

## **IRRD vs. BRRD**

**Specifics of the insurance market  
in the implementation of the directive**

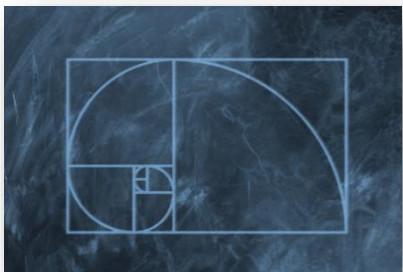


# IRRD PROVISIONS AND FLEXIBILITY OF POTENTIAL RESOLUTION SOLUTIONS IN POLAND

The European legislator has reduced and made more flexible the requirements imposed on insurance companies in the IRRD compared to those imposed on banks in the BRRD:

- ✓ Due to different solutions in individual EU countries (including the issue of IGS), the provisions of the directive are formulated in general terms, **and detailed aspects will be regulated primarily in level II and III acts**
- ✓ This introduces increased responsibility of Member States for the implementation of the directive, not giving ready-made solutions, and puts emphasis on meeting the requirements of level II and III acts by the sector and the resolution authority
- ✓ The flexibility of the IRRD provides broad opportunities for the implementation of the directive and, above all, the possibility to reflect the specifics of the insurance sector in Poland

## Implementation of the IRR Directive



## Minimal harmonization

we can **better reflect the specifics of the Polish** insurance market and the needs of customers, businesses and the Polish economy

we can adopt additional/different solutions than indicated directly in the Directive if they better take into account the Polish specifics, and are in line with the objectives of the Directive (e.g. solutions for mutual insurance companies)

## Proportionality

we may adopt simplified requirements for smaller entities or those generating lower risk or conducting less complex business

specific solutions should be written directly into the law to allow insurance companies and competent authorities to apply the principle of proportionality in practice

# WORK ON IRRD FROM THE EUROPEAN AND NATIONAL PERSPECTIVE

## European perspective



- Substantive work on the IRR directive has been completed - on January 19, 2024, the politically and technically agreed text of the directive was published
- EIOPA is working to develop proposals for level II and III legislation (including technical standards and guidelines) in the areas of recovery planning, operational issues, valuation, resolution plans and resolvability or legal issues
- EIOPA entrusted the BFG with the role of coordinating the work on resolution plans and resolvability
- Poland has engaged experts in all areas of EIOPA's work

## Poland's perspective in the context of the work in Brussels

- Increased work in Member States is moving toward the introduction of insurance resolution. An **early start of the work means that** both the market and the national resolution authority are **better prepared**



# INSURERS' RESOLUTION MUST NOT BE A COPY OF BANKS' RESOLUTION

## COMPARISON OF SELECTED ELEMENTS OF THE RESOLUTION SYSTEM IN BRR AND IRR DIRECTIVES

COMPARISON CRITERIA	BANKS (BRRD)	INSURANCE COMPANIES (IRRD)	BRRD VS. IRRD
SIMPLIFIED OBLIGATIONS FOR SMALL (NON-SYSTEMIC) ENTITIES	Yes	Yes	Existence of similar solutions
OBLIGATION TO PREPARE A RESOLUTION PLAN	All banks	For selected insurance companies only	<b>Limitation of the obligation</b> for the insurance sector and the flexibility of the rules allow Member States for appropriate implementation
RESOLVABILITY ASSESSMENT	Defined specific requirements	Generally defined framework	<b>Limitation of the assessment framework</b> for the insurance sector
RESOLUTION OBJECTIVES	Protection of depositors and entrusted funds	Protection of policyholders	<b>Making the framework tailored to the specifics</b> of the insurance sector
RESOLUTION TOOLS	Sale, bridge bank, bad bank, bail-in	Sale, bridge undertaking, bad insurer, bail-in, run-off	<b>Making the framework tailored to the specifics</b> of the insurance sector
FUNDING (INTERNAL)	TLAC/MREL requirement	No requirement	<b>No TLAC/MREL obligation</b> for the insurance sector
FUNDING (EXTERNAL)	Resolution fund (ex ante, with minimum amount requirements and specific access thresholds) and the so-called fiscal backstop	The need to provide financing (without specifying the amount, method of creation and use)	<b>More flexibility</b> and less stringent rules for the use of the fund for the insurance sector
REPORTING	Use of supervisory reporting and additional reporting requirements for the purpose of resolution planning and MREL requirement	Use of supervisory reporting, possibly additional data (to be worked out in the dialogue with the market)	<b>Reduction of the scope of reporting obligations</b>
INTERNATIONAL COOPERATION	Resolution colleges	Resolution colleges	Existence of similar solutions

