

IAIS Consultations

Print view of your comments on "Draft Application Paper on Recovery Planning" - Date: 07.01.2019, Time: 18:35

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Treat my comments as confidential	No

Question	
	Q1 General comments on the draft Application Paper
Answer	<p>This paper discusses a "recovery plan" in terms of a range of options rather than dictating specific actions that must be followed when a triggering event occurs. This is to be encouraged, as stresses generally do not follow the specific form envisioned in a pre-specified scenario analysis. As such there may be a tendency, however, for the paper as written to encourage an overly granular "recovery plan" rather than providing the general foundation that will enable action to respond to the unfolding circumstances of the particular situation. The paper should strongly stress the principles for use of the options, rather than attempting to be overly granular regarding how they might be applied (as the latter will differ depending on the facts and circumstances of the stress).</p>
	Q2 General comments on Section 1: Introduction
Answer	
	Q3 Comment on Paragraph 1
Answer	
	Q4 Comment on Paragraph 2
Answer	<p>Elements (i) and (ii) should be reversed. It seems more logical to enumerate all the possible stresses and scenarios before considering the option that can be used to cope with them.</p>
	Q5 Comment on Paragraph 3
Answer	<p>In 3 (iii) as well as being "timely", the IAA suggests it is important that the recovery options are also "effective".</p>
	Q6 Comment on Paragraph 4
Answer	
	Q7 Comment on Paragraph 5
Answer	

Q8 Comment on Paragraph 6

Answer

Q9 Comment on Paragraph 7

Answer

Q10 Comment on Paragraph 8

Answer

Q11 Comment on Paragraph 9

Answer

Q12 Comment on Paragraph 10

Answer

Q13 Comment on Paragraph 11

Answer

Q14 General comments on Section 2: Objectives and concepts of recovery planning

Answer

Q15 Comment on Paragraph 12

Answer

"Viability" can mean different things to different people. Firms should determine what viability means for them, as otherwise it will be difficult to assess whether the recovery plan (RP) is adequate. This will also drive what financial and operational resources that will be needed, although the minimum from a supervisory perspective will probably be achieving their Prescribed Capital Requirement (PCR). The IAA expects that this would be consistent with any such consideration in a firm's ORSA and may vary from: meeting the PCR to being able to maintain a profitable level of new business. This may vary from company to company with, inter alia, the products an insurer writes and their distribution channels.

The phrase "restore financial strength" could be interpreted to mean that the recovery plan has to get the insurer back to where it was before the stress happened. The RP just has to allow the insurer to meet its PCR or get to whatever financial strength is specified by the supervisor.

Q16 Comment on Paragraph 13

Answer

The IAA expects that the recovery plan required following a breach of its PCR would use similar tools to those considered in other situations.

A supervisor could require an RP at times other than just at a breach of the PCR.

Q17 Comment on Paragraph 14

Answer

In addition, one benefit of developing a recovery plan ex ante is that issues may be identified that then result in actions taken which may reduce the likelihood of entering resolution through, for example, making the trigger framework more effective.

Q18 Comment on Paragraph 15

Answer	The IAA believes that an RP should not just be “an aid to sound ERM” but should be an actual part of the ERM.
	Q19 Comment on Paragraph 16
Answer	
	Q20 Comment on Paragraph 17
Answer	The IAA disagrees with the view that "the ORSA is to prevent an insurer from coming under severe stress". The ORSA by itself cannot do this, but it can identify the impact of stress 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
Answer	
	Q22 Comment on Paragraph 18
Answer	
	Q23 General comments on Section 3.1 Proportional application of requirements
Answer	
	Q24 Comment on Paragraph 19
Answer	
	Q25 Comment on Paragraph 20
Answer	<p>The need for a recovery plan may also be driven by what the supervisor determines to be a critical economic function for the country.</p> <p>The IAA also believes that the point made in the last sentence regarding small, less complex, insurers should not be a significant issue, as they are not likely to need a detailed recovery plan (if at all), particularly in countries whose approach isn't a "zero tolerance of failure " approach.</p>
	Q26 Comment on Paragraph 21
Answer	The IAA suggests that it is not clear what is meant by the withdrawal of an insurer impacting policyholders. This should be clarified. Is this a reference to a situation where there is a lack of continuity of cover for renewal business or due to it not being possible to transfer liabilities to another firm along with a protection scheme not paying out 100% of its current obligations?
	Q27 Comment on Paragraph 22
Answer	
	Q28 Comment on Paragraph 23

