

GFIA response to IAIS public consultation on draft revised Application Paper on recovery planning

Q1. General comments on the draft revised Application Paper on recovery planning

The Global Federation of Insurance Associations (GFIA) welcomes the opportunity to provide comments to the IAIS Consultation Paper on the revised application paper on recovery planning. In particular, the increased focus on operational preparedness and implementability of recovery options may contribute to strengthening insurers' resilience. At the same time, compared to the 2019 Application Paper, the Draft-revised version introduces several expectations that, in practice, amount to a material broadening of scope. This is notably the case regarding the introduction of a general evaluation requirement for all insurers, expanded governance, documentation and testing expectations, as well as more detailed requirements on trigger frameworks and communication.

From a GFIA perspective, the scope should be more explicitly risk-based. For small and non-complex insurers, it should be clarified that existing ERM and ORSA processes are generally sufficient and that no additional recovery-specific analyses are required.

Fundamentally, international standards for the insurance sector, including the scope of the RRP, should be considered and developed by the IAIS, which possesses the deepest expertise in the insurance sector, is the standard-setting body with over 200 member jurisdictions, and has already established standards in this area through the ICP and ComFrame. Ultimately, RRP requirements should be considered by each country's authorities in light of their respective national circumstances.

Q2. Comments on Section 1 Introduction

The Introduction appropriately sets out the link between recovery planning, ICP 16 and ComFrame. However, the overall tone and repeated references to minimum expectations may create the impression that the Application Paper is evolving from a purely supportive document towards a quasi-normative framework. GFIA therefore suggests reiterating more explicitly the non-binding nature of the Application Paper, in order to avoid over-interpretation by national supervisory authorities.

Q3. Comments on Section 1.2 Scope

NA

Q4. Comments on Section 1.3 Structure of the Application Paper

NA

Q5. Comments on Section 2 Objectives and concepts of recovery planning

The Consultation paper introduces a mandatory evaluation requirement for all insurers, even those not subject to a full recovery plan. This significantly expands the scope. Smaller and non-complex insurers now face additional governance and reporting burdens without clear proportionality safeguards.

Q6. Comments on Section 2.1 Evaluation

The Consultation paper imposes a universal evaluation requirement for severe-stress risks and recovery options on all insurers, even if no recovery plan is mandated. This is a structural broadening.

Q7. Comments on Section 2.2 Recovery plan

The Consultation paper emphasizes “credible/feasible” recovery plans, i.e., implementable options, obstacles identified/addressed, and timeliness. While conceptually sound, this elevates the evidence threshold for feasibility implying more modelling, validation, and documentation—especially challenging for smaller insurance companies. We advocate for explicit guidance on fit-for-purpose feasibility scoped to size/complexity.

Q8. Comments on Section 2.3 Related concepts

The clarification of the relationship between recovery planning, ORSA, contingency planning and other ERM tools is helpful. At the same time, the Draft-revised Paper should place stronger emphasis on avoiding duplication and on the appropriate reuse of existing processes and documentation. We caution against creating an artificial silo between the ORSA (often viewed as “prevention”) and recovery planning. The IAIS should explicitly permit recovery planning to be an extension of the ORSA process to avoid duplicative stress testing and to recognize that capital restoration actions are already a core component of robust ORSA reporting.

Q9. Comments on Section 3 Scope of application and proportionality

While the Draft-revised Application Paper formally acknowledges the principle of proportionality, many detailed expectations are presented in a manner that appears to apply irrespective of size and complexity. GFIA encourages a more operational embedding of proportionality, for example through tiered minimum requirements. In particular, we recommend the IAIS explicitly state that for small or non-

complex entities, standard Enterprise Risk Management (ERM) and capital management practices are sufficient to meet recovery objectives without requiring distinct "recovery" documentation.

Q10. Comments on Box 1: Recovery plan requirement under the EU IRRD

The description of the IRRD framework is accurate. However, it should be more clearly highlighted that the IRRD explicitly provides exemptions for small and non-complex insurers.

Q11. Comments on Box 2: Matters specific to insurance groups

The group recovery plan is the primary instrument to assess and restore resilience at the consolidated level. It does not require or imply standalone solo plans in addition to the group plan, except where explicitly mandated by a local supervisor.

Q12. Comments on Section 4 Governance

NA

Q13. Comments on Section 4.1 Governance – development, approval, review and testing

The Consultation paper requires more formalised governance, explicit roles (Board, Senior Management, Key Persons, subject matter experts), segregation of duties, review/update triggers (internal/external events), MIS capture, and regular testing with lessons learned feedback. The requirements should be designed to be more risk-oriented and less bureaucratic.

Q14. Comments on Section 5 Elements of a recovery plan

Comments on Box 5: Regarding the third bullet point in the examples of stress scenarios for market-wide events, since catastrophic events include not only pandemics or climate-related events but also earthquakes, etc., we propose the following revision: *"A pandemic, climate-related event, earthquakes and volcanic eruptions, and other large-scale catastrophic events."*

Q15. Comments on Section 5.2 Description of the insurer

NA

Q16. Comments on Section 5.3 Trigger framework

The Consultation paper requires trigger frameworks at group and entity level. However, exceeding or falling short of a trigger should not automatically lead to recovery (e.g., macroeconomic shocks).

Most of the suggested metrics would add significant noise to the identification framework because they would fail to meet the following requirements: 1) forward looking, 2) uncorrelated to solvency or liquidity indicators and 3) reliability.

