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Recovery & Resolution Planning

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Setting the scene

Peter Telford, Legal & General

08 June 2018

Background to our RRP project

Business as usual enterprise risk management

- Risk appetite – capital, liquidity
- ORSA – reverse stress testing
- Going concern having regard to risks

Significance of the firm in UK financial economy

- Investing ~ £1 trillion client monies
- Insuring ~ 7 million customers/members
- Paying income ~ 1 million pensioners



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Corporate structure is relatively simple





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What is Recovery & Resolution Planning?

James Claxton, EY

08 June 2018

What is driving Recovery and Resolution planning?

FSB

EIOPA

IAIS

PRA

- **Recovery** - The PRA seeks to consider whether an insurer has plausible recovery actions that it could take, including in times of general market stress.
- **Resolution** - Fundamental Rule 8: A firm must prepare for resolution so, if the need arises, it can be resolved in an orderly manner with a minimum disruption of critical services.



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What are Recovery and Resolution Plans?

Recovery Plan – “Save the Institution”

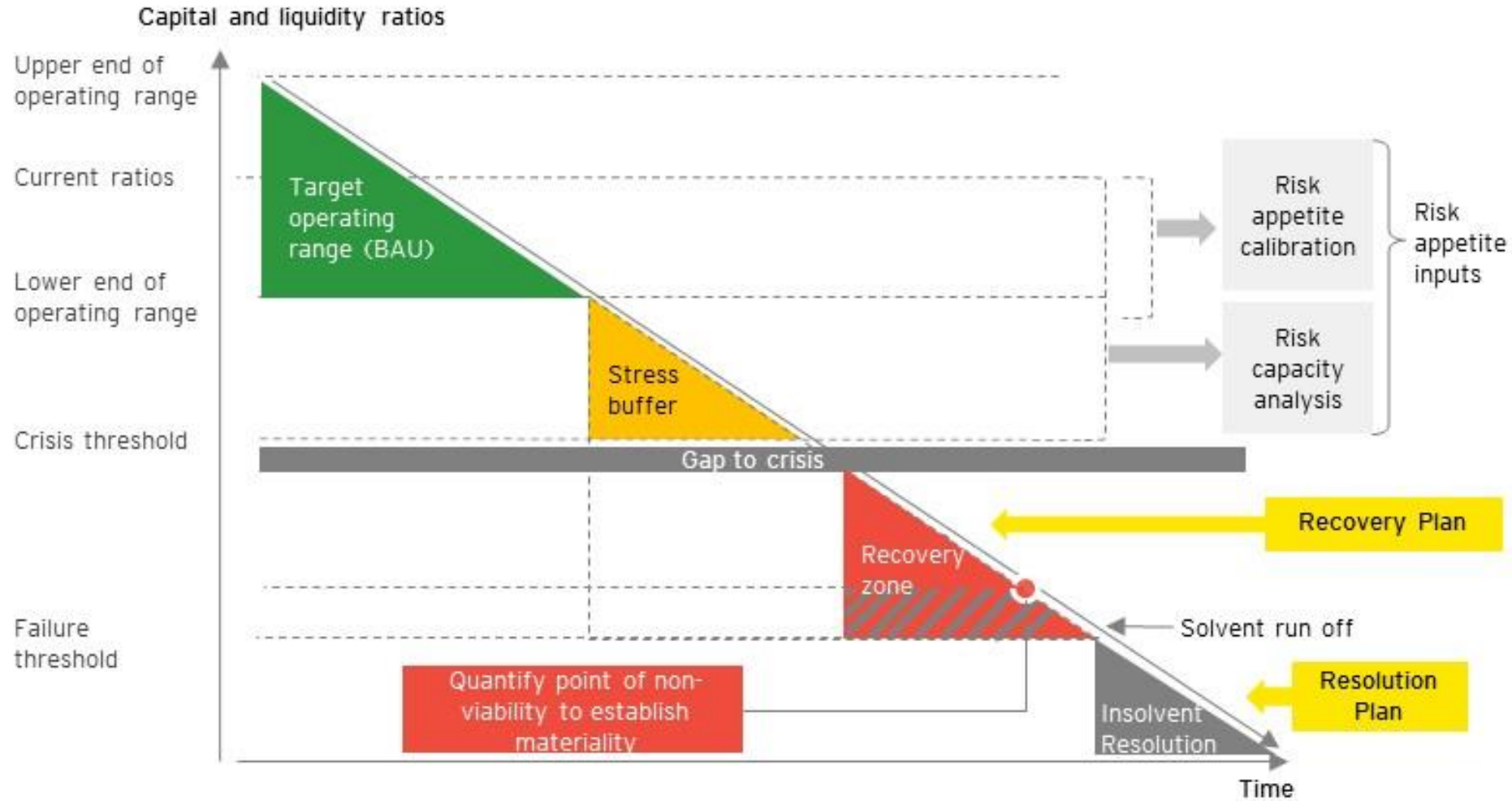
- Triggered when a financial institution is subject to extreme stress situations
- Outlines actions designed to maintain the firm as a going concern
- Limit the probability of failure

