



Institute
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Resolution planning

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Resolution planning

- Regulatory requirements
- Core components of RRP
- An approach to resolution planning
- Lessons learned from previous failures

RRP Working Party

The scope of the group is to co-ordinate the development of a framework for actuaries and firms working to develop Recovery and Resolution Plans.

- Develop a framework to help establish a common understanding of what an insurance company recovery plan should include
- Consider how it should fit with other requirements such as Stress and Scenario Testing
- Be a forum for actuaries working in this area to share ideas and information
- Work with the PRA, FCA and FSCS as is requested by them
- Respond to any consultation papers that are issued on this and related subjects, typically by FSB, IAIS or PRA.

PRA's Regulatory Approach Implications of FR8

- The PRA released PS5/14 in June 2014 to introduce new Fundamental Rules (FRs).
- FR8 — 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.
 - No detailed rules concerning the provision of resolution information to the PRA
 - discussions therefore vary depending upon insurers' systemic importance, proximity to failure, or other reasons
 - Expectation that insurers will be responsive to discussions as they take place,
 - Compliance will need to be judged in the context of an insurer's own perception of its resolvability
 - The PRA will consult as appropriate as requirements for insurers are developed in the future
- In addition, there have been numerous FSB publications – principal implication is for GSII's to have an RRP

Core Components of an RRP

Recovery plan

Recovery options

Options for dealing with extreme financial stress. how and when options would be triggered and what steps can be taken.

Recovery governance

How the recovery monitoring and decision process is integrated in BAU risk management.

Resolution Plan

Group and legal entity information

Details of how it relates to businesses, the group balance sheet financial and operational interdependencies.

Economic Function identification

Information on the nature and scale of each core business line to establish the impact of the closure of that business on the relevant markets' stability.

Plan for the continuation of the Critical Economic Functions

Focus on financial, legal entity and operational interdependencies and implications for networks where appropriate.

