

# IAIS Consultations

Print view of your comments on "Draft Application Paper on Recovery Planning" - Date: 07.01.2019, Time: 16:31

<b>Organisation</b>	Global Federation of Insurance Associations
<b>Jurisdiction</b>	Global
<b>Role</b>	Other (not IAIS Member)
<b>Email</b>	secretariat@gfiainsurance.org
<b>Phone</b>	003228943081
<b>Treat my comments as confidential</b>	No

Question	
	Q1 General comments on the draft Application Paper
<b>Answer</b>	<p>GFIA appreciates the opportunity to comment on the paper. Overall, while the paper provides some useful commentary that insurers and supervisors might use for their own purposes, it is highly and unnecessarily prescriptive with regard to what companies should do and even how they should do it. The paper also tends to blur the line between the legitimate role of supervisors and the basic concept that the recovery plan is the company's not the supervisor's. Finally, while the mention of proportionality is much appreciated, over-all the paper implies that detailed recovery planning should be mandated for all companies. Yet there are many going concerns that should not expend resources as prescribed for a complex and detailed plan, when those resources could be better deployed in providing more insurance protection to the public.</p> <p>GFIA applauds the IAIS's acknowledgment throughout the Application Paper of the need for a supervisor to consider "proportionality" when determining recovery planning requirements for insurers under their supervision. Given the significant costs of recovery planning and the existence of other risk management tools and processes that may serve similar or overlapping purposes, supervisors must have the flexibility to tailor any recovery planning requirements as appropriate.</p> <p>Indeed, the supervisor should have the discretion to accept alternative submissions in lieu of some or all of the main elements of a separate, formal recovery plan to the extent that such submissions collectively satisfy the agreed standards and goals. Such may include robust ORSAs, capital and liquidity policies and other risk assessment, management and contingency plans that are also part of an insurer's ERM framework.</p> <p>In the context of considering the need for an insurer recovery plan and any plan's form, content or detail as set forth in Section 3, GFIA asks that supervisors consider that insurers very rarely fail rapidly in a disorderly manner. Most insurance groups do not perform critical operations, are far less susceptible than banks to "runs", have greater liquidity buffers, and have limited interconnections to each other. It is GFIA's view that existing recovery and resolution tools and regimes can and will provide for the orderly satisfaction of in-force liabilities over an extended period of time without systemic impact.</p> <p>GFIA is encouraged by the IAIS's characterisation of a recovery plan as a forward-looking plan that identifies in advance the "menu of options" that may be available to an insurer to restore financial strength and viability upon the occurrence of a stress event. Consistent with revised ICP 16.13, and as more fully explained in GFIA's suggestions to revise specific paragraphs below, GFIA is of the view that a recovery plan should serve as a flexible guide for the insurer. It should not be a directive to take specific actions upon the occurrence of pre-defined triggers. Since actual stress events are inherently unpredictable, management must maintain wide discretion to select and utilise the appropriate recovery tools. This will help ensure the efficient use of both company and regulatory resources.</p>

Q2 General comments on Section 1: Introduction

**Answer**

GFIA finds the introduction to be helpful.

Q3 Comment on Paragraph 1

**Answer**

Q4 Comment on Paragraph 2

**Answer**

Q5 Comment on Paragraph 3

**Answer**

Q6 Comment on Paragraph 4

**Answer**

GFIA especially endorses the inclusion of this paragraph on proportionality.

Q7 Comment on Paragraph 5

**Answer**

Q8 Comment on Paragraph 6

**Answer**

GFIA strongly endorses the inclusion of this paragraph.

Q9 Comment on Paragraph 7

**Answer**

Q10 Comment on Paragraph 8

**Answer**

This paragraph should reference that the FSB paper and its recommendations do not apply to all companies.

