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# Recovery and Resolution Planning

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# IAIS Insurance Supervisory Requirements

# Global Insurance Regulatory Landscape

A number of reforms being put in place in the past few years to try to mitigate future financial crises.

The IAIS is participating in this global reform initiative under the auspices of the FSB.

In the last two years, the IAIS has undertaken a number of key developments including:

- Peer reviews to assess implementation of the Insurance Core Principles (ICP) adopted in 2011
- Identification of Global Systemically Important Insurers (G-SIIs) and development of related policy measures
- Development of Common Framework (ComFrame) for the assessment of IAIGs
- Development of a process for macro-prudential surveillance
- Reorganization of the IAIS to adapt to changing external expectations.



# FSB/ IAIS Insurance Supervisory Framework

The IAIS envisions a complex set of regulatory standards, which will apply at either the legal entity level, the group level, or to IAIGs and G-SIIs.

## ARCHITECTURE OF IAIS INTERNATIONAL SUPERVISOR REQUIREMENTS

Type of entity	Legal entity	Group	Internationally Active Insurance Group (IAIG)	Global Systemically Important Insurer (G-SII)
Supervisory requirements and actions				
First tier ICPs	ICPs that apply only to legal entities	ICPs that apply to legal entities and groups		
Second Tier ComFrame			ComFrame	
Third tier G-SII package				G-SII package

Source: IAIS newsletter, Issue 15, April 2013.



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# FSB/ IAIS Insurance Supervisory Framework

## G-SII Policy Measures

In July 2013 the IAIS announced policy measures applicable to G-SIIs. These policy measures were effective immediately after the initial cohort of G-SIIs had been designated.

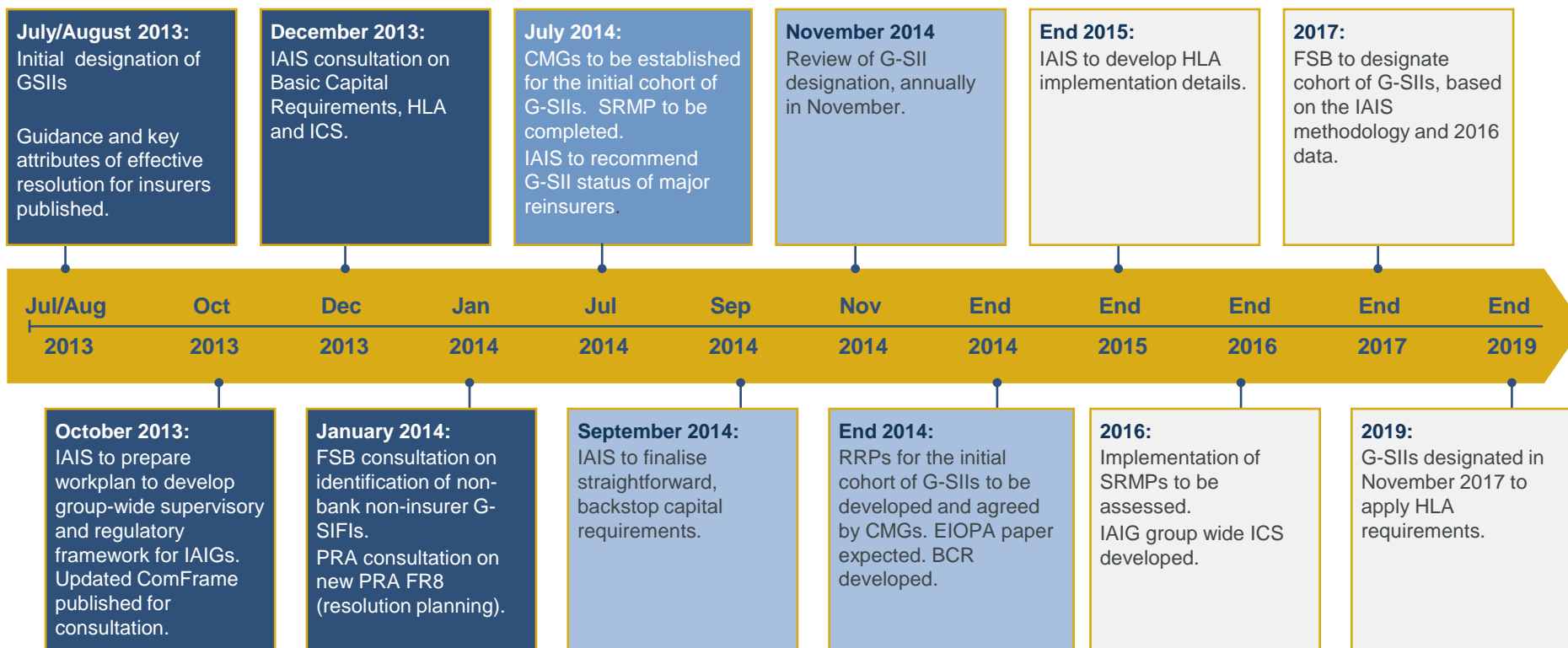
Policy	Key measures
Enhanced Supervision	<ul style="list-style-type: none"> <li>• Group-wide supervisor to have direct supervision over the holding company.</li> <li>• G-SIIs to develop and implement Systemic Risk Management Plans (SRMP), identify NTNI activities, and reduce or ring-fence NTNI activities.</li> <li>• G-SIIs to have adequate arrangements in place for liquidity risk management.</li> </ul>
Effective Resolution	<ul style="list-style-type: none"> <li>• Establishment of Crisis Management Groups (CMGs) by supervisors.</li> <li>• Development of RRP by G-SIIs.</li> <li>• Conduct of resolvability assessments by supervisors.</li> <li>• Adoption of institution-specific cross-border cooperation agreements by supervisors.</li> </ul>
Higher Loss Absorption (HLA) Capacity	<ul style="list-style-type: none"> <li>• HLA to be based initially on the backstop capital requirements.</li> <li>• IAIS to develop detailed HLA requirements by end-2015.</li> <li>• HLA may be calculated as the multiplication of the required base capital amount and a percentage uplift or increase to that base capital.</li> </ul>



