

# Recovery and Resolution for Insurers

Society of Actuaries

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# Financial Stability Board (FSB) Definitions

## Recovery Plan:

“Identifies options to restore financial strength and viability when the firm comes under severe stress”

## Resolution:

“When a firm is no longer viable or likely to be no longer viable, and has no reasonable prospect of becoming so”

- Regulators typically heavily involved
- Measures to write down obligations

# IAIS Definitions

International Association of Insurance Supervisors

## Recovery Plan:

“a plan that identifies in advance options to restore financial strength and viability if the insurer comes under severe stress”

## Resolution:

“Any action by an authority, with or without private sector involvement to deal with serious problems in an insurer or insurance group that imperil the viability of the insurer or the insurance group.”



# Recovery and Resolution Developments

Hot off the press

IAIS Application Paper 12  
November 2018

EIOPA Seminar 25-26  
October 2018

**Ireland:** No formal requirements. High on CBI agenda – have made requests.

**UK:** Fundamental Rule 8 requirements – mainly only large companies engaged

**France:** National law in place – basis for increased RRP supervision for all insurers

**Netherlands:** New national law Jan 2019 – basis for RRP for all insurers

**Romania:** National law in place requiring RRP for all insurers

EIOPA Opinion 2017: Recovery and Resolution regime for all (re)insurers

IAIS: Insurance Core Principle (ICP) 10, 12 & 16 adding weight



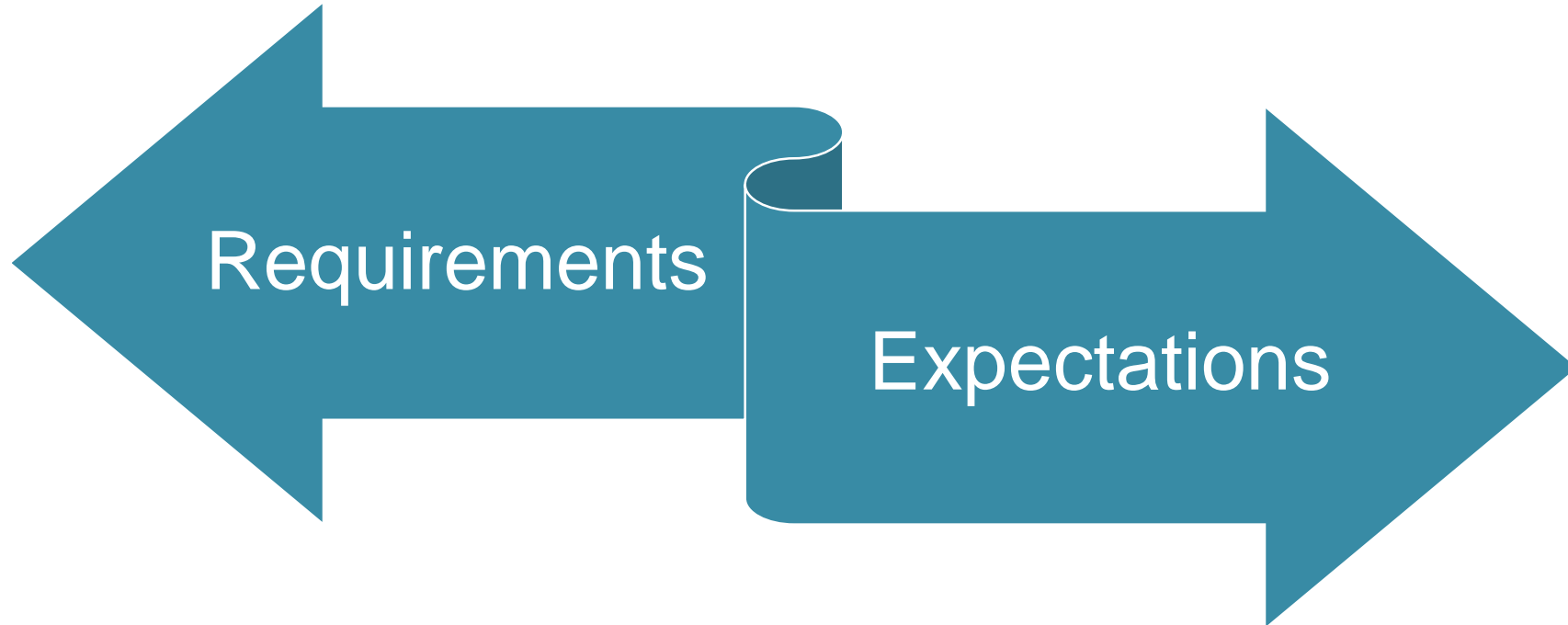
**Globally:** G-SIIs\* required to carry out RRP, includes FSB guidance