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

<b>Answer</b>	This is a critically important paragraph and additional attention should be called to it, if possible, as it provides fundamentally important context on how to understand the paper and apply it.
	Q16 Comment on Paragraph 13
<b>Answer</b>	This paragraph should make clear that the supervisor should have the discretion to accept alternative submissions in lieu of a separate, formal recovery plan to the extent that such submissions collectively satisfy the stated goal of identifying “advance options to restore financial position and viability if the insurer comes under severe stress” per ICP 16.13.a. These alternative submissions may include robust ORSAs, liquidity plans, capital and liquidity policies and other risk assessment, management and contingency plans that are also part of an insurer’s ERM framework.
	Q17 Comment on Paragraph 14
<b>Answer</b>	
	Q18 Comment on Paragraph 15
<b>Answer</b>	GFIA is concerned that this paragraph goes too far in suggesting that the plan is for the benefit of the supervisor, when paragraph 12 attempts to make clear that the plan is for the benefit of the company. GFIA endorses the latter position. In addition, too much reliance by supervisors on the plan may deflect their attention from larger governance oversight and such reliance may even have a similar impact on the company itself. Good governance is a daily issue for companies with limited appropriate supervisory oversight of end results rather than the details of how a company goes about it.
	Q19 Comment on Paragraph 16
<b>Answer</b>	
	Q20 Comment on Paragraph 17
<b>Answer</b>	Despite this paragraph’s effort to distinguish the recovery plan from the ORSA, GFIA sees overlap and unnecessary duplication. Accordingly, an appropriate discussion in one of the documents should eliminate the need to address the same topic in the other document.
	Q21 General comments on Section 3: Scope of application and proportionality
<b>Answer</b>	The Recovery Plan should be considered as being in the continuity of the ORSA. IAIS should consider if the Table on Page 8, the references to the FSB’s G-SIFI and SII designations, should be deleted as they are not the current direction of the IAIS’ proposed holistic approach and review of designations.
	Q22 Comment on Paragraph 18
<b>Answer</b>	This paragraph goes too far in stating that the supervisor should dictate the “form, content, and level of detail” of the recovery plan.
	Q23 General comments on Section 3.1 Proportional application of requirements
<b>Answer</b>	
	Q24 Comment on Paragraph 19

**Answer**

Q25 Comment on Paragraph 20

**Answer**

This paragraph includes the following sentence: "In practice, it is expected that standalone, comprehensive recovery plans will mainly be required for those insurers that are larger and/or more complex in nature, or whose activities, or potential failure, have the potential of having broader systemic impacts". GFIA disagrees that insurers "that are larger and/or more complex in nature", in and of itself, should be expected to have to develop standalone, comprehensive recovery plans. Supervisors should consider the activities in which an insurer engages (as well as proportionality and the attendant costs and benefits) when determining the necessity, form, and content on a recovery plan, and not focus solely on the insurer's size, scope or complexity. Accordingly, GFIA requests that the above sentence be deleted. In addition, GFIA requests that language be added that states that the supervisor should have the discretion to accept alternative submissions in lieu of a separate, formal recovery plan to the extent that such submissions collectively satisfy the stated goal of identifying "advance options to restore financial position and viability if the insurer comes under severe stress" per ICP 16.13.a.

Q26 Comment on Paragraph 21

**Answer**

GFIA is concerned that the bullet points are so broad as to create the potential for supervisory overreach by justifying mandating complex plans for many companies, unnecessarily. In addition, the listed factors should not include an insurer's size; therefore, GFIA suggests that the first bullet be deleted.

Q27 Comment on Paragraph 22

**Answer**

Q28 Comment on Paragraph 23

**Answer**

A separate process for the recovery plan should not necessarily be expected, and should be subject to the principle of proportionality in the context of the additional content of the recovery plan and the suitability of the existing processes for recovery planning purposes.

Q29 Comment on Paragraph 24

**Answer**

Where a group recovery plan exists and an individual entity is already covered within the group plan, a separate local plan should not be required.

Q30 Comment on Paragraph 25

**Answer**

Q31 General comments on Section 3.2 Matters specific to insurance groups

**Answer**

GFIA strongly endorses the need for consideration of materiality as set forth in this section.

Q32 Comment on Paragraph 26

**Answer**

Q33 Comment on Paragraph 27

**Answer**

By default, the recovery plan should apply at the level of the ultimate parent undertaking.