# FSB/ IAIS Insurance Supervisory Framework

## Proposed Implementation Timeframe

### Proposed FSB/IAIS implementation timeframe for G-SIIs and IAIGs



# Current State of FSB/ IAIS Requirements

- G-SII policy measures on enhanced supervision:
  - Development of the SRMP and effective resolution
  - Effective immediately after the initial cohort of G-SIIs were designated.
- Initial cohort of G-SIIs designated in July 2013.
- Implementation of the G-SII policy measures will require strong cooperation among supervisors across multiple jurisdictions.
- National supervisors are expected to take a similar approach for DSIIIs.
- IAIS commenced consultation on Basic Capital Requirements (BCR).
- FSB has issued separate consultation in relation to NBNI financial institutions.







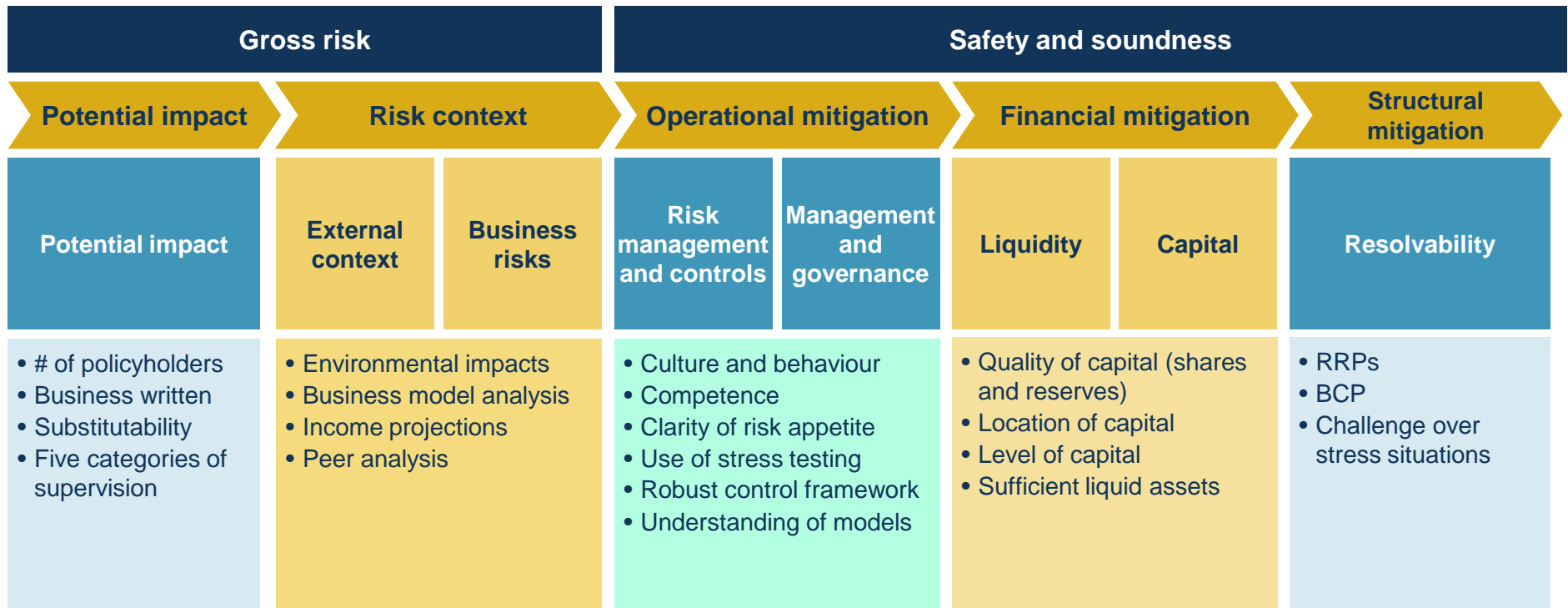
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# PRA's Approach to Financial Stability and Resolvability