Answer	The IAA welcomes the application of the proportionality principle to requiring, as well as the detail required in, a recovery plan. However, while proportionality practices were surveyed, the AP fails to give examples of complex RPs compared with those that perhaps only need a simpler RP. Through such examples, supervisors will be in a position to better apply RPs on a proportionate basis.
	Q29 Comment on Paragraph 24
Answer	Similarly, the IAA welcomes the provision for a planned and phased development of recovery plans.
	Q30 Comment on Paragraph 25
Answer	
	Q31 General comments on Section 3.2 Matters specific to insurance groups
Answer	
	Q32 Comment on Paragraph 26
Answer	The IAA notes 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, and 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 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 its major subsidiaries. This is potentially important in the case of stresses in the group under which capital held in any part of the group becomes non-fungible. An example was IAG in the last financial crisis where some local regulators froze the local subsidiaries and did not allow any transfers to other entities in the group.
	Q34 Comment on Paragraph 28
Answer	The IAA suggests changing the wording to "...revenue, need for funds, capital, profits or risk profile."
	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

The IAA believes it is essential that the Board be involved in the RP development and signs it off. The IAA does 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

Answer

The IAA does not believe it is possible to "ensure" that the plan can be implemented in a timely manner - we suggest inserting "to the extent reasonably possible". Also, it is not clear to us how the existing stress testing framework tests the credibility of a recovery plan. Possible options, such as sale of a unit or cancelling a dividend, cannot be simulated in a realistic enough manner to fully test the effect of such an option, and the facts and circumstances of an actual event are highly unlikely to match closely any simulated scenario. The IAA believes further explanation is required on this.

Q44 General comments on Section 4.2: Governance – monitoring, escalation and activation processes

Answer

Q45 Comment on Paragraph 36

Answer

Q46 Comment on Paragraph 37

Answer

It will be important for an Operational Resilience risk appetite to be developed, as the timeliness of any recovery plan will depend on how the stressed conditions impact the viability of the business.

Q47 Comment on Paragraph 38

Answer

It would be useful to clarify 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

Answer

Q49 Comment on Paragraph 40

Answer	<p>The IAA believes it is also important for the reliance and role of relevant third parties to be considered.</p> <p>Activation of an RP requires that the staff needed to implement the RP options in a timely manner to be planned, especially key ones, as well as the availability of such staff to do the work, while still operating the insurer. Depending on the stress, more than one option might be needed concurrently. Are there enough staff skilled in the new work needed for the RP option implementations or would support from a third party be needed?</p> <p>It might be useful if entities set a range of levels of stressed situations or scenarios to establish whether some stakeholders, including supervisors, should be informed about the activation of the recovery plan, according to the severity of the situation.</p>
	Q50 Comment on Paragraph 41
Answer	<p>The IAA believes both the senior management and the Board should evaluate the information, rather than it being senior management or the Board.</p>
	Q51 Comment on Paragraph 42
Answer	
	Q52 General comments on Section 5: Elements of a recovery plan
Answer	
	<p>Q53 Comment on Paragraph 43</p> <p>The RP should also include information on key dependencies and assumptions. In addition, information on the estimated impact of the principal options and how they interact (as described in paragraph 67) should also be included.</p> <p>A summary such as shown in paragraphs 43 and 44 should also be placed in front of Section 4 of the paper. A high-level summary of this type would be useful as a roadmap showing how the following sections of the paper hold together.</p>
	Q54 Comment on Paragraph 44
Answer	
	Q55 General comments on Section 5.1: Executive abstract of the recovery plan
Answer	
	Q56 Comment on Paragraph 45
Answer	
	Q57 Comment on Paragraph 46
Answer	
	Q58 Comment on Paragraph 47
Answer	
	Q59 Comment on Paragraph 48
Answer	
	Q60 General comments on Section 5.2: Description of the insurer or group

