Institute
and Faculty
of Actuaries

Resolution planning through the eyes of an Insolvency Practitioner

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Disclaimer

The following presentation shows a hypothetical scenario designed to illustrate important points with regards to resolution planning.

The scenario is not based on actual events and information used is entirely fictitious. Resemblance to any current or previous facts is entirely coincidental.

The views expressed in this presentation are those of the presenters and do not represent views of KPMG.

Introduction

Resolvability	"Resolvability" is a new concept for many insurers and without a widely understood definition within the industry.	
FSB Requirements	Following deliberations by the Financial Stability Board (FSB), certain resolvability requirements already apply to 9 global insurers who are judged to be "systemically important".	
PRA Requirements	PRA's Fundamental Rule 8 states: *"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."*	

In this session we provide an overview of the key regulatory documents, together with a potential interpretation of these provisions.

Resolvability Assessment
Regulatory Overview (1of 3)

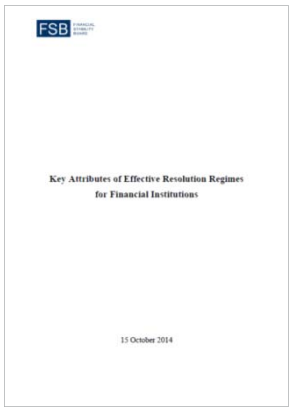
Approach to Insurance Supervision - PRA, June 2014

"The PRA has two primary objectives:

- a general objective to promote the safety and soundness of the firms it regulates, focusing on the adverse effects that they can have on the stability of the UK financial system; and
- an objective specific to insurance firms, to contribute to ensuring that policyholders are appropriately protected."

Resolvability Assessment
Regulatory Overview (2 of 3)

Key Attributes of Effective Resolution Regimes for Financial Institutions - FSB, October 2014


FSB

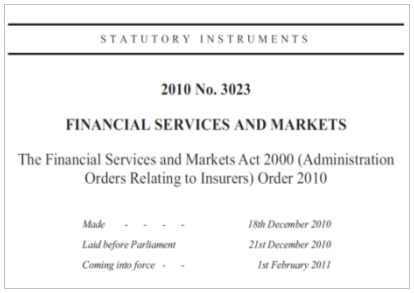
Key Attributes of Effective Resolution Regimes for Financial Institutions

15 October 2014

- "For insurers, the resolution regime should have as a specific objective the protection of policyholders, beneficiaries and claimants."
- "This however does not mean that policyholders will be fully protected under all circumstances and does not exclude the possibility that losses be absorbed by policyholders to the extent they are not covered by policyholder protection arrangements."

Resolvability Assessment
Regulatory Overview (3 of 3)

FSMA 2000 (Administration Orders Relating to Insurers) Order - 2010


STATUTORY INSTRUMENTS

2010 No. 3023

FINANCIAL SERVICES AND MARKETS

The Financial Services and Markets Act 2000 (Administration Orders Relating to Insurers) Order 2010

Made - - - -	*18th December 2010*
Laid before Parliament	*21st December 2010*
Coming into force - -	*1st February 2011*

- The administrator of a failed insurer is required to carry on the insurer's business so far as that business consists of carrying out the insurer's contracts of long-term insurance with a view to the business being transferred as a going concern.
- Such continuity might be achieved by reducing the value of policies, by transferring policies elsewhere, or by finding replacement cover.

Hypothetical Case Study
Background

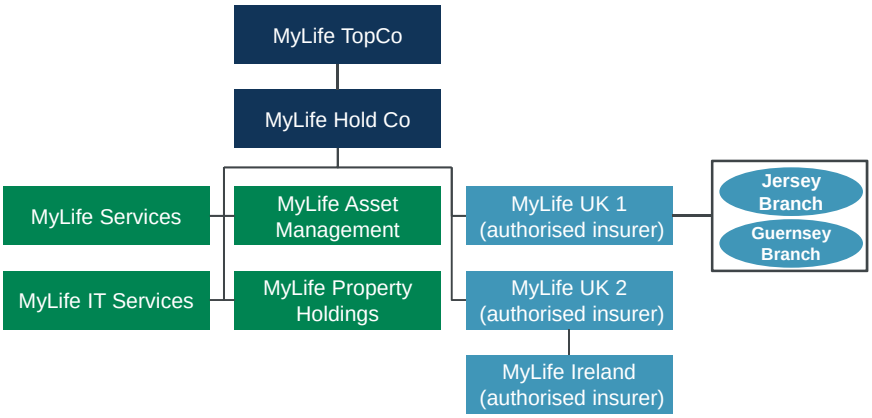
- MyLife Insurance Group ("MyLife") is a medium sized life insurance group which provides long term investment and retirement products from operations in the UK, Ireland and in the Channel Islands.
- The PRA has requested information from MyLife for the purpose of a resolvability assessment of the Group.
- MyLife has started to compile data according to relevant guidance issued by the PRA, requirements for Globally Systemically Important Insurers ("G-SIIs") published by the FSB and from its own Reverse Stress Testing ("RST") analysis, which has identified scenarios which are expected to cause severe financial stress.