Where there is a group (pre-emptive) recovery plan, it is sufficient to have a trigger framework identifying triggers and indicators at the level of the group. There is no need to extend this to the level of individual material legal entities. The trigger framework does not exist in isolation as insurers and insurance groups have an advanced Enterprise Risk Management (ERM) system in place. The ERM system at both the level of the Group and the material legal entities will usually detect a deterioration of the financial position of a subsidiary well in advance so that countermeasures can be taken. This is part of the regular risk management process and there is no need to have this reflected in the Group recovery planning trigger framework.

The IAIS suggests that the trigger framework should be calibrated to provide enough time for management to respond to a developing adverse situation (paragraph 70). Further, the IAIS provides an example and states that regarding solvency criteria, an insurer may decide to calibrate trigger points for activation of the recovery plan at a credible distance from any regulatory minimums, such as the PCR (paragraph 71). While we agree with the general intention of paragraph 70, the underlying assumption (especially in connection with paragraph 71) seems to be that there is only a very short timeframe for insurers and potentially competent authorities to act and that a crisis usually unfolds suddenly. While this might in general hold true for banks, we question this assumption for the insurance industry because of the significantly different business model (absence of trading, no bank-run to be feared etc.), allowing more time for insurers to respond to an adverse situation and to initiate countermeasures. In addition, such a broad requirement neglects the respective applicable capital framework. In some jurisdictions, e.g. in the EU with Solvency II, the applicable capital framework is risk-based and forward-looking. Thus, in the case of Solvency II, which is a mark-to-market regime based on a market value balance sheet, it is by design forward looking. (On a side note, this constitutes a major difference to banks which live under an accrual and incurred-loss regime). Even if an insurer's PCR ratio fell below 100%, it could still have significant surplus in the future, as the expectations, which the market values of assets are based on, can be too bearish. In addition, as the calculation of capital requirements and available capital under e.g., Solvency II, implies a holding period of one year, a decrease of the solvency ratio does not signal an imminent default situation. The solvency ratio therefore provides both a forward-looking and at the same time early-enough assessment of an insurer's financial strength and its development throughout time. Setting a trigger point for the activation

of the recovery plan at a level above the PCR (e.g., at 110% as suggested by the IAIS in figure 2) is therefore unnecessary.

Q17. Comments on Section 5.5 Recovery options

The broad range of potential recovery options is welcomed. However, the Draft-revised Paper should avoid implying an expectation of extensive quantitative analysis for every option in all cases.

Actions not related to capital or liquidity usually take a significant period of time to have an effect on the company. Therefore, it is unclear how they should be considered relevant to consider in a crisis environment that requires actions that have an effect in a very short timeframe.

In addition, we propose revising “*should be comprehensive*” to “*should be comprehensive and reflect the characteristics of the insurer*”.

Q18. Comments on Section 5.6 Communication strategy

There should be no requirement to inform the supervisor of an anticipation of a likely breach of one or more recovery trigger points as long as there is no (anticipated) violation of regulatory requirements (e.g. breach of PCR). Regardless of this, information should only be necessary if the insurer believes that a recovery case is likely or has actually occurred.

As there is an infinite range of scenarios that could trigger the pre-emptive recovery plan, creating customized communication plans will have limited benefits.

When formulating communication strategies, it is important to pay close attention to reputational risks arising from disclosure. Therefore, we propose revising Paragraph 84 as follows:

“The strategy should consider circumstances where confidentiality needs to be maintained regarding the impact of the severe stress and the implementation of the recovery plan.

There may be circumstances where the implementation of recovery actions should be kept confidential, in consultation with supervisors, such as when there are concerns about reputational risks or deterioration of the business environment due to disclosure.

When developing the communications strategy, the insurer should be mindful of any legal and regulatory requirements regarding disclosure and confidentiality (see ICP 20 (Public disclosure)), while also considering reputational risks and impacts on the business environment.”

Q19. Comments on Section 6 Supervisory considerations

The Consultation paper adds internal audit/third-party validation (Paragraph 100), explicit trigger calibration review (Paragraph 103), and resolution authority involvement (Paragraph 105), with increased emphasis on benchmarking and aggregate analyses. Having internal audit or even external consultants assess the validity and completeness of the recovery plan is unnecessary against the background of the recommended involvement of the board of management in the development and approval process of the recovery plan (see section 4). A governance process around the development, regular update and approval process of the recovery plan involving the board of management would usually ensure sufficient completeness and validity so that there is no need to add additional cost and effort for an independent assessment of the completeness and validity of the recovery plan for the insurer. The requirements should be made less bureaucratic, e.g. IAIS should allow internal validation and review. However, this should not be mandatory for every update of the recovery plan.

One should highlight that recovery planning documents are sensitive by nature, and while benchmarking sounds helpful, it should not threaten the confidentiality surrounding the document.

Q20. Comments on Section 6.1 Assessing recovery plans

Supervisory assessments should be risk-based and focus on overall credibility and the ability to implement plans, rather than formal completeness. Benchmarking and aggregate analyses should be applied with care, in order to support macro-prudential insights without creating unintended competitive distortions.

Paragraph 105 states that supervisors should include the resolution authority in the assessment of the recovery plan. However, for insurance companies whose recovery plans are unlikely to trigger resolution criteria, involving the resolution authority in the assessment may not be efficient.

Q21. Comments on Section 6.2 Supervisory cooperation and coordination

NA



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About GFIA

The Global Federation of Insurance Associations (GFIA), established in October 2012, represents through its 43 member associations and 3 observer associations the interests of insurers and reinsurers in 69 countries. These companies account for 89% of total insurance premiums worldwide, amounting to more than \$4 trillion. GFIA is incorporated in Switzerland and its secretariat is based in Brussels.