Recovery & Resolution Planning

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Setting the scene

Peter Telford, Legal & General
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
Corporate structure is relatively simple
What is Recovery & Resolution Planning?

James Claxton, EY
What is driving Recovery and Resolution planning?

- **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.

FSB  EiOPA  IAIS  

PRA
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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<th>Recovery scenarios</th>
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<th>Indicators and triggers</th>
<th>Recovery options</th>
<th>Obstacle/mitigant</th>
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<td>Macro-economic</td>
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Business description and strategic analysis

Recovery Governance

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### Key components of a Resolution Plan

#### Structure of Plan

1. **Legal Entity Structure & Scoping**
   - Group strategy
   - Business model
   - Core business lines
   - Critical functions
   - Legal entities
   - Support functions
   - In flight projects

2. **Preparation**
   - Presumptive path

3. **Preparation**
   - Scenarios

4. **Analysis for Resolution planning**
   - Strategic analysis
   - International dimension
   - Operational continuity

5. **Resolvability assessment**
   - Identify potential barriers/impediments to resolution and mitigants

**Iterative process**

- Identify potential impediments and mitigants to resolution

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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
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