

IRRDR – Some insight for actuaries

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DeNederlandscheBank

EUROSYSTEM

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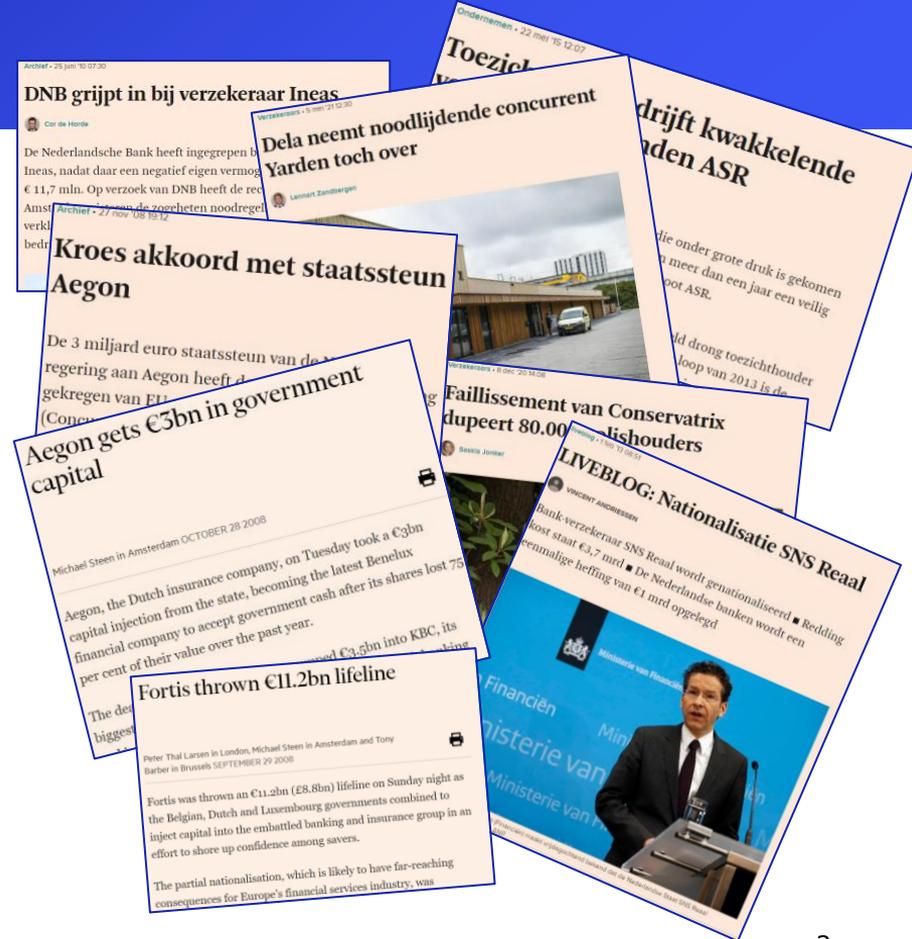
Some background

In the last decades, we have seen a few failing insurers in the Netherlands, as well as several near misses. During the financial crisis (2008-2013), insurers and bank-insurers were supported with government funds or even nationalised to retain financial stability.

- Government support (2008): Aegon, ING, Fortis, SNS Reaal
- Nationalised: Fortis Insurance (now a.s.r.) and SNS-Reaal (now part of Athora (life) and NN (non-life))

From bail-out to bail-in

- Since 2019, in the Netherlands the Act on Recovery and Resolution of Insurers (inspired by BRRD for banks) provides more powers for Supervisor and Resolution Authority to prevent failures or manage failing insurers, to avoid or minimise public support.
- January 2025 IRRD is published, effective 2027.



