ESRB
European Systemic Risk Board
European System of Financial Supervision

Press release

26 November 2018

ESRB publishes report on macroprudential provisions, measures and instruments for insurance

The European Systemic Risk Board (ESRB) has today published a report on macroprudential provisions, measures and instruments for (re)insurance. Given the importance of the (re)insurance sector, the report serves as an input to ongoing Solvency II discussions on strengthening the regulatory framework for (re)insurers from a macroprudential perspective. It complements work undertaken by the European Insurance and Occupational Pensions Authority (EIOPA).

The ESRB has identified options that could further strengthen the macroprudential framework for (re)insurance and target systemic risks. First, as part of making (re)insurers safer in order to protect policyholders, the ESRB sees merit in a proportionate extension and enhancement of prudential reporting requirements. Second, as part of providing legal certainty in case an (re)insurer runs into difficulties and to ensure that any failure is orderly, the ESRB sees financial stability benefits in developing a harmonised EU-wide recovery and resolution framework. Third, the ESRB considers the following elements promising for the creation of a macroprudential toolkit to target systemic risks for (re)insurers:

- power for authorities to impose entity-based and/or activity/behaviour-based market-wide capital increases and dividend restrictions in situations where insurance market developments could generate systemic risk;

- power for authorities to intervene in exceptional circumstances, such as when policyholders terminate their insurance policies in large numbers;

- symmetric capital requirements that help dampen procyclical behaviour during downturns and prevent the build-up of sectoral vulnerabilities during upturns;

- liquidity requirements for insurers with a vulnerable liquidity profile;

- instruments to target bank-like activities to ensure cross-sectoral consistency of macroprudential policy.

Further work on these options should take into account international developments and changes in current regulation and determine the appropriate level of legislation. While the implementation of these options at the EU level would provide all authorities with the necessary tools and flexibility to address a wide range of systemic risks, the modalities of certain options could differ across jurisdictions to reflect differences in national (re)insurance markets.

These policy considerations should not be understood as formal ESRB warnings or recommendations, as defined by Article 16 of the ESRB Regulation.

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