Resolution Plan – “Protect Consumers and Financial Markets”

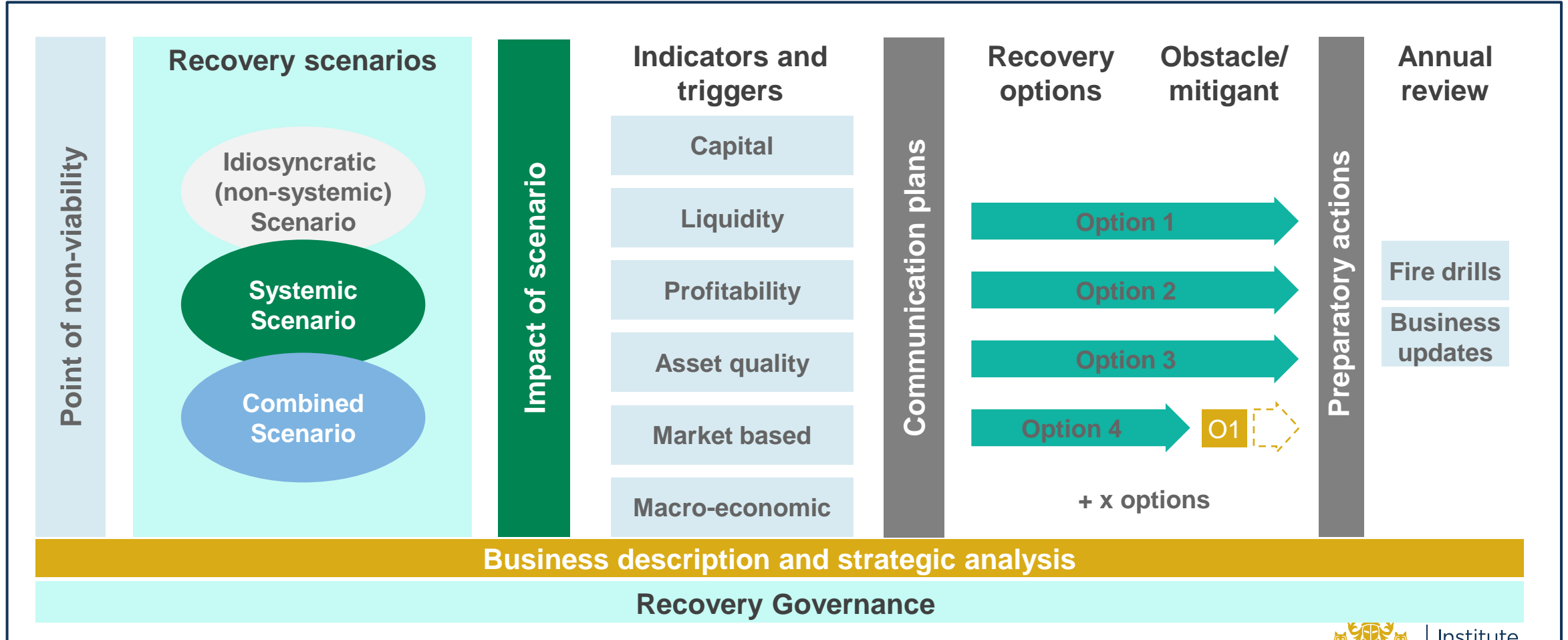
- Triggered when a financial institution is insolvent and there is little chance of recovery
- Outlines actions designed to protect consumers and the financial markets in the winding-up of the institution
- Limit the impact of failure