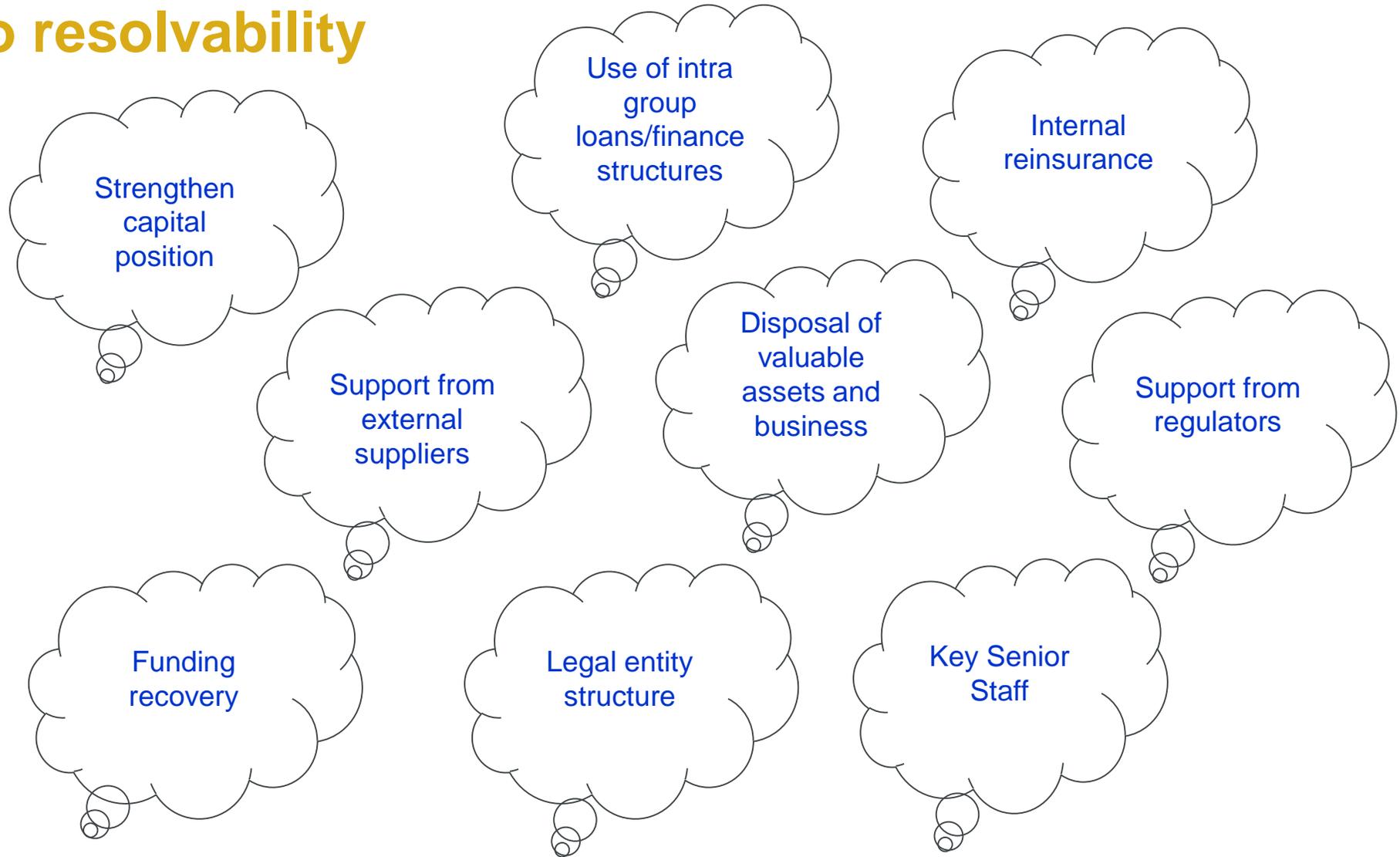
Overcoming barriers to resolution

Identification of actions to address barriers to resolution identified.

