial impact, but operational impact is also of great importance
- Learn from your experience and re-evaluate your plans

*"By failing to prepare you are preparing to fail"*

# Questions & Discussion