Recovery & Resolution Plan framework

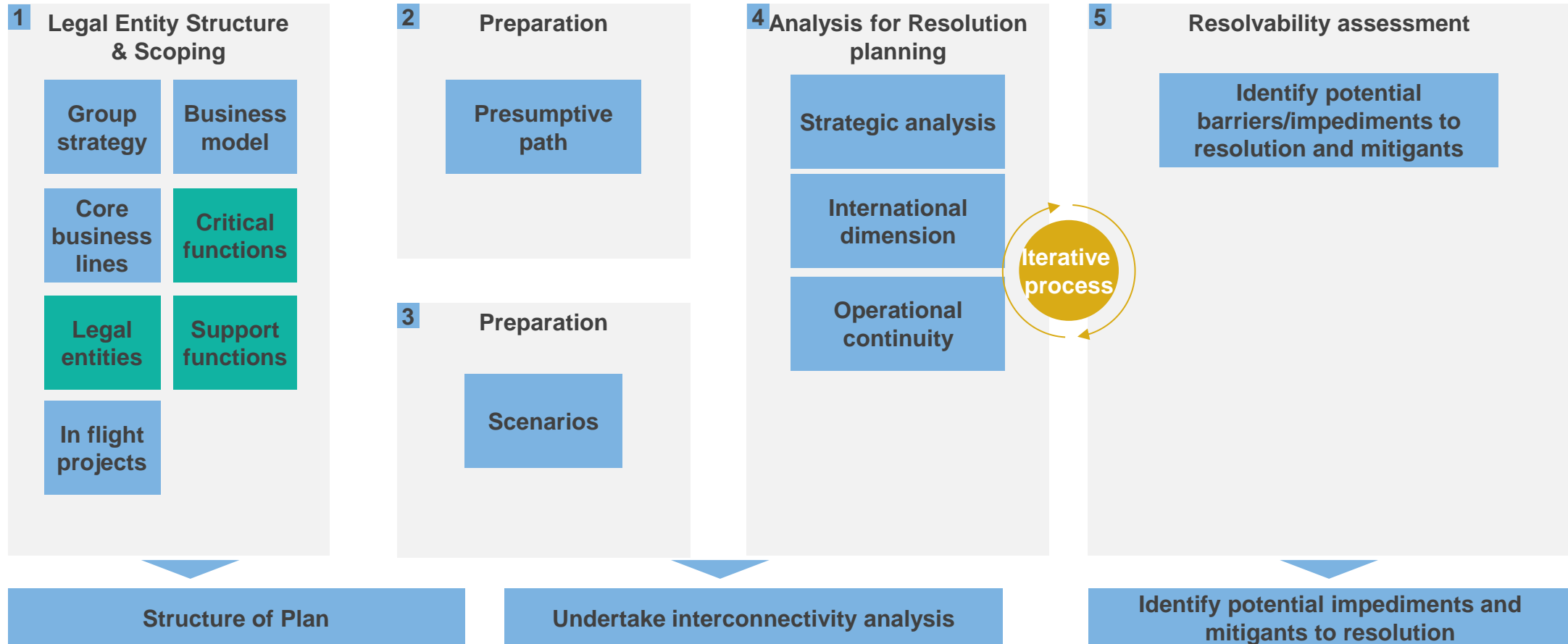


Key components of a Recovery Plan



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Key components of a Resolution Plan