Resolution objectives and conditions for resolution

Resolution objectives

- a) Protecting the collective interests of policyholders, beneficiaries and claimants
- b) Maintaining financial stability, in particular by preventing contagion and by maintaining market discipline
- c) Ensuring continuity of critical functions
- d) Protecting public funds by minimising reliance on extraordinary public financial support

Conditions for resolution

- a) Insurance undertaking is failing or likely to fail (FOLTF)
- b) No reasonable prospect that any alternative private sector measures or supervisory action would prevent the failure of the undertaking within a reasonable timeframe
- c) Resolution action is necessary in the public interest

Normal insolvency proceedings if conditions a and b are met, but not c

Actuaries have an important role in determining the conditions for resolution

Benefits of resolution

Resolution aims to continue insurance portfolios

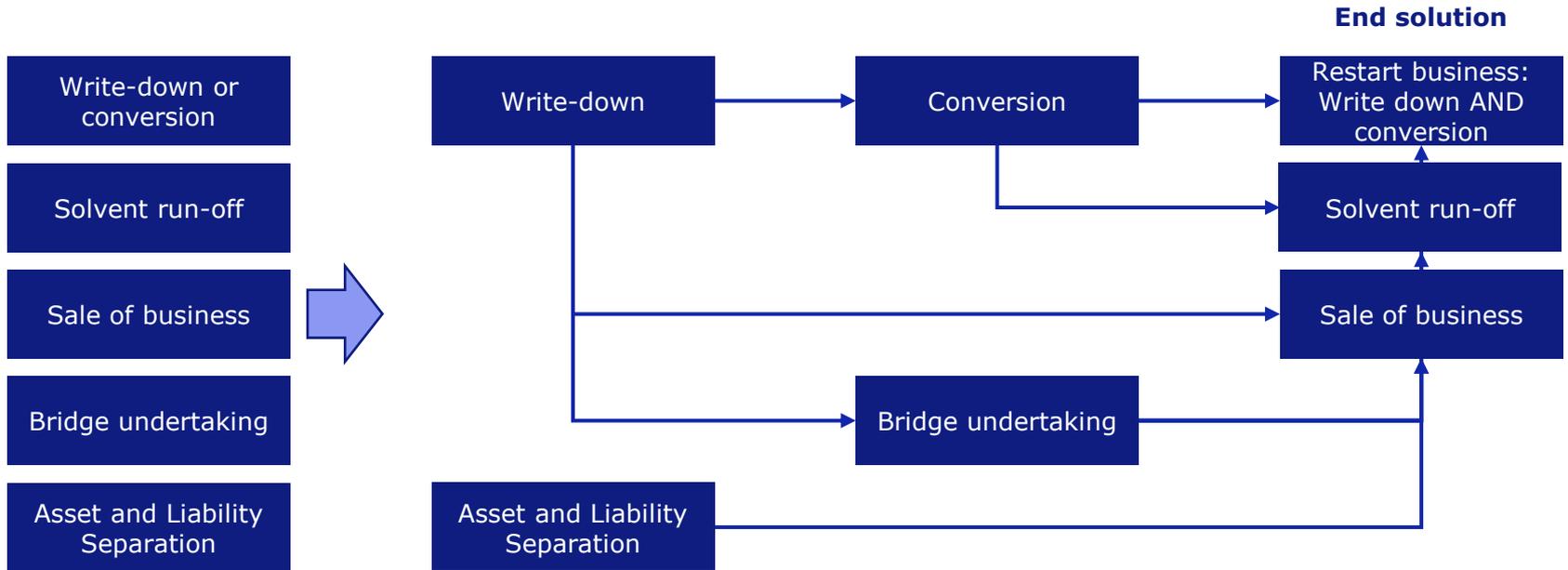
- Ensures availability of important insurance contracts (critical functions)
- Continues existing insurance contracts. Policyholders protected by continuation, even after haircut
- Prevents now uninsurable policyholders from being unable to take out replacement insurance
- Avoids replacement costs for policyholders when taking out a replacement insurance
- May avoid economic consequences, e.g. discontinuation of pension benefit payments
- May avoid market contagion through derivative and reinsurance contracts
- May avoid – or reduce – public financial support

Resolution decision: not an exact science

- FOLTF is not an exact science, as “likely to fail” does not imply a 100% probability and the condition can be met if there are objective elements to support failing in the near future.
- Assessing measures to prevent failure is not an exact science, as the outcome of such measures may be uncertain and reasonable expectation is subjective.
- The public interest test (PIT) is not an exact science as some of the criteria are subjective and entails a comparison between two uncertain alternatives: insolvency and resolution.
The outcome of the PIT can be quite clear for some (the larger) insurers but may depend on the actual circumstances for other (smaller) insurers.