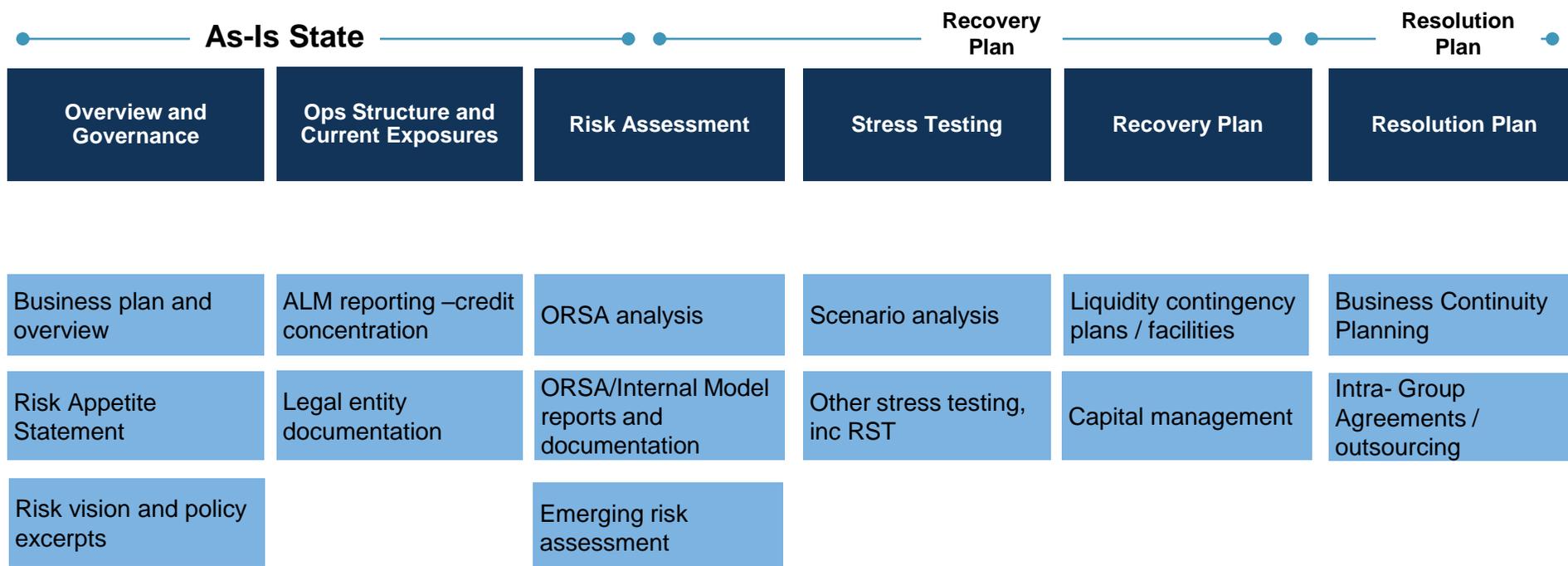
Summary component

Governance over the RRP process and contains a summary of the issues and actions the group has identified to improve its recoverability and resolvability.

