

# IAIS Consultations

Print view of your comments on "Draft Application Paper on Recovery Planning" - Date: 07.01.2019, Time: 13:14

|  |                                    |
|--|------------------------------------|
| <b>Organisation</b>                      | Institute and Faculty of Actuaries |
| <b>Jurisdiction</b>                      | United Kingdom                     |
| <b>Role</b>                              | Other (not IAIS Member)            |
| <b>Email</b>                             | Steven.Graham@actuaries.org.uk     |
| <b>Phone</b>                             |                                    |
| <b>Treat my comments as confidential</b> | No                                 |

| Question      |   |
|---------------|---|
|               | Q1 General comments on the draft Application Paper  |
| <b>Answer</b> | The Institute and Faculty of Actuaries (IFoA) welcomes the opportunity to respond to the IAIS's consultation paper on Recovery Planning. Members of our Recovery & Resolution Members' Interest Group, and Life and General Insurance Boards have been involved in the drafting of this response. |
|               | Q2 General comments on Section 1: Introduction  |
| <b>Answer</b> |   |
|               | Q3 Comment on Paragraph 1   |
| <b>Answer</b> |   |
|               | Q4 Comment on Paragraph 2   |
| <b>Answer</b> |   |
|               | Q5 Comment on Paragraph 3   |
| <b>Answer</b> | In 3 (iii) as well as being 'timely', we would suggest it is important that the recovery options are also 'effective'.  |
|               | Q6 Comment on Paragraph 4   |
| <b>Answer</b> |   |
|               | Q7 Comment on Paragraph 5   |
| <b>Answer</b> |   |
|               | Q8 Comment on Paragraph 6   |
| <b>Answer</b> |   |
|               | Q9 Comment on Paragraph 7   |

|               |  |
|---------------|--|
| <b>Answer</b> |  |
|               | Q10 Comment on Paragraph 8   |
| <b>Answer</b> |  |
|               | Q11 Comment on Paragraph 9   |
| <b>Answer</b> |  |
|               | Q12 Comment on Paragraph 10  |
| <b>Answer</b> |  |
|               | Q13 Comment on Paragraph 11  |
| <b>Answer</b> |  |
|               | Q14 General comments on Section 2: Objectives and concepts of recovery planning  |
| <b>Answer</b> |  |
|               | Q15 Comment on Paragraph 12  |
| <b>Answer</b> | <p>'Viability' can mean different things to different organisations. Firms should determine what viability means for them as otherwise it is difficult to assess whether the recovery plan (RP) is adequate. This will also drive what financial resources they need to support this, although the minimum from a supervisory perspective is probably meeting their Prescribed Capital Requirement (PCR). We would expect that this would be consistent with any such consideration in a firm's ORSA and may vary from meeting the SCR to being able to maintain a profitable level of new business. It will likely vary from company to company with, inter alia, the products an insurer writes and their distribution channels.</p> |
|               | Q16 Comment on Paragraph 13  |
| <b>Answer</b> | <p>We would expect that the recovery plan required following a breach of a firm's PCR would use similar tools to those being considered in other situations.</p>   |
|               | Q17 Comment on Paragraph 14  |
| <b>Answer</b> | <p>We would also add that one benefit of developing a recovery plan ex ante is that issues may be identified that result in actions being taken which may reduce the likelihood of entering resolution through, for example, making the trigger framework more effective.</p>  |
|               | Q18 Comment on Paragraph 15  |
| <b>Answer</b> |  |
|               | Q19 Comment on Paragraph 16  |
| <b>Answer</b> |  |
|               | Q20 Comment on Paragraph 17  |

|               |  |
|---------------|--|
| <b>Answer</b> | We disagree with the view that 'the ORSA is to prevent an insurer from coming under severe stress'. The ORSA cannot do this, but it can identify the impact of stresses on the business over the business planning period and identify what mitigating actions might then be taken; this could be viewed as being a milder form of recovery plan.  |
|               | Q21 General comments on Section 3: Scope of application and proportionality  |
| <b>Answer</b> |  |
|               | Q22 Comment on Paragraph 18  |
| <b>Answer</b> |  |
|               | Q23 General comments on Section 3.1 Proportional application of requirements   |
| <b>Answer</b> |  |
|               | Q24 Comment on Paragraph 19  |
| <b>Answer</b> |  |
|               | Q25 Comment on Paragraph 20  |
| <b>Answer</b> | The need for a recovery plan may also be driven by the undertaking of what the supervisor views as a critical economic function for that country. We also believe that the point in the last sentence regarding small less complex insurers should be less of an issue as they are not likely to need a detailed recovery plan (if at all), particularly in countries whose approach is not a 'zero tolerance of failure'. |
|               | Q26 Comment on Paragraph 21  |
| <b>Answer</b> | it is not clear what is meant by the withdrawal of an insurer impacting policyholders - is this a reference to a situation where this a lack of continuity of cover due to it not being possible to transfer liabilities to another firm, and a protection scheme not paying out liabilities in full?  |
|               | Q27 Comment on Paragraph 22  |
| <b>Answer</b> |  |
|               | Q28 Comment on Paragraph 23  |
| <b>Answer</b> | We welcome the application of the proportionality principle to the requirement for, but also the detail required within, a recovery plan.  |
|               | Q29 Comment on Paragraph 24  |
| <b>Answer</b> | Similarly, we welcome the provision for a planned and phased development of recovery plans.  |
|               | Q30 Comment on Paragraph 25  |
| <b>Answer</b> |  |
|               | Q31 General comments on Section 3.2 Matters specific to insurance groups   |
| <b>Answer</b> |  |