Resolution tools



- Resolution tools may be applied individually or in any combination
- Except: Asset and Liability separation tool shall be applied only in combination with another resolution tool.
- Restart: availability may differ in member states

Valuation in resolution

Art 23(1): "Any resolution action is taken on the basis of a valuation ensuring a **fair, prudent** and **realistic** assessment of the assets, liabilities, rights and obligations of an entity."

Importance of fair, prudent and realistic valuation:

- valuation serves to decide on the resolution decision and resolution actions
- valuation determines distribution of losses and recapitalisation
- valuation determines compensation for NCWO-breaches

Need insurers' infrastructure and capabilities

- NRA does not have the possibility to carry out a timely valuation of the technical provisions. Calculations will rely on calculations to be carried out using insurer's infrastructure and (actuarial) capabilities.

Safeguards: Independent valuer, appeal, NCWO



Valuation 1 (ex ante)

- Determine FOLTF
- Determine no private measures



Valuation 2 (ex ante)

- Inform the decision on appropriate resolution actions

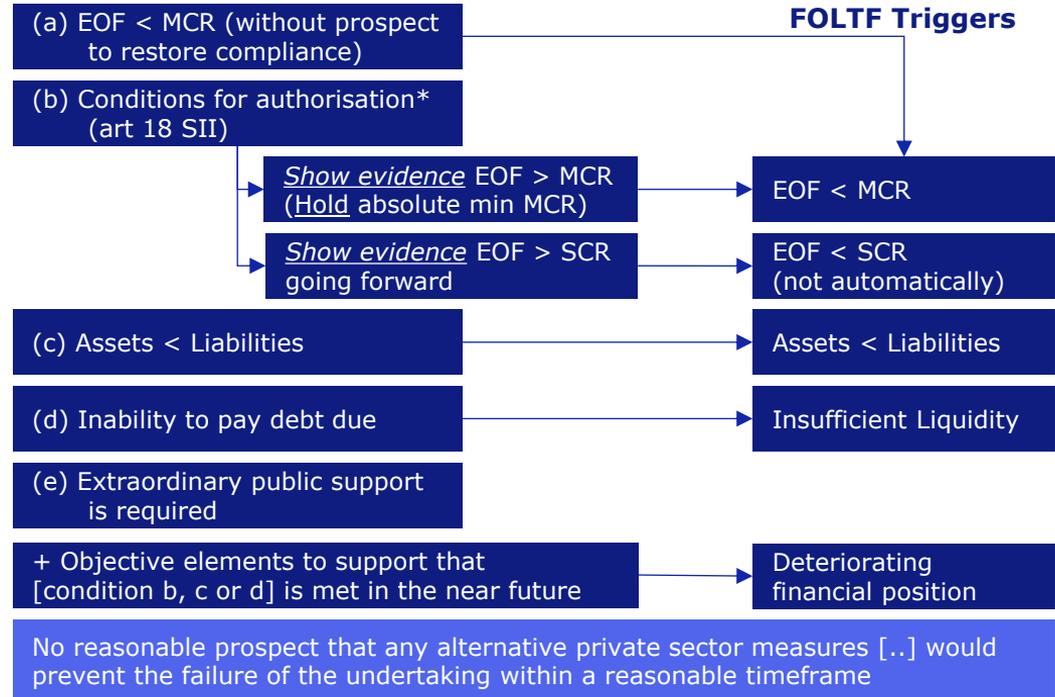


Valuation 3 (ex post)

- Verify NCWO and basis for compensation

Valuation 1 - determining conditions for resolution

- Solvency II based valuation, as is. Reference date: as close as possible to resolution decision
- Projections/scenarios may be required to assess objective elements to support 'likely to fail'
- Scenarios to assess private sector measures (from recovery plan)
- Definitive valuation accompanied by estimate of insolvency valuation