\*Global Systemically Important Insurers

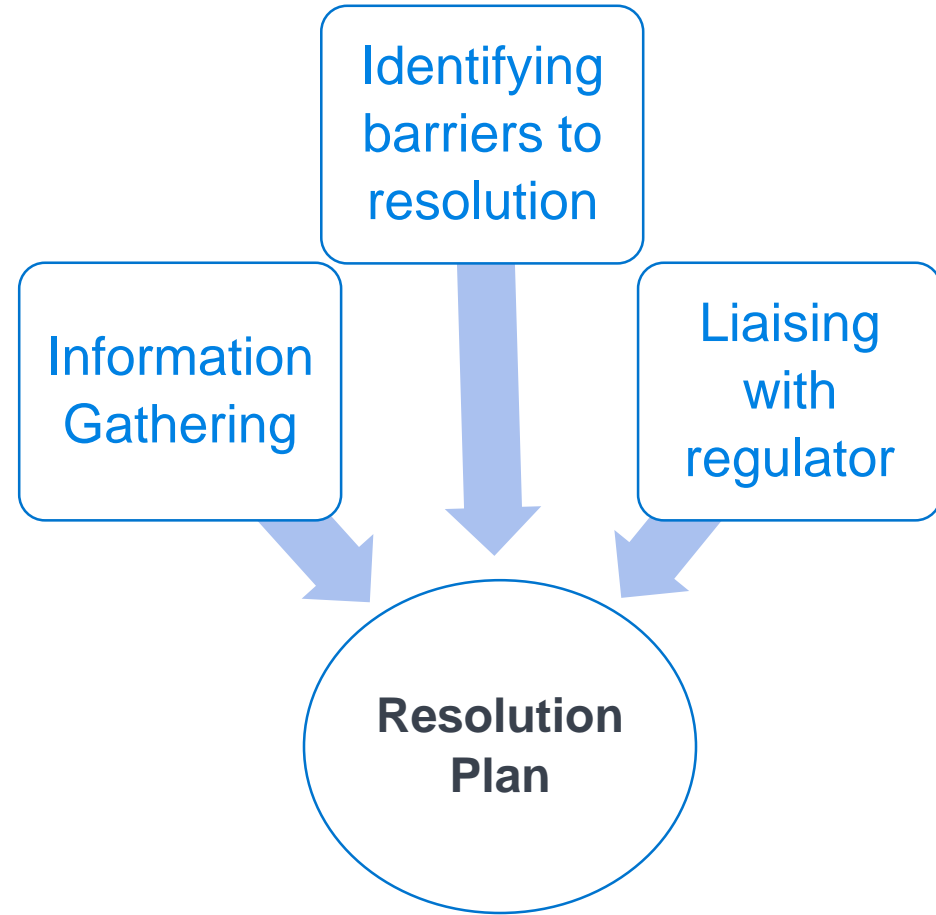
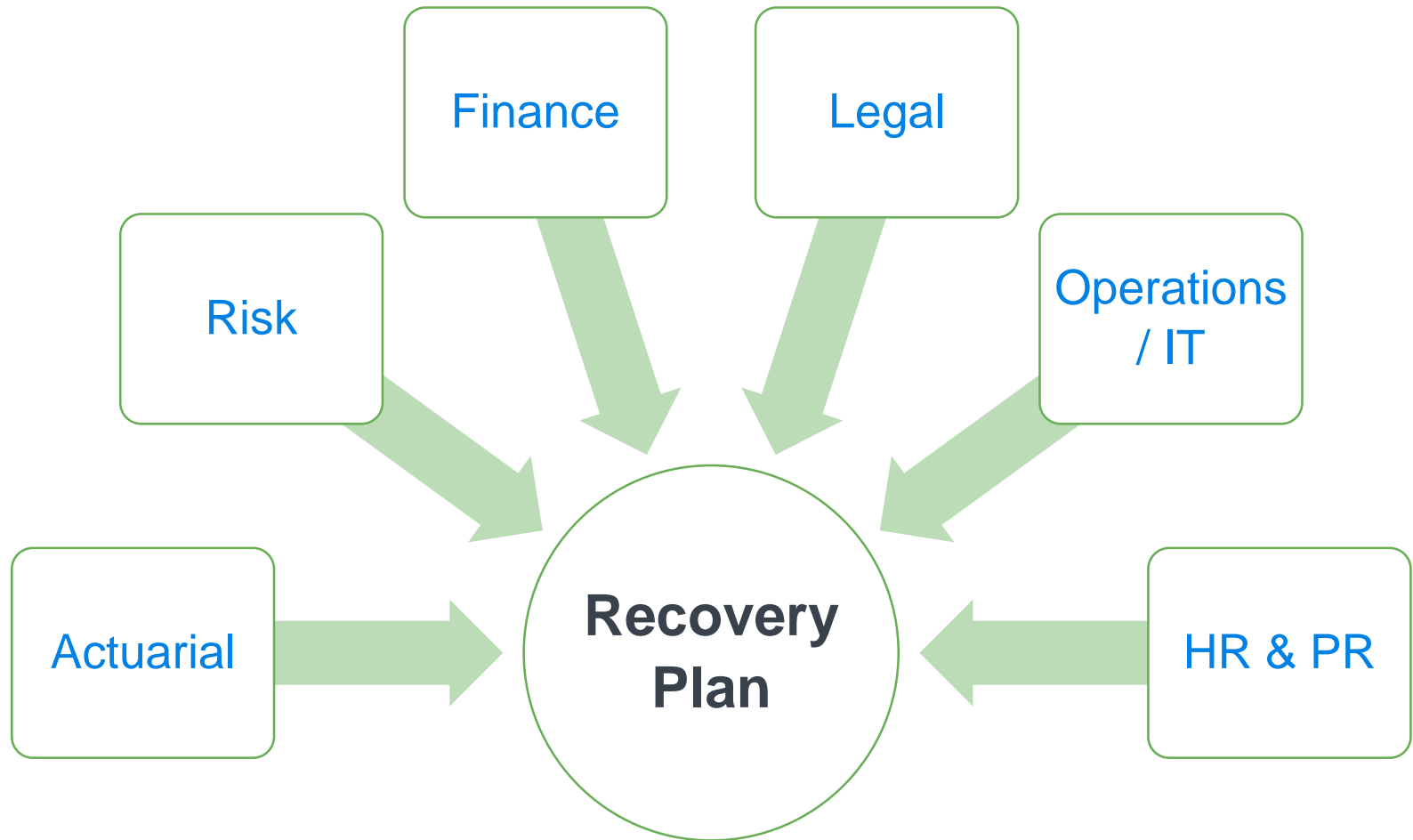
**“Recovery planning can also be a useful tool for other insurers, to make crisis management and thinking about recovery options a more explicit part of enterprise risk management.”**

—IAIS October 2018

# Recovery Planning



# Recovery and Resolution: What will it mean?



**Drafted by the company**

**Drafted by the regulator**

# Recovery Planning

“Begin with the End in Mind” – *Stephen Covey*

What would my options be if we were to get into financial difficulty?



How would these options work in particular scenarios?