Q32 Comment on Paragraph 26

**Answer**

We note that coordination of supervisors is not just an issue for groups, as in many countries prudential and conduct supervision may be undertaken by separate supervisors; recovery may also impact policyholders in a way that is of a concern to the conduct supervisor.

Q33 Comment on Paragraph 27

**Answer**

An additional consideration for groups is the extent to, and circumstances in, which recovery plans of subsidiaries call for group support at the same time. This means that the group plan needs to be developed in conjunction with those for the major subsidiaries.

Q34 Comment on Paragraph 28

**Answer**

Q35 Comment on Paragraph 29

**Answer**

Q36 Comment on Paragraph 30

**Answer**

Q37 General comments on Section 4 Governance around recovery planning

**Answer**

Q38 Comment on Paragraph 31

**Answer**

Q39 General comments on Section 4.1: Governance – development, approval, review & testing

**Answer**

Q40 Comment on Paragraph 32

**Answer**

We believe it is essential that the Board is involved in the RP development and signs it off. We do not believe it is essential for there to be complete independence between development and approval. Clearly one would expect that there is an appropriate level of separation between the team developing the plan and the risk function review and challenge.

Q41 Comment on Paragraph 33

**Answer**

See answer to Q40.

Q42 Comment on Paragraph 34

**Answer**

Q43 Comment on Paragraph 35

|               |   |
|---------------|---|
| <b>Answer</b> | We do not believe it is possible for the plan to 'ensure' that it can be implemented in a timely manner - we suggest inserting the wording 'as far as reasonably possible'. Furthermore, it is not clear to us how the existing stress testing framework would test the credibility of the recovery plan; we believe further explanation is required on this. |
|               | Q44 General comments on Section 4.2: Governance – monitoring, escalation and activation processes   |
| <b>Answer</b> |   |
|               | Q45 Comment on Paragraph 36   |
| <b>Answer</b> |   |
|               | Q46 Comment on Paragraph 37   |
| <b>Answer</b> | It will be important for an Operational Resilience risk appetite to be developed as the timeliness of any recovery plans will be dependent on how the stressed conditions impact the viability of the business.   |
|               | Q47 Comment on Paragraph 38   |
| <b>Answer</b> | It would be useful to expand on what is meant by 'increased level of monitoring' - presumably this is the Board needing greater levels of, and more frequent, management information.   |
|               | Q48 Comment on Paragraph 39   |
| <b>Answer</b> |   |
|               | Q49 Comment on Paragraph 40   |
| <b>Answer</b> | We believe it is also important for the reliance and role of any third parties to be considered.  |
|               | Q50 Comment on Paragraph 41   |
| <b>Answer</b> | We believe both the senior management and the Board should evaluate the information, rather than it being either senior management or the Board.  |
|               | Q51 Comment on Paragraph 42   |
| <b>Answer</b> |   |
|               | Q52 General comments on Section 5: Elements of a recovery plan  |
| <b>Answer</b> |   |
|               | Q53 Comment on Paragraph 43   |
| <b>Answer</b> | The RP should also include information on key dependencies and assumptions. There should also be information on the estimated impact of the principal options and how they interact (as described in paragraph 67).   |
|               | Q54 Comment on Paragraph 44   |

|               |   |
|---------------|---|
| <b>Answer</b> |   |
|               | Q55 General comments on Section 5.1: Executive abstract of the recovery plan                              |
| <b>Answer</b> |   |
|               | Q56 Comment on Paragraph 45   |
| <b>Answer</b> |   |
|               | Q57 Comment on Paragraph 46   |
| <b>Answer</b> |   |
|               | Q58 Comment on Paragraph 47   |
| <b>Answer</b> |   |
|               | Q59 Comment on Paragraph 48   |
| <b>Answer</b> |   |
|               | Q60 General comments on Section 5.2: Description of the insurer or group                                  |
| <b>Answer</b> |   |
|               | Q61 Comment on Paragraph 49   |
| <b>Answer</b> |   |
|               | Q62 General comments on Section 5.3: Trigger framework  |
| <b>Answer</b> |   |
|               | Q63 Comment on Paragraph 50   |
| <b>Answer</b> |   |
|               | Q64 Comment on Paragraph 51   |
| <b>Answer</b> | It is not clear what 'other contingency plans' are being referred to which would not be in the RP itself. |
|               | Q65 Comment on Paragraph 52   |
| <b>Answer</b> | We believe it is the foreseeable risks which help determine the trigger framework.                        |
|               | Q66 Comment on Paragraph 53   |
| <b>Answer</b> |   |
|               | Q67 Comment on Paragraph 54   |
| <b>Answer</b> |   |
|               | Q68 Comment on Paragraph 55   |
| <b>Answer</b> |   |