# PRA's Regulatory Approach

## Objectives and Framework

### PRA's risk framework



## PRA's Regulatory Approach

# Financial Stability and Resolvability (1 of 2)

- PRA's approach to financial stability and resolvability is driven by the objectives of safety and soundness and policyholder protection.
- PRA supervisory framework involves consideration of risks inherent in the business model and how these are mitigated through operational and financial controls and assessing group structure.
- The PRA will use a range of techniques/ measures to ensure financial stability and resolvability:
  - Forward Looking Assessment of Risks (FLAOR)
  - Business model analysis
  - Systemic and group risks
  - Capital triggers
  - Proactive intervention framework.



# PRA's Regulatory Approach

## Financial Stability and Resolvability (2 of 2)

PRA INTERVENTION FRAMEWORK	PRESUMED ACTIONS
Stage 1 – Low risk to viability of insurer.	Normal supervisory assessment process. PRA to assess insurer resolvability.
Stage 2 – Moderate risk.	Additional reporting requirements Review of insurer's risk profile, capital reqs and consider restrictions on activities.
Stage 3 – Risk to viability absent action by the insurer.	Recovery plan required Authorisation to carry out new business may be removed PRA will intensify contingency planning for resolution.
Stage 4 – Imminent risk.	In most cases, removal of authorisation to write new business. Insurer to accelerate and complete recovery actions PRA, working with the FSCS, will complete all necessary actions for resolution.
Stage 5 – in resolution or being actively wound up.	PRA will trigger the appropriate insolvency process Insolvency practitioner will work effect continuity of cover and/or compensation to claimants.
<p>Increasing intensity of PRA supervision and intervention</p>	<p><b>PRA Approach to Insurance Supervision (Oct 2012):</b></p> <p>“Where the PRA judges it necessary to intervene, it will generally aim to do so at an early stage. Insurers should be open ...in their dealings with the PRA, taking the initiative to raise issues of possible prudential concern also at an early stage. The PRA, for its part, will respond proportionately..”</p>



# PRA's Regulatory Approach

## Implications of FR8

The PRA released a CP in January 2014 to introduce new Fundamental Rules (FRs).

### **CP2/14 proposes a new 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.*

### **Implications**

Firms should consider:

- Systemic importance/impact on policyholders in the event of any failure
- Potential impact of insolvency on the business and critical services provided
- Potential resolution triggers
- Adequacy of management information systems
- Ease of access to key assets and records
- Implications of moving from recovery to resolution.





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# Resolvability Assessment in Practice