Hypothetical Case Study
Background

- MyLife has no previous experience of resolution of insurers.
- To help MyLife prepare for the resolvability assessment, it has sought advice from an insolvency practitioner who has experience of working on insurance insolvencies and the practical issues that have been encountered.
- MyLife has noted most insolvencies have been in the non-life sector and that there hasn't been the insolvency of a material life office for many years.
- MyLife has prepared a summary of information on its business and structure for the meeting.
- The meeting begins….

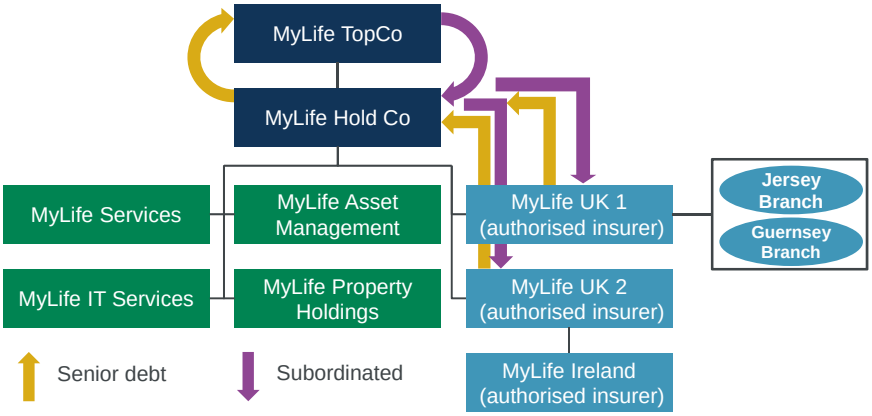
On the following slides we illustrate typical resolvability issues that can arise...

MyLife Insurance
Group Structure



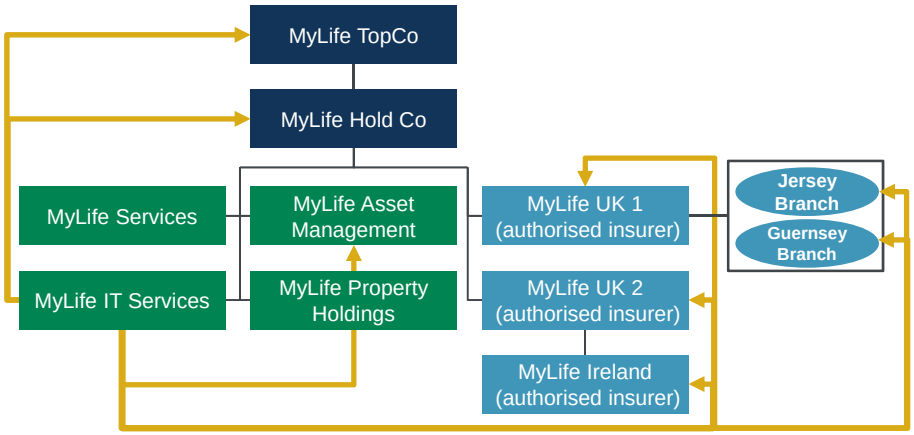
All UK entities, except MyLife Ireland

MyLife Insurance Group
Intra-Group Loans



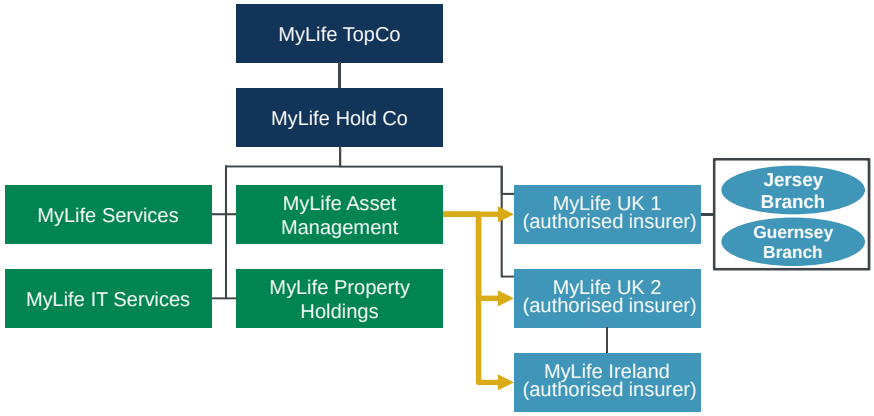
The impact of the structure of intra-group loans on the financial stability of MyLife will need to be assessed, particularly if TopCo has external debt to service.