	Q34 Comment on Paragraph 28
<b>Answer</b>	GFIA generally supports the materiality test. However, as written the bullet points allow a definition of materiality that is too broad. Accordingly, GFIA requests the deletion of the first bullet point or that “or” be replaced with “and”, at the least.
	Q35 Comment on Paragraph 29
<b>Answer</b>	GFIA requests that “particularly important” is too vague a standard and should be replaced with: “systemically important in that failure would have a substantial impact on the general economy that could not be remedied by the market in a reasonable time”.  GFIA also disagrees with the presumption that a host supervisor may require separate recovery plans for an insurance legal entity in its jurisdiction.
	Q36 Comment on Paragraph 30
<b>Answer</b>	
	Q37 General comments on Section 4 Governance around recovery planning
<b>Answer</b>	GFIA questions whether the level of detail contained in Section 4 (Governance around recovery planning), is really necessary and appropriate.
	Q38 Comment on Paragraph 31
<b>Answer</b>	The final sentence should be clarified to provide that the written policies and procedures should include operational procedures for “management’s evaluation and potential implementation of one or more recovery options, when the necessary conditions exist”. rather than “activation of the recovery plan”.
	Q39 General comments on Section 4.1: Governance – development, approval, review & testing
<b>Answer</b>	GFIA has significant concerns with this section. Overall, it seems to be very prescriptive and its recommendations could only be satisfied by an entire new bureaucracy in the company, costing resources that could be better deployed to provide more protection.
	Q40 Comment on Paragraph 32
<b>Answer</b>	See response above.
	Q41 Comment on Paragraph 33
<b>Answer</b>	See response above.  The first bullet in Paragraph 33 states that “It would be expected that the Board is responsible for the approval of the recovery plan”. While this may be the case in certain jurisdictions, it may not be the case in all. We, therefore, request that the phrase “In certain jurisdictions”, be added to the beginning of that sentence.
	Q42 Comment on Paragraph 34
<b>Answer</b>	See response above.

Q43 Comment on Paragraph 35

**Answer**

See response above.

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

**Answer**

As with the prior section, this section is overly prescriptive and seems not to take any account of proportionality and costs versus benefits even for larger companies. It also implies one way of doing things when it should be up to the company how it drafts and oversees its plan, if it has one.

Q45 Comment on Paragraph 36

**Answer**

See the comment above. This section should be clarified to provide that the recovery plan should have embedded governance processes for “management’s evaluation and potential implementation of one or more recovery options when the necessary conditions exist”, rather than “activation of the recovery plan”.

Q46 Comment on Paragraph 37

**Answer**

See response above.

Q47 Comment on Paragraph 38

**Answer**

See response above.

Q48 Comment on Paragraph 39

**Answer**

See response above.

Q49 Comment on Paragraph 40

**Answer**

The first bullet should be clarified to provide that the policies and procedures should identify the process for “management’s evaluation and potential implementation of one or more recovery options”, rather than “activation of the recovery plan”. The third bullet should be clarified to require that “implementation of any recovery options when the necessary conditions exist” be communicated to relevant parties, rather than “activation of the recovery plan”.

Q50 Comment on Paragraph 41

**Answer**

This paragraph correctly states that “recovery plans should not commit an insurer to take any action without the Senior Management or Board first evaluating relevant information and deliberating on the best course of action”. GFIA would suggest, however, that the Paper’s repeated reference to the “activation” of a recovery plan on the occurrence of pre-defined triggers at best complicates and at worst potentially undermines this important point about the difficulty of predicting actual stress events and determining the best course or combined courses of action for recovery beforehand.

Q51 Comment on Paragraph 42

**Answer**

See response above.

Q52 General comments on Section 5: Elements of a recovery plan

**Answer**

Q53 Comment on Paragraph 43

**Answer**

“A communication strategy to keep supervisors informed and involved, and to help manage the expectations, and/or retain (or restore) the confidence, of market participants and policyholders as necessary” should be rephrased as follows:

“A communication strategy to keep supervisors informed and involved, and to help manage the expectations, and/or retain (or restore) the confidence, of market participants and policyholders as necessary”.

Any involvement of the supervisor should be defined in the Prudential Regime and not in the recovery plan.

Q54 Comment on Paragraph 44

**Answer**

GFIA suggests the deletion of the reference to supervisors, as the plan should exclusively be for the benefit and use of the company.

Q55 General comments on Section 5.1: Executive abstract of the recovery plan

**Answer**

This is another example of the overly prescriptive elements of the paper.

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**

Q62 General comments on Section 5.3: Trigger framework

**Answer**

Q63 Comment on Paragraph 50

**Answer**

Q64 Comment on Paragraph 51

**Answer**

Q65 Comment on Paragraph 52

**Answer**

Q66 Comment on Paragraph 53

**Answer**

Q67 Comment on Paragraph 54

**Answer**

Q68 Comment on Paragraph 55

**Answer**

Q69 Comment on Paragraph 56

**Answer**

Q70 Comment on Paragraph 57

**Answer**

This section implies a degree of supervisory control that is inconsistent with the fundamental idea that the plan is the company's, not the supervisor's.