Common recovery measures and potential barriers to resolvability

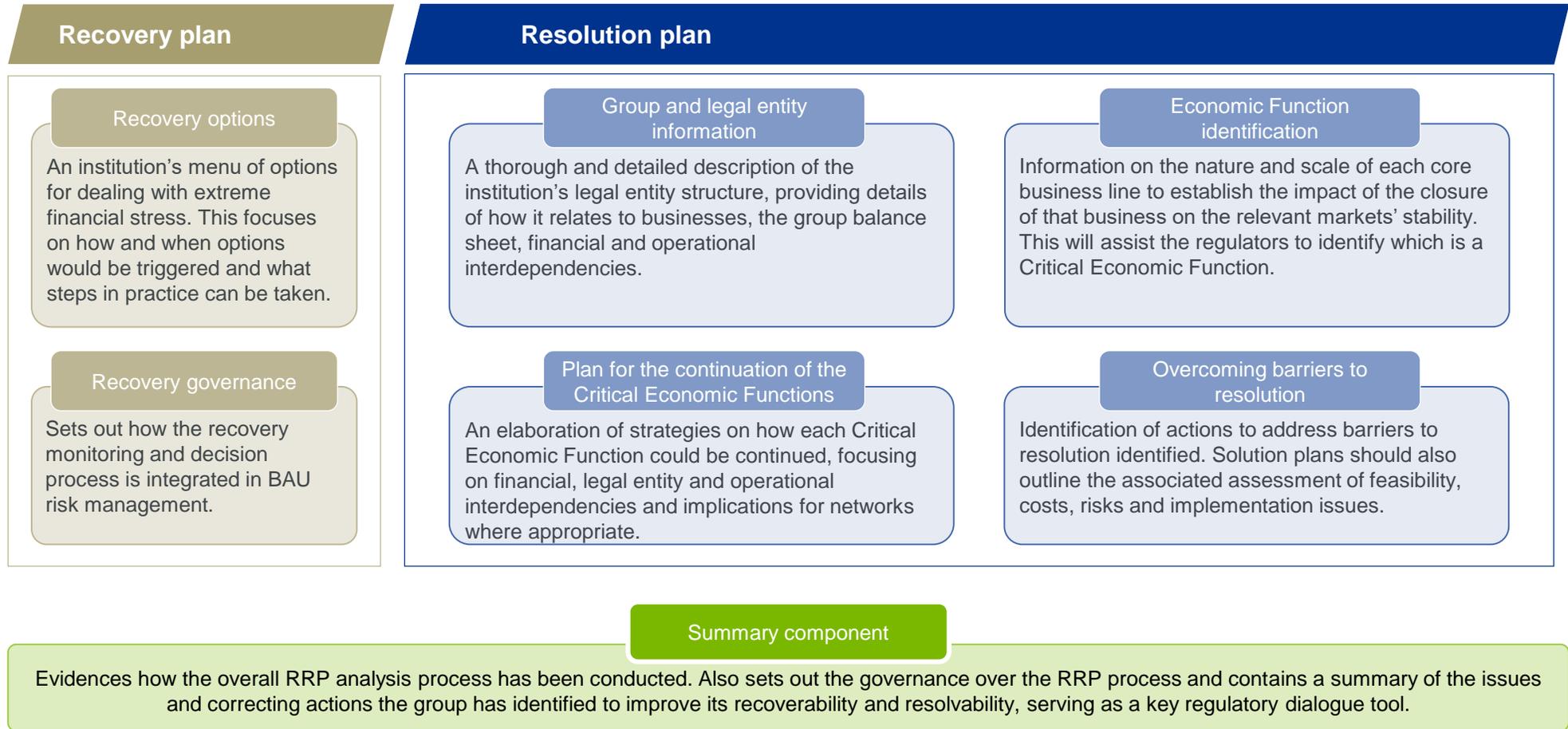


Building on what we do now



Core components of an RRP that regulators will likely focus upon

Insights: Much of the recent regulatory attention has focused on banks. We expect the concepts on Resolution Planning emerging from the FSB to be largely applied to insurers, given the detailed experience gained by the regulators in reviewing RRP submitted by banks. The following RRP core components for insurers are therefore expected to be focused upon:



Approach and considerations for resolution

Approach to resolution

- Two general options for resolution intervention:
 - Single point of entry (“SPE” or top-down): Resolution of the Group at the level of its ultimate parent, rather than the operating company in difficulty. Enables continuity of service on the part of the insurer, avoids disrupting the insurer’s balance sheet and keeps the group together (this is generally the preferred approach).
 - Multiple point of entry (“MPE” or bottom-up): Resolution of the Group at the level of the entity or entities in difficulty, possibly involving multiple resolution authorities (this approach is possibly more appropriate for less integrated firms).

Operational considerations

- Internal financial/structural/operational dependencies.
- Reliance on third party service providers, independent or within Group.
- Availability and co-operation of management and key staff.

Business model considerations

- Bancassurers, potentially bringing together multiple (bank and insurer) resolution plans
- Life, PC and composite insurer implications.

Resolution - key areas

**Economic
Functions
(including NTNI)**

**Treasury/Capital
Management**

Risk Management

Structuring

**Operational and
financial
interdependencies**

Recovery planning

**Financial and
operational
reporting**

**Legal
interdependencies**

Provision of information for resolution

There are two phases:

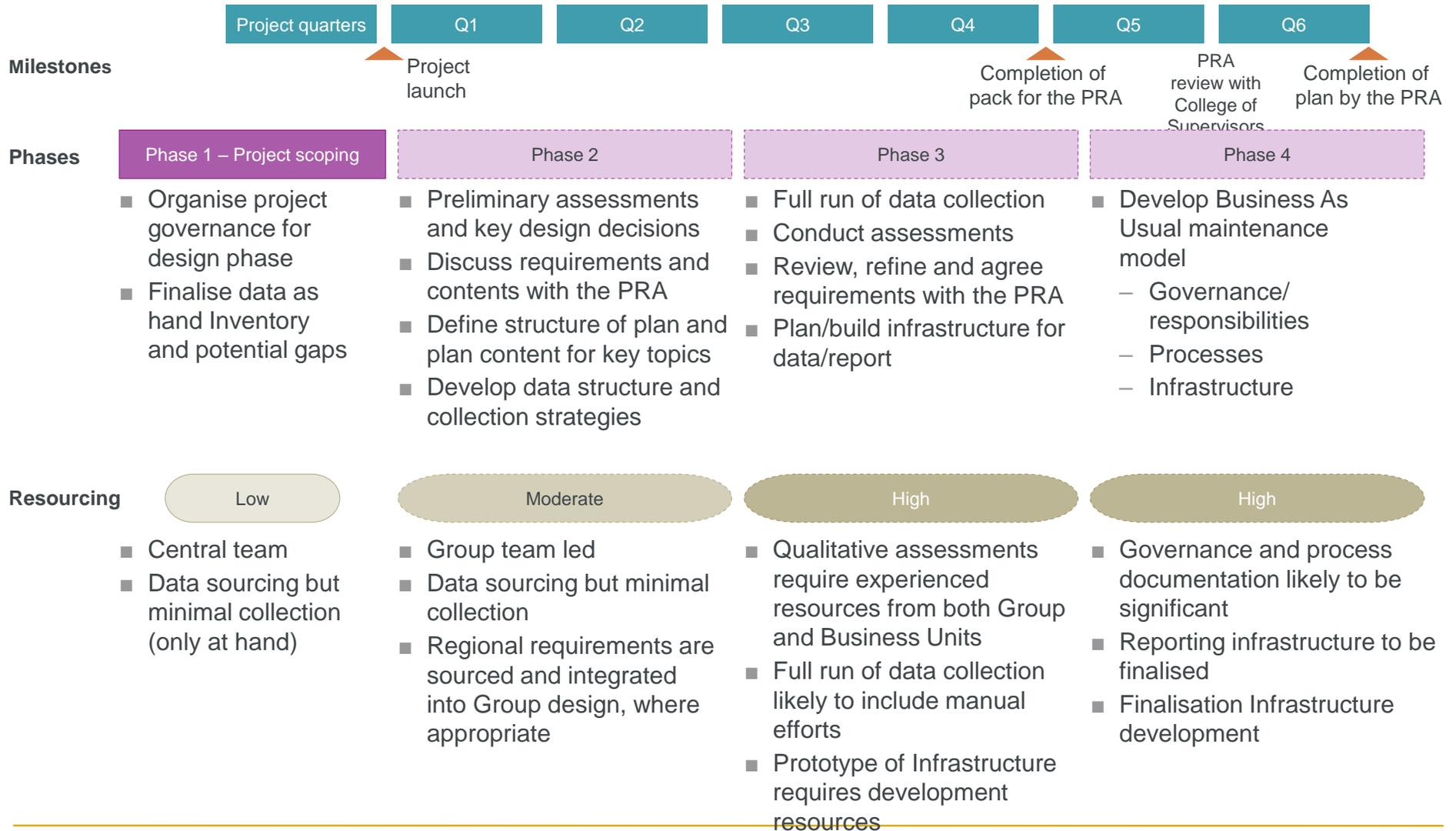
Phase 1 Corporate structure, significant legal entities, and economic functions. Required to be submitted at a set date by all firms, with resubmission every 2 years thereafter.