MyLife Insurance Group
Service Companies



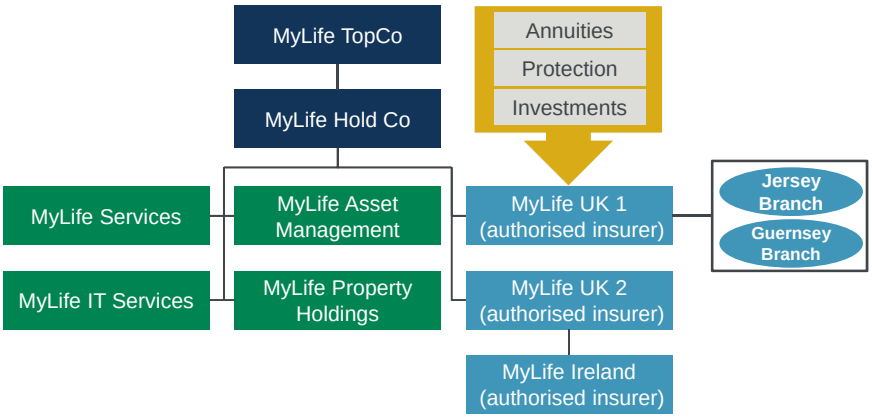
Intra-group shared service companies can cause practical complications if, for example, it is intended to sell one of the life companies or break-up the group.

MyLife Insurance Group
Asset Management



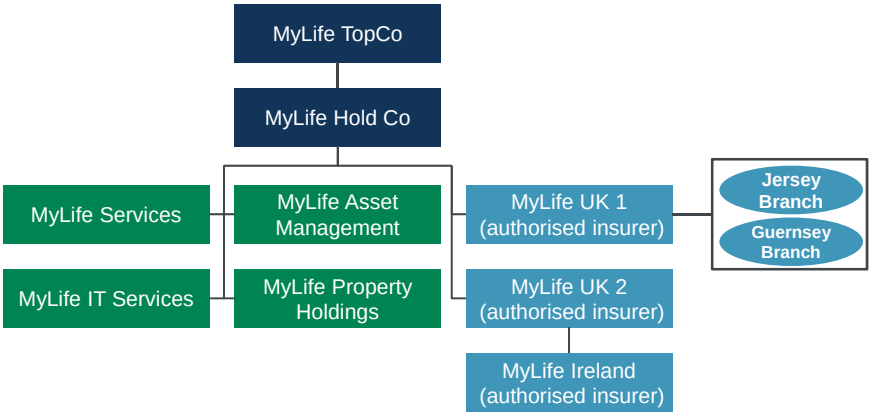
A single asset management company can also give rise to practical resolvability issues.

MyLife Insurance Group
Products



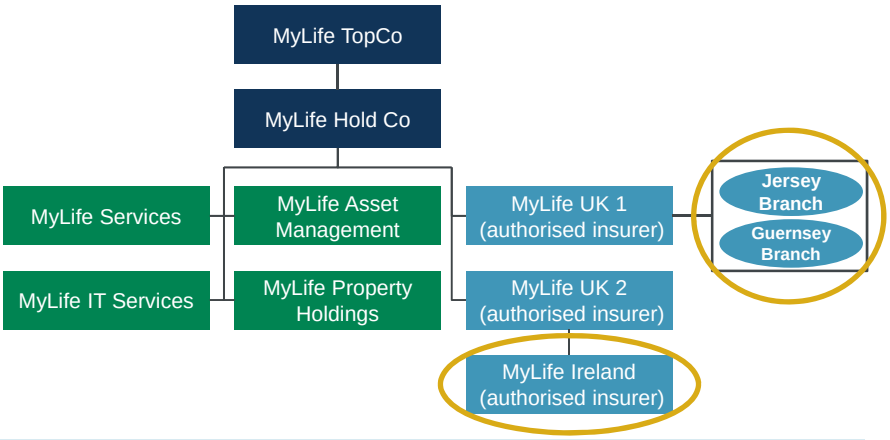
Protection available under FSCS proposals will differ between products.