# POSSIBLE IRRD IMPLEMENTATION OPTIONS

COMPARISON CRITERIA	BEST OPTION	OVERREGULATION
<b>SIMPLIFIED OBLIGATIONS FOR SMALL (NON-SYSTEMIC) ENTITIES</b>	Creation of a hierarchy of requirements with specific criteria for their application for certain entities	No statutory criteria, resulting in the lack of incentives to use simplified obligations in practice
<b>OBLIGATION TO PREPARE A RESOLUTION PLAN</b>	Only for entities for which resolution is the planned course of action in a crisis situation (taking into account the principle of proportionality as regards the scope of plans)	For most insurance companies, regardless of the planned course of action in a crisis situation (minimum harmonization as the possibility of a more restrictive approach to the scope of resolution planning in Poland)
<b>RESOLVABILITY ASSESSMENT</b>	Only for entities for which resolution is the planned course of action in a crisis situation (taking into account the principle of proportionality as regards the scope of plans)	For most insurance companies, regardless of the planned course of action in a crisis situation (minimum harmonization as the possibility of a more restrictive approach to the scope of resolution planning in Poland)
<b>RESOLUTION OBJECTIVES</b>	Consideration of the materiality of resolution objectives	Implementation without taking into account the materiality of resolution objectives
<b>RESOLUTION TOOLS</b>	Development of the regulations based on an assessment of their applicability in the local insurance market	Duplication of the provisions of the Directive without taking into account the specifics of the insurance sector, resulting in the need to implement additional solutions to ensure that resolution tools can be used
<b>FUNDING (INTERNAL)</b>	Building the insurance sector's loss absorption capacity based on current solvency requirements	Introduction of additional requirements for the insurance sector
<b>FUNDING (EXTERNAL)</b>	Adjusting both the method and the horizon of building a resolution fund to the financial capabilities of insurance companies and the insurance market in Poland as well as its needs	Building a resolution fund without assessing the actual goals of resolution funding and the specifics of the companies and the insurance market in Poland
<b>REPORTING</b>	Proportionality and maximum use of supervisory and reporting data already available (e.g. ESG reporting)	Covering all entities with the full new scope of reporting dedicated exclusively to resolution
<b>INTERNATIONAL COOPERATION</b>	Avoiding the creation of two standards of requirements at the individual and group level - the need to participate in the creation of European level II and III regulations	Failure to take into account the group perspective in national planning, resulting in the need to apply separate requirements resulting from international cooperation. High probability if host countries are inactive

# THE SPECIFICS OF THE INSURANCE MARKET AND THE SPECIFICS OF THE POLISH SECTOR

## INSURANCE VS. BANKING

- ✓ Banks and insurers differ in their business model. Banks provide capital, i.e. for investments, while insurance companies collect the risks of those investments from the market and manage those risks through diversification and coordinated transfer. In addition, insurers assume the risk of loss of life and health of the people making these investments, thus reducing the banks' exposure to such risks.
- ✓ The balance sheet of an insurance company does not fully reflect its functions performed for the economy and citizens.
- ✓ No equivalent to the interbank market. Different structure of insurers' relationship with the financial system. Different from banks, which make up the interbank market. On the other hand, insurers do not have the liquidity backstop system that the central bank gives to banks.

## SPECIFICS OF POLAND COMPARED WITH THE EU

- ✓ Poland is primarily a host country. The capital and ownership structure of insurance companies influences their decisions on the operations and development of the companies in the Polish market.
- ✓ The structure of the insurance market and ongoing consolidation is making individual insurers increasingly important as providers of insurance services.
- ✓ Key insurers performing critical functions to Polish citizens and the Polish economy are not only the largest insurers in the market.
- ✓ The scope and level of protection of the insured persons under the Insurance Guarantee Fund differs from similar solutions elsewhere in EU member states.

Polish experience with resolution in the banking system is a valuable experience also from the EU perspective. It can serve to identify obstacles and avoid possible similar problems on the insurance sector. However, solutions developed in the banking sector cannot be unreflectively copied without taking into account the specificities of the insurance market.

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