- Well designed summaries are needed to bring out the pertinent features of the business and company structure
- Much of this information may be in the Company ORSA report or will be known to the PRA

Phase 2 Company-specific, tailored to each firm, including information that will determine the deployment of preferred resolution options.

- The information should be proportionate to the size and complexity of firms.
- Phase 2 information requests may be integrated with other regulatory initiatives in order to avoid duplication of effort.
- Barriers to resolution will be identified and addressed in Phase 2.

Indicative timeline of a resolution plan development process



Execution of resolution plan

An example of path of resolution plan execution

- Barriers to resolution addressed
- Deterioration of company profitability, solvency or liquidity
- Recovery and resolution plan refreshed
- Supervisory monitoring by regulator
- Relevant recovery action invoked, if appropriate
- Recovery action failed, if appropriate
- Threshold point for trigger of resolution actions breached
- Regulator informed of threshold point breach
- Appropriate resolution response identified from resolution plan
- Relevant resolution action invoked
- Solvency position assessed
- FSCS cooperation initiated, if required

Lessons learnt from previous insurer failures

Operational:

- Overall, planning was inadequate and not pessimistic enough
- Systems couldn't cope with demand /changes required
- Increased levels of policyholder communications took 4 to 5 years to sort out
- Successfully increased MI levels but ad hoc not planned

Personnel:

- Communications: challenges of how much to tell staff
- Culture: lack of appreciation the culture needed to change
- Short-term performance: levels dropped
- Training: required to prepare staff for dealing with non-BAU situation
- Staff trust: management hadn't appreciated possibility of fraud
- Morale: increased ad hoc meetings with staff and motivational events
- Resourcing: needed more staff initially but wound down over 12-18 months
- Skills: needed some new skills in transition to new business models and structure

Public relations:

- Media training was given but needed more

Security:

- Lax security around offices allowed media/policyholders to get into buildings/meetings
- Did not anticipate issues arising from volume of policyholders visiting office



Questions



Comments

The views expressed in this presentation are those of the presenter and are not necessarily the views of his employer or the Institute and Faculty of Actuaries.

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