

Balance Sheet Review in Romania: Follow up actions

I) Background

The Terms of Reference (ToR) for the Romanian Balance Sheet Review (BSR) in the insurance sector states that the Steering Committee (SC) will approve a proposal and submit it to the Autoritatea de Supraveghere Financiară (ASF) Board on:

- the conditions and criteria based on which the results of the BSR for the insurance's sector will raise supervisory actions including in terms of capital adequacy;
- the expected deadlines for the undertakings to comply with the required actions;
- the follow-up on the undertakings' compliance with the required actions.

Based on the proposal of the SC, the ASF Board will make a decision on the above conditions, criteria and required actions and make them public by the latest March 15, 2020. Additional supervisory actions can be applied in line with the local legal and regulatory framework.

II) Rationale for follow up actions

The review will provide additional clarity on the financial and solvency situation of the participating insurance undertakings and their risks.

Where needed, the participating entities need to take action to restore or improve the financial position in a timely manner and improve their risk management. This ensures the stability of the system and confidence of all participants including policy holders.

III) Follow up supervisory actions based on the results of the Balance sheet review for the Insurance sector

Based on the results of the BSR and the recalculation/analyze of prudential indicators, which include reconsideration of an appropriate level of technical provisions as well as assets, the participating insurance and reinsurance undertakings (hereinafter insurance undertakings) will be grouped and will be subject to differentiated remedial follow up actions. The remedial actions required by ASF to be implemented by the participant insurance undertakings depend on the magnitude of the capital shortfall revealed by the BSR without prejudice of any adjustment following measures taken after the cut-off date.

1. Grouping of insurance undertakings

Insurance undertakings will be grouped as follows:

- 1) **Group 1 insurance undertakings:** insurance undertakings that based on the outcome of the BSR do not hold sufficient eligible basic own funds to cover the Minimum Capital Requirement (MCR);
- 2) **Group 2 insurance undertakings:** insurance undertakings that based on the outcome of the BSR do not hold sufficient eligible own funds to cover the Solvency Capital Requirement (SCR).
- 3) **Group 3 insurance undertakings:** insurance undertakings that based on the outcome of the BSR achieve the MCR and SCR.

2. Deadlines for the submission of realistic short-term finance schemes and recovery plans and for their approval

Group 1 insurance undertakings: ASF shall require the undertakings to submit a short-term realistic finance scheme for the implementation of remedial actions within one month following the publication of the results of the BSR on ASF's website.

Group 2 insurance undertakings: ASF shall require the undertakings to submit a realistic recovery plan for the implementation of remedial actions within 2 months following the publication of the results of the BSR on ASF's website.

All undertakings should further explain how they will address the risks identified by the BSR, correct the deficiencies and how this impacts the risk management.

ASF will analyze the plans received within 30 calendar days from the plan's submission date, where adequate propose changes, and approve it.

In case the participating undertakings are already in the process of implementing approved action/financial recovery plan submitted to ASF before the date of publication of the results of the BSR and those results indicate the need for additional own funds, the undertaking must assess the sufficiency of the actions/financial recovery plan and update it where insufficient. The respective undertakings will have 30 calendar days following the publication of the results of the BSR to report to ASF the plan's update to be approved by ASF within the above referred deadline.

3. Deadlines for progress reports and for restoring compliance with prudential indicators/ correct deficiencies

Group 1 insurance undertakings will be requested to submit monthly, within 3 weeks after the end of the reference month, until the financial situation is restored, a progress report to ASF setting out the measures taken and the progress made to ensure compliance with the MCR in 3 months following the publication of the results of the BSR on ASF's website.

Group 2 insurance undertakings will be requested to submit every 3 months, within 3 weeks after the end of the reference month, until the financial situation is restored, a progress report to ASF setting out the measures taken and the progress made to ensure compliance with the SCR in 6 months following the publication of the results of the BSR on ASF's website.

Group 3 insurance undertakings: where are identified by the auditors vulnerabilities or deficiencies those undertakings will submit, within 30 calendar days following the publication of the results of the BSR on ASF's website, plans aimed at correcting those until end December 2020.

In case undertakings fall in more than one group, ASF may allow the submission of only one plan covering the overall measures to address the different deficiencies.

4. Supervisory measures

Where:

- 1) the short-term finance scheme or recovery plan are not considered realistic or sufficient by ASF within the time limit set above (i.e. 30 calendar days); or
- 2) there is no significant progress showed following ASF's assessment of the monthly and quarterly progress reports in restoring the MCR and/or SCR; or
- 3) the undertaking fails to restore the MCR and/or SCR at the end of the established deadlines,

ASF shall within 4 weeks (from the submission date of the short-term finance scheme or recovery plan or the monthly and quarterly progress reports or the established deadline to restore the MCR and/or SCR, take all measures necessary to safeguard the interest of policyholders, including, and without prejudice of other measures foreseen in the law that may be applied alongside, the following:

-SCR breach:

- measures aimed at reducing the risk profile such as requiring the undertaking to refrain from underwriting new risks or to renew pending contracts in certain lines of business, or requiring the undertaking to change its asset portfolio with the aim of reducing the market and credit risk;
- measures aimed at limiting or preventing a reduction of financial resources such as setting limitations on dividend payments and prohibiting the free disposal of assets;
- imposing, together with other measures, additional reporting requirements to enable improved monitoring.

-MCR breach:

- restrict free disposal assets;
- withdrawal of authorization.

IV) Information to EIOPA and other Member States

- 1) ASF shall provide EIOPA with an overview of the follow-up made following the initial assessments of the short-term finance scheme and recovery plans as well as the progress reports within 2 weeks of the recovery plan/progress report's submission date. Where more severe actions are taken by ASF to safeguard the interest of policyholders those shall be immediately communicated;
- 2) ASF shall inform within 3 days from the measure's date the relevant Group supervisors and concerned host Members States about the measures taken and any deviations from planned progress;
- 3) ASF shall provide EIOPA 3 months after 2020 year end with a report informing about the overall state of play of the Romanian market following the surveillance and actions taken.