MyLife Insurance Group
Board of Directors



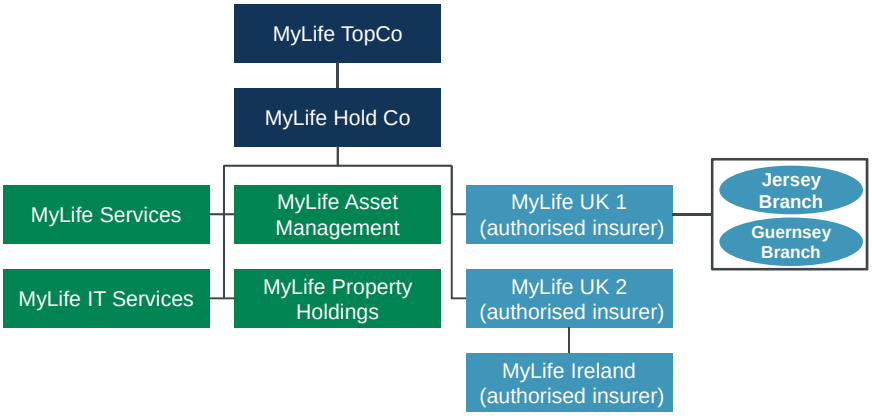
Directors must act in the best interests of the company they are a director of; in situations of extreme stress there may be conflicts of interest between companies.

MyLife Insurance Group
Cross border issues



Resolution regimes for UK firms versus branches in third countries and an Irish subsidiary.

MyLife Insurance Group
Costs of resolution



Who bears the costs of resolution?

Questions

Comments

Expressions of individual views by members of the Institute and Faculty of Actuaries and its staff are encouraged.

The views expressed in this presentation are those of the presenters.

Institute and Faculty of Actuaries

APPENDICES

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Thought leadership
Progress
Community
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Working parties
Volunteering
Research
Shaping the future
Networking
Professional support
Enterprise and risk
Learned society
Opportunity
International profile
Journals
Suppo

Fundamental Rule 8
Resolvability Assessment

- **"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."**
- "Resolvability" is a new concept for many insurers and without a widely understood definition within the industry. Following deliberations by the Financial Stability Board ("FSB"), certain resolvability requirements already apply to 9 global insurers who are judged to be "systemically important".
- However, recent publications from the PRA show that resolvability is an issue for all insurers. In the following few slides we provide an overview of the key regulatory documents, together with a potential interpretation of these provisions.
- An insurer is "resolvable" if it is feasible and credible for the firm to be resolved (i.e. wound up) in a way that ensures the continuity of critical functions, including the continuity of coverage and payment for critical insurance contracts, without severe systemic disruption and without exposing taxpayers to loss.

Fundamental Rule 8
Resolvability Assessment

- According to its Approach to Insurance Supervision published in June 2014, "The PRA has two primary objectives: a general objective to promote the safety and soundness of the firms it regulates, focusing on the adverse effects that they can have on the stability of the UK financial system; and an objective specific to insurance firms, to contribute to ensuring that policyholders are appropriately protected."
- According to the FSB's Key Attributes of Effective Resolution Regimes for Financial Institutions published in October 2014, "For insurers, the resolution regime should have as a specific objective the protection of policyholders, beneficiaries and claimants (collectively hereafter, 'policyholders'). This however does not mean that policyholders will be fully protected under all circumstances and does not exclude the possibility that losses be absorbed by policyholders to the extent they are not covered by policyholder protection arrangements."

  Three examples of non-viability:
  - a breach of capital requirements and no reasonable prospect of restoring compliance;
  - a strong likelihood that policyholders or creditors will not receive payments as they fall due;
  - where recovery methods have failed/are unlikely to succeed in a timely manner.

Fundamental Rule 8
Resolvability Assessment

- Failure of an insurer is not costless. Insurers are expected to set out credible steps to maintain or restore their business to a stable and sustainable condition in the event of stress. And the less resolvable an insurer is, the greater the degree of supervisory focus that will be applied to such a plan and the actions implied by the firm's proximity to failure.
- Insurers should provide to the PRA on request all information needed to perform an assessment of their resolvability.
- This also includes ensuring the FSCS and any insolvency practitioners likely to be appointed in respect of the insurer have sufficient understanding of insurers' systems that they can undertake their functions effectively including maintaining payments to, and cover for, policyholders in the event of an insolvency.
- The regulations go further and envisage changes to the insurers current operating model where significant barriers to resolvability are identified.
- Where significant barriers to resolvability are identified by the insurer or by the PRA, the PRA expects insurers to propose and implement adequate changes to reduce these.

Fundamental Rule 8
Resolvability Assessment

- Where an insurer fails, responsibility for the management of the business is likely to transfer from the Board of Directors to a court-appointed insolvency practitioner, such as an administrator.
- The administrator of a failed insurer is required to carry on the insurer's business so far as that business consists of carrying out the insurer's contracts of long-term insurance with a view to the business being transferred as a going concern. Such continuity might be achieved by reducing the value of policies, by transferring policies elsewhere, or by finding replacement cover.

  (The Financial Services and Markets Act 2000 (Administration Orders Relating to Insurers) Order 2010)
- The FSCS will become involved upon the default of the firm.
- The FSCS is required to seek continuity of cover for life business, providing certain conditions are met. If continuity is not appropriate, or cannot be secured, the FSCS can instead pay compensation.

  (PRA Handbook- COMP 3.3.1R)