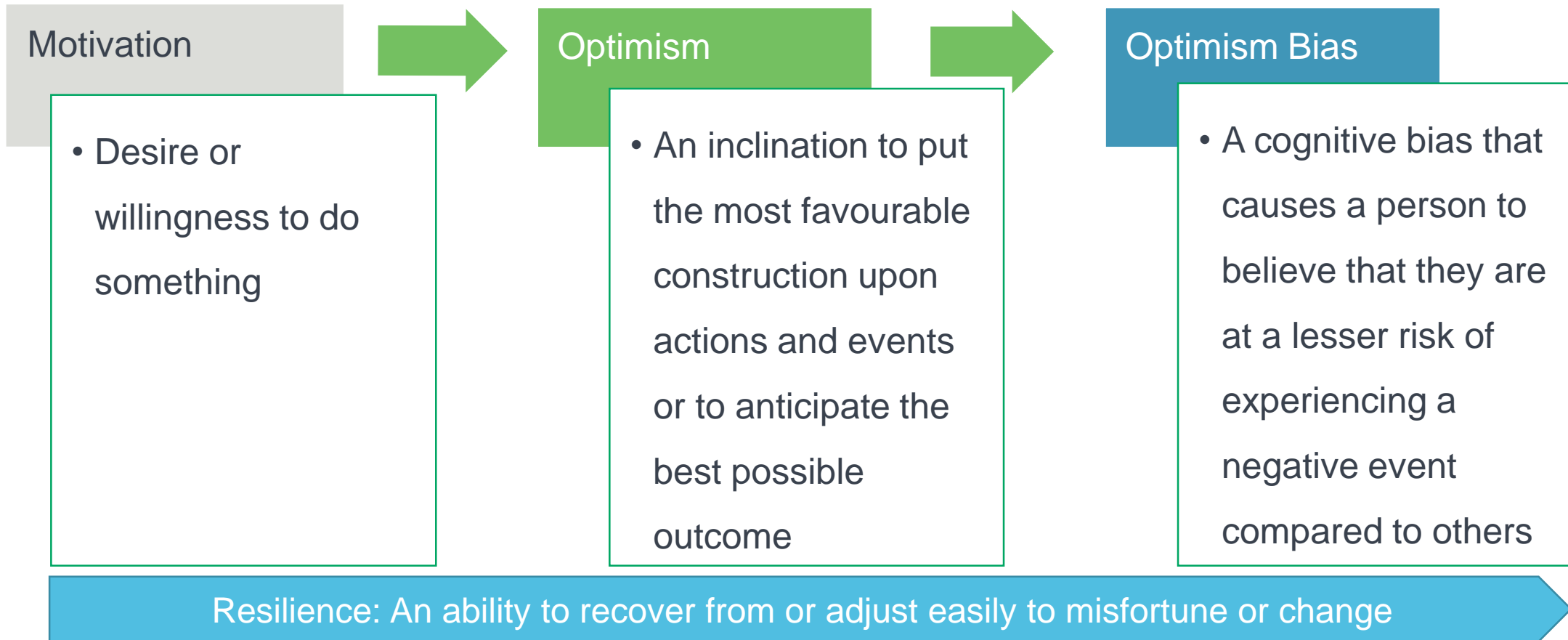


Something about governance



# Recovery Planning: 7 Lessons Learned

# “Failure is not an option”



**Lesson #1: Not everyone believes they could get into financial difficulty**

# Examples of Past Insurer Failures (or near failures)

## US & Canada, 1990s

Executive Life

First Capital

Confederation Life

Mutual Benefit

## Japan, 1997-2001

Nissan Life

Toho Life

Daihyaku Life

Taisho Life

Chiyoda Life

Kyoei Life

Tokyo Life

## UK, 2000

Equitable Life

## US P&C, 2002-05

Mission

Transit

## US, 2008

AIG

## Netherlands & Belgium, 2010

Fortis/Ageas

## New Zealand P&C, 2011

Western Pacific

## Malta/Ireland P&C, 2014

Setanta Insurance

## Gibraltar/Ireland P&C, 2016

Enterprise Insurance

## US, 2017

Penn Treaty

Galen Insurance (P&C)

And many more...