# Resolvability Assessment in Practice

## Possible Approach

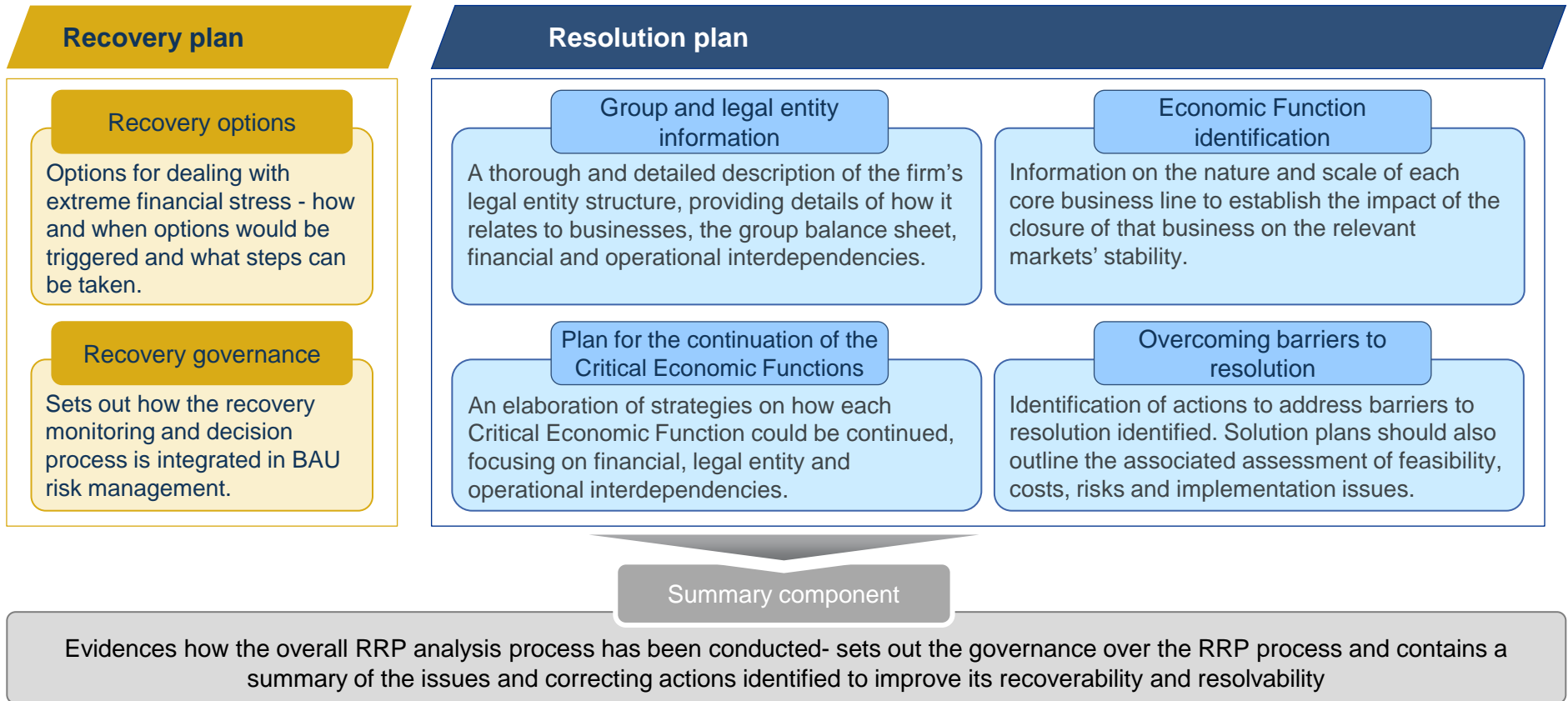
### PRA guidance

- The PRA has not issued any FR8 guidance deliberately, so firms need to consider the data relevant to their business for assessment by the regulator
- The PRA has not yet issued a timetable for implementation of FR8, nor how it will apply proportionality.

Overview and Governance	Operating Model	Risk Assessment	Stress Testing
Business plan and overview	Business Continuity Plan (BCP)	ORSA / FLAOR	Scenario framework
Risk appetite statement	Business sustainability plans	Systemic Risk and critical functions	Solvency and capital ICA/ICA+ and IMAP
Risk vision and policy excerpts	Legal entity documentation	Early Warning Indicators (EWI)	Capital and liquidity management plans



## Key components, Issues, Lessons from Banking







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# IFoA's RRP Working Party

# RRP Working Party

## Scope

- The scope of the group is to co-ordinate the development of a framework for actuaries working to develop Recovery and Resolution Plans.

## Objectives

- Develop a framework to help establish a common understanding of what an insurance company recovery plan should include
- Consider how it should fit with other requirements such as Stress and Scenario Testing
- Be a forum for actuaries working in this area to share ideas and information
- Work with the PRA, FCA and FSCS as is requested by them
- Respond to any consultation papers that are issued on this and related subjects, typically by FSB, IAIS or PRA.



# Questions

# Comments

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



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