Answer	
	Q61 Comment on Paragraph 49
Answer	The paragraph should describe both the “operational business structure” and the corresponding legal structure.
	Q62 General comments on Section 5.3:Trigger framework
Answer	
	Q63 Comment on Paragraph 50
Answer	
	Q64 Comment on Paragraph 51
Answer	It is not clear what "other contingency plans" are being referred to which would not already be in the RP itself.
	Q65 Comment on Paragraph 52
Answer	The IAA believes it is the foreseeable risks which help determine the trigger framework.
	Q66 Comment on Paragraph 53
Answer	
	Q67 Comment on Paragraph 54
Answer	
	Q68 Comment on Paragraph 55
Answer	
	Q69 Comment on Paragraph 56
Answer	<p>Box 1. The IAA notes that where there is risk-based capital a deterioration in asset quality will trigger reduced capital resources the key trigger is available capital. The triggers in the paper should also include policy liability risks (mortality, lapse, disability, rate of incidence, claim severity etc.) including the effects of any resulting changes in assumptions affecting the liabilities.</p> <p>Liquidity risk should include funds assumed to be available from the parent, from other entities in the group, or from planned future public debt funding.</p> <p>It may be useful to mention “relevant changes in size and/or speed of cash flows related with liabilities”</p>
	Q70 Comment on Paragraph 57
Answer	The IAA notes 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	The example in this paragraph should be included in Box 1.
	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	The assessment of options should also consider the timing needed to fully implement each option.
	Q79 Comment on Paragraph 64
Answer	<p>Box 2: The IAA cautions that the effectiveness of repricing of insurance contracts in a RP may be difficult to assess, particularly when faced with stressed conditions. Similarly, hedging may be difficult to achieve under stressed conditions and can be costly, depending upon the structure and nature of the hedging framework. However, we agree that there may be circumstances where it is an appropriate option. For example, where market purchasers take advantage of the under-pricing of short duration policies by an insurer, high, unprofitable and unsustainable growth may result.</p> <p>The options available to an insurer depend on whether the stress is idiosyncratic or systemic.</p>
	Q80 Comment on Paragraph 65
Answer	<p>Complete information should be provided on the key assumptions underlying the option and the basis for any expert judgment.</p> <p>Any dependency on counterparties” and “An assessment of potential impediments and constraints to effective execution “ should be mentioned.</p> <p>The IAA suggests that entities include in their RP actions to mitigate the failure or significant distress of counterparties who may significantly impact the operations of the entity.</p>
	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 it needs to contractually fulfil or renegotiate 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

Rating agencies should also be included in the list.

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	The use of the word “plausible” should not be used in this paragraph. Plausible stresses should have already been considered in the regular risk management function in the insurer or in its ORSA. In this case it can be assumed that the “plausible” risk does not make the insurer breach its PCR. The stresses considered in the recovery plan should be more adverse so that the recovery plan is triggered.
	Q97 Comment on Paragraph 80
Answer	
	Q98 Comment on Paragraph 81
Answer	
	Q99 Comment on Paragraph 82
Answer	
	Q100 Comment on Paragraph 83
Answer	
	Q101 General comments on Section 6: Supervisory considerations
Answer	
	Q102 Comment on Paragraph 84
Answer	
	Q103 General comments on Section 6.1: Assessing recovery plans
Answer	
	Q104 Comment on Paragraph 85
Answer	The IAA is unsure why the assessment of RPs is sufficiently onerous that they would result in supervisors not having the supervisory capacity for this work or would need to undertake a specific resource review.
	Q105 Comment on Paragraph 86
Answer	The IAA suggests that the guidance should clarify that supervisors should only be required to assess, and possibly require changes to, those recovery plans that the supervisor has required an entity to produce, as opposed to those plans created voluntarily for internal purposes only with no supervisory dictate. Otherwise, this wording could discourage smaller companies from creating any such plans.
	Q106 Comment on Paragraph 87
Answer	
	Q107 Comment on Paragraph 88
Answer	
	Q108 Comment on Paragraph 89

Answer	This paragraph is especially relevant. The role of the supervisor when assessing any redundant collapse due to the fact that many other re/insurers are requiring the same solution in a stressed situation is crucial.
	Q109 Comment on Paragraph 90
Answer	
	Q110 General comments on Section 6.2 : Supervisory cooperation and coordination
Answer	
	Q111 Comment on Paragraph 90
Answer	
	Q112 Comment on Paragraph 91
Answer	
	Q113 Comment on Paragraph 92
Answer	
	Q114 Comment on Paragraph 93
Answer	
	Q115 Comment on Paragraph 94
Answer	
	Q116 Comment on Paragraph 95
Answer	
	Q117 Comment on Paragraph 96
Answer	