**) simplified: non-financial conditions for authorisation are excluded here*

Balancing act: aim for a sustainable solution



- Resolution should result in a sustainable solution. Restructuring may be necessary, as a haircut on creditors claims and insurance contracts may not take away the cause for failure.
- A healthy insurer's capital is well above the SCR. This requires a haircut larger than the SCR deficit (or buyer goodwill), but an "exactly right haircut" does not exist. A haircut should neither be too small nor too large.
- The highest bidder does not necessarily provide a sustainable solution. Such bidder may aim to earn back its investment by engaging a (too) risky profile.
- A feasible alternative for a sale of business improves NRA's negotiation position.
- Bail-in dilemma: How to make sure policyholders are properly compensated for a haircut? Given that policyholders contribute to post-resolution capital they should be compensated for this. However, it is not easy to explain to policyholders that they have become shareholders. On the flip-side: it is also difficult to explain that someone else gets the upside for policyholders' contribution to capital.

Valuation 2 - informing resolution actions

Sale of business

- Commercial terms: requires estimate of minimum fair price (not rock-bottom)
- Acquires perspective: 'price' is price of shares or assets and liabilities plus recapitalisation needs
- Creditor/policyholder perspective: 'price' is haircut

Pursue as a going concern – write-down *and* conversion

- Determine Target solvency (by NRA): well above SCR, but not too high
- May require assessing scenarios on risk profiles and rebalancing needs (as these may have flawed on the way to resolution). NRA to provide scenarios
- Estimate post-conversion equity (market) value to determine conversion rate as compensation for write-down
- May require assessing several scenarios: SCR effects, risk profile may need to be adjusted

Solvent run-off

- Write-down to at least MCR at inception
- Determine target solvency: if too low risks of repetitive haircuts; if too-high haircuts bigger than needed
- Projection of solvency, taking into account increasing unit expenses in run-off

Bridge undertaking and Asset and liability Separation

- Solvency II valuation, capitalisation needs

Valuation 3 – Verify NCWO

Actual treatment of shareholders and creditors (o/w policyholders)

- Methodology and valuation principles equal to valuation 1 and 2, to be compared with an insolvency valuation
- Valuation of actual treatment in resolution vs. normal insolvency proceedings
- Basis for compensation if NCWO is not met
- Reference date: date of resolution decision, taking into account incurred claims for period between resolution decision and effectuation of bail-in

Write-down of insurance contracts. How?

- Reduction of entire contract – both benefits and premium
 - Equitable for all policyholders, irrespective of actuarial assumptions and term structure
 - Avoids disbalance between future premiums and benefits, avoiding lapse incentives
 - Expenses not automatically adjusted
- A haircut on benefits only can work for insurance contracts with capital accumulation based on the actual premium price (e.g. pension insurance)
- Removal of policyholder options and guarantees may be required, if these were dependent on future profits of the failing insurer
 - Under normal insolvency proceedings - the only alternative for resolution –future profit prospectives would be nil

Conversion rate

- Determines the compensation in ownership instruments (shares) for creditor claims affected by a write-down
- As the only alternative for resolution would be normal insolvency proceedings – liquidation, this scenario determines the value eligible for compensation
- Compensation is based on (estimated) market value of post-conversion equity (PCEV), taking into account recapitalisation achieved with the write-down
- New ownership-instruments (shares) are to be allocated to creditors according to hierarchy under normal insolvency proceedings.
- Allocation starts with the creditor claims with highest priority up to the sum of the written-down part of these claims. If the PCEV is sufficient, allocation is continued working down the priority ranking until PCEV is fully allocated.
- If all PCEV is required for compensation, existing shares are to be cancelled. If not, existing shares are diluted.

IRRD – some areas of interest for actuaries

- Pre-emptive recovery plan
- Recovery plan
- Critical functions
- Valuation(s)
- Scenarios for use of resolution tools:
 - Projections for TP, SCR and RM
 - Projections expenses
- Calculation of buffer for additional losses
- Reinsurance contracts in resolution
- Rebalancing and hedging in resolution
- ...

Thank you!

Reading tip:

The Insurance Recovery and Resolution Directive

A Commentary

Elgar Commentaries in Financial Law series

Edited by [Pierpaolo Marano](#) and [Magdalena Kozińska](#)

Published 23 January 2026

Link: [The Insurance Recovery and Resolution Directive – A Commentary | Elgar Online](#)