Q71 Comment on Paragraph 58

**Answer**

If the supervisor expects or effectively requires activation of the recovery plan at a level above the PCR, this implies a new supervisory intervention level at this higher point, particularly having regard to the level of interaction required between the supervisor and firm in the event of a breach of a trigger, as set out in paragraph 73. Recovery planning should not be used to effectively increase PCRs in this way. The wording here should be changed to "an insurer may decide to calibrate trigger points for activation".

Q72 Comment on Paragraph 59

**Answer**

Q73 Comment on Paragraph 60

**Answer**

Acknowledging that, as provided in paragraph 60, Figure 2 is an illustration of the stylised relationship among recovery trigger, viability and actions taken, GFIA is concerned about the possibility of creating misunderstandings.

GFIA considers that this diagram would need substantial modification, and remains willing to suggest alternative constructions to the IAIS.

Q74 General comments on Section 5.4: Governance

**Answer**

Q75 Comment on Paragraph 61

<b>Answer</b>	This section should be clarified to provide that the recovery plan should have a description of the processes for “management’s evaluation and potential implementation of one or more recovery options when the necessary conditions exist”, rather than “activating the recovery plan”.
	Q76 General comments on Section 5.5: Recovery options
<b>Answer</b>	
	Q77 Comment on Paragraph 62
<b>Answer</b>	
	Q78 Comment on Paragraph 63
<b>Answer</b>	
	Q79 Comment on Paragraph 64
<b>Answer</b>	
	Q80 Comment on Paragraph 65
<b>Answer</b>	This is another example of where the paper becomes overly detailed and prescriptive.
	Q81 Comment on Paragraph 66
<b>Answer</b>	
	Q82 Comment on Paragraph 67
<b>Answer</b>	
	Q83 Comment on Paragraph 68
<b>Answer</b>	
	Q84 General comments on Section 5.6: Communication strategy
<b>Answer</b>	While it may be appropriate to develop severe but plausible scenarios as proposed, this is not necessarily consistent with the example provided of a PCR breach. There may not be plausible scenarios which give rise to a breach of the PCR. The wording should be changed to “for example, calibration to represent a near-default scenario, such as a breach of the PCR where this is plausible, could achieve this goal. Calibration to PCR breach means that highly capitalised insurers would conduct a more extreme scenario (and potentially implausible scenario) than less well capitalised insurers. This undermines the risk management benefits of the recovery plan in particular and makes it difficult to explain or communicate the outcomes.
	Q85 Comment on Paragraph 69
<b>Answer</b>	
	Q86 Comment on Paragraph 70
<b>Answer</b>	GFIA appreciates the reference to the need to uphold confidentiality. However, this issue is so important that it deserves even more attention.

Q87 Comment on Paragraph 71

**Answer**

Q88 Comment on Paragraph 72

**Answer**

The key roles and responsibilities of Board Members, senior management, and Persons in Control Functions should be described in regular governance documentation, and not in the communication strategy of the recovery plan.

Q89 Comment on Paragraph 73

**Answer**

This is another paragraph that is overly prescriptive and detailed, suggesting as it does that there is one way to do recovery planning. The first, third and fourth bullets should each be clarified to reference "management's evaluation and potential implementation of one or more recovery options when the necessary conditions exist", rather than "activation of the recovery plan".

Alternatively, to reinforce the need for stakeholder flexibility in determining the best response(s) to actual stress events, GFIA would suggest that the IAIS define "activation of the recovery plan" to clarify that the insurer would in no way be bound to undertake a specific recovery option or strategy and instead may determine, in its discretion and based on the circumstances presented, the appropriate pathway—whether included in the recovery plan or not.

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**

As with the prior sections, this section again is overly detailed and prescriptive.

Q94 Comment on Paragraph 77

**Answer**

It should be avoided that multiple recovery plans are created within an insurance group – this is the most effective way to ensure that there is alignment of the approach to recovery planning across the group and to address the points in paragraph 94. This should be stated at the start of paragraph 94.

Q95 Comment on Paragraph 78

**Answer**

Q96 Comment on Paragraph 79

**Answer**

GFIA takes the view that there may be instances where severe stress scenarios may not be plausible (as demonstrated through an ORSA or otherwise), in which case the regulator should not require a recovery plan of that insurer as it is not an efficient use of company or regulatory resources.