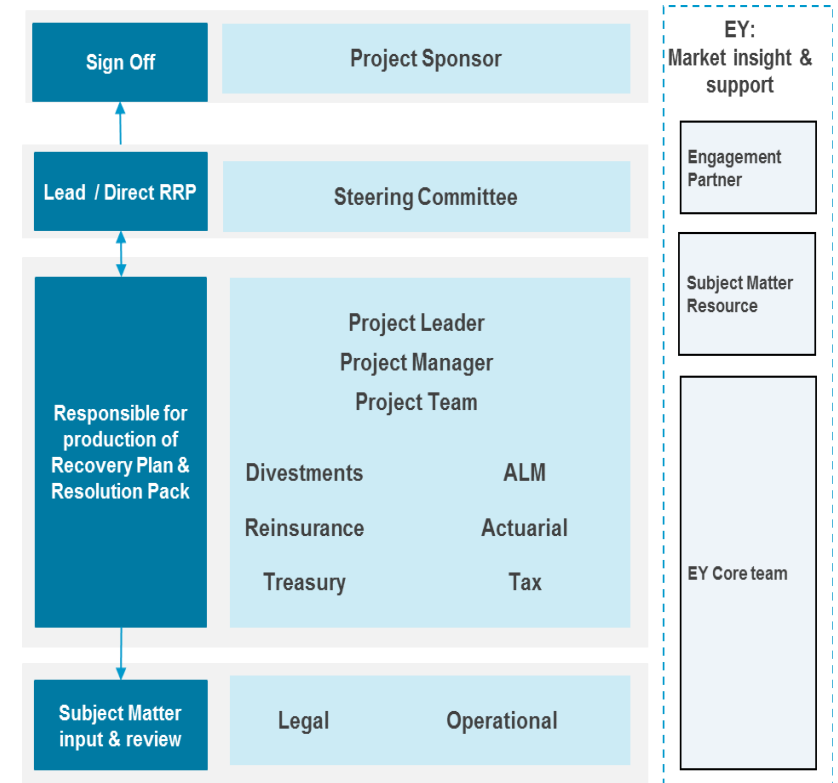
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Developing the RRP

Serena Soong, Legal & General

How we put together the RRP

- ~15 months elapsed, from planning to the delivery of two c. 200 pages documents
- Defined the scope and the key elements to be achieved
- Core project team ~2 FTE, working closely with designated representatives from the business and material legal entities
- Steering Committee to provide executive oversight and lead the strategic direction
- Engagement with executive management and regulator
- Brainstorming workshops to generate broad thinking
- Diligence in information collecting – clear data requests, right people



Challenges faced

- Insufficient time and support from the business
- Different authors – disjointed documentation e.g. inconsistent message/theme
- Ensuring it stays relevant – when is it ever complete?
- Recovery planning
 - Scenarios – confusion over the purpose and use
 - Triggers calibration – false positives
- Resolution planning
 - Locating documentation in order to perform interconnectivity analysis
 - Assessing the impact of management actions in run-off



Key success factors

Recovery Planning

- Build on existing information, e.g. risk appetite and stress testing
- Identify point of non-viability and scale of recovery required
- When to declare a 'crisis' and clarity on individual responsibilities
- Focus on relatively short list e.g. 20 of truly material, practical recovery options

Resolution Planning

- Agree presumptive path to resolution (e.g. feasibility of solvent run off)
- Interconnectivity analysis – agree materiality threshold and approach
- Start to gather legal documentation for interconnectivity analysis as soon as possible
- Use recovery options as starting point to determine what management actions might still be available in resolution



Value created

- Better able to manage threats and volatility
- Improved governance and escalation process which can be implemented in both BAU and extreme stress scenarios
 - Identify any constraints on recovery/resolution actions
- Improved understanding of risks
 - Demonstrate to regulator and Board that the Group can recover from a severe stress situation
 - Highlights case for improving the Internal Model
- Manage any regulatory friction through transparent planning



Questions

Comments

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