Q69 Comment on Paragraph 56

**Answer**

Box 1. We note that where there is risk-based capital a deterioration in asset quality will trigger reduced capital resources, so the key trigger is available capital.

Q70 Comment on Paragraph 57

**Answer**

We note that supervisors will need significant information from the insurer on how the triggers have been derived for them to undertake the analysis.

Q71 Comment on Paragraph 58

**Answer**

Q72 Comment on Paragraph 59

**Answer**

Q73 Comment on Paragraph 60

**Answer**

Q74 General comments on Section 5.4: Governance

**Answer**

Q75 Comment on Paragraph 61

**Answer**

Q76 General comments on Section 5.5: Recovery options

**Answer**

Q77 Comment on Paragraph 62

**Answer**

Q78 Comment on Paragraph 63

**Answer**

Q79 Comment on Paragraph 64

**Answer**

Box 2. We would caution the use of repricing of insurance contracts as it is difficult to know how successful the thus will be, particularly in stressed conditions. Similarly, hedging may be difficult to achieve in stressed conditions and can be costly.

Q80 Comment on Paragraph 65

**Answer**

Full information should be given on the key assumptions underlying the option and the basis for any expert judgments.

Q81 Comment on Paragraph 66

**Answer**

Q82 Comment on Paragraph 67

**Answer**

Q83 Comment on Paragraph 68

**Answer**

Supervisors should discuss with the insurer the extent the insurer needs to agree contractual arrangements with third parties.

Q84 General comments on Section 5.6: Communication strategy

**Answer**

Q85 Comment on Paragraph 69

**Answer**

Q86 Comment on Paragraph 70

**Answer**

Q87 Comment on Paragraph 71

**Answer**

Q88 Comment on Paragraph 72

**Answer**

Q89 Comment on Paragraph 73

**Answer**

Q90 Comment on Paragraph 74

**Answer**

Q91 Comment on Paragraph 75

**Answer**

Q92 Comment on Paragraph 76

**Answer**

Q93 General comments on Section 5.7: Stress scenarios

**Answer**

Q94 Comment on Paragraph 77

**Answer**

Q95 Comment on Paragraph 78

**Answer**

Q96 Comment on Paragraph 79

**Answer**



Q97 Comment on Paragraph 80

**Answer**

[Redacted]

Q98 Comment on Paragraph 81

**Answer**

[Redacted]

Q99 Comment on Paragraph 82

**Answer**

[Redacted]

Q100 Comment on Paragraph 83

**Answer**

[Redacted]

Q101 General comments on Section 6: Supervisory considerations

**Answer**

[Redacted]

Q102 Comment on Paragraph 84

**Answer**

[Redacted]

Q103 General comments on Section 6.1: Assessing recovery plans

**Answer**

[Redacted]

Q104 Comment on Paragraph 85

**Answer**

We are unsure as to why the assessment of RPs is sufficiently onerous that it would mean that supervisors would not have the supervisory capacity for this work to warrant a specific resource review.

Q105 Comment on Paragraph 86

**Answer**

[Redacted]

Q106 Comment on Paragraph 87

**Answer**

[Redacted]

Q107 Comment on Paragraph 88

**Answer**

[Redacted]

Q108 Comment on Paragraph 89

**Answer**

[Redacted]

Q109 Comment on Paragraph 90

**Answer**

[Redacted]

Q110 General comments on Section 6.2 : Supervisory cooperation and coordination

**Answer**

[Redacted]

Q111 Comment on Paragraph 90

|               |                              |
|---------------|------------------------------|
| <b>Answer</b> | <input type="text"/>         |
|               | Q112 Comment on Paragraph 91 |
| <b>Answer</b> | <input type="text"/>         |
|               | Q113 Comment on Paragraph 92 |
| <b>Answer</b> | <input type="text"/>         |
|               | Q114 Comment on Paragraph 93 |
| <b>Answer</b> | <input type="text"/>         |
|               | Q115 Comment on Paragraph 94 |
| <b>Answer</b> | <input type="text"/>         |
|               | Q116 Comment on Paragraph 95 |
| <b>Answer</b> | <input type="text"/>         |
|               | Q117 Comment on Paragraph 96 |
| <b>Answer</b> | <input type="text"/>         |