2018?

# Possible Recovery Measures

## Lesson #2: Know your full menu of possible recovery options

Group finance &  
Off Balance  
Sheet Capital

Cost reductions  
& Staff Pension  
Schemes

Reinsurance,  
Longevity  
Transfer & Cat  
Bonds / Swaps

Restructuring,  
M&A

Repricing &  
Reviewing  
charges/benefits

Closure to New  
Business,  
Solvent Run-Off

ALM, Hedging &  
Asset Allocation

Subordinated  
Debt & Hybrid  
Capital

(P)IM, USPs &  
Unit under-  
funding

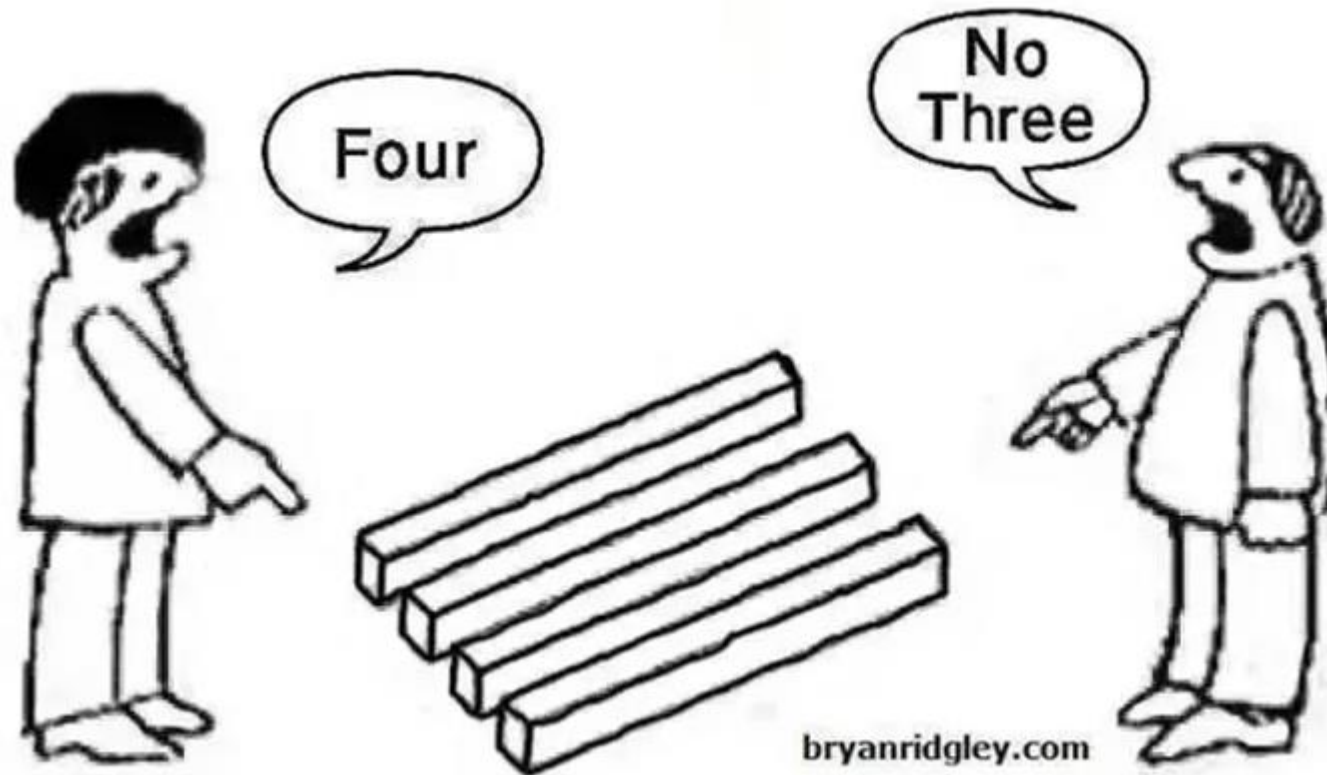
Equity Capital