Q97 Comment on Paragraph 80

**Answer**

In this paragraph, recovery plans are expected to have at least three stress scenarios covering three defined events respectively. GFIA agrees to include a scenario that covers the idiosyncratic events so as to be able to consider the characteristics of an insurer or group, however GFIA takes the view that a scenario that covers the market-wide or systemic events should be considered as a top-up scenario to the scenario covering idiosyncratic events. Therefore, GFIA takes the view that there is no need to define three scenarios separately and thus propose modifying this paragraph to start as: "The scenarios may cover clearly defined events..." or to replace "group structure if applicable) and other relevant factors, and include;" with the following in order to clarify that only two scenarios should be applied:

Idiosyncratic events, e.g. events that have serious negative consequences for an insurer or group and

A combination of idiosyncratic and market-wide stress, i.e. events that may have serious negative consequences for the financial system or real economy.

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**

GFIA requests that this section clearly state that the recovery plan is that of the insurer and that the paper does not imply or authorise supervisory mandate of any details or aspects.

Q102 Comment on Paragraph 84

**Answer**

In Paragraph 84, GFIA suggests that the word "challenge" be changed to "follow up with".

Q103 General comments on Section 6.1: Assessing recovery plans

**Answer**

Q104 Comment on Paragraph 85

**Answer**

GFIA requests that this paragraph be deleted. This paragraph strongly implies that the supervisor can require amendments to the plan. If so, then the plan becomes effectively a supervisory mandate. This is contrary to other statements in the paper that the plan is for the benefit of the company.

Q105 Comment on Paragraph 86

**Answer**

Q106 Comment on Paragraph 87

<b>Answer</b>	<p>This paragraph plainly states that the plan must comply with the supervisory standard or the supervisor can mandate that it be re-submitted. If so, then this paragraph converts the plan to a supervisory mandate, which is inconsistent with other statements in the paper and even with the proportionality principle.</p> <p>In Paragraph 87, it states “In case the quality of the plan does not meet the desired standard, the supervisor should have the power to require the insurer to resubmit the recovery plan”. GFIA is of the view that an insurer should at least have the right to challenge a supervisor’s determination that a plan is inadequate before a supervisor can require it to resubmit another plan. Accordingly, GFIA requests that the phrase”, but only after an insurer’s challenge has been heard and appropriately considered” be added to the end of the sentence.</p>
Q107 Comment on Paragraph 88	
<b>Answer</b>	<p>While GFIA agrees with the use of the plan internally by the company, this paragraph again implies intensive supervisory oversight that GFIA deems is inappropriate.</p>
Q108 Comment on Paragraph 89	
<b>Answer</b>	<p>See response to Q106.</p> <p>In addition, this paragraph should be deleted because by benchmarking, supervisors may actually be creating systemic risk as they drive insurers to a common plan with common aspects. This uniformity could actually create systemic risk where it does not now exist.</p> <p>GFIA would caution that assessing recovery plans on a comparative and aggregate basis could lead to misleading and/or faulty comparisons and conclusions, depending on the types of entities that are being compared. As a result, GFIA suggests that a cautionary statement setting forth these concerns should be added to this paragraph, if it is not deleted.</p>
Q109 Comment on Paragraph 90	
<b>Answer</b>	
Q110 General comments on Section 6.2 : Supervisory cooperation and coordination	
<b>Answer</b>	<p>There is insufficient recognition of the importance of confidentiality and notice to the company in this section. Due to the extreme sensitivity of the information generated by recovery planning, an inaccurate or inappropriate public disclosure could lead to the destruction of a viable firm or even the creation of systemic risk due to public reaction to the inaccurate or misunderstood information. GFIA therefore urges the addition of language along these lines: “Appropriate confidentiality protection must be maintained because disclosure of sensitive information embedded in a recovery plan could harm or destroy a viable company or even the entire sector, causing substantial unjustified harm to consumers and the public”.</p>
Q111 Comment on Paragraph 90	
<b>Answer</b>	
Q112 Comment on Paragraph 91	
<b>Answer</b>	
Q113 Comment on Paragraph 92	
<b>Answer</b>	
Q114 Comment on Paragraph 93	

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	Q115 Comment on Paragraph 94
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	Q116 Comment on Paragraph 95
<b>Answer</b>	<input type="text"/>
	Q117 Comment on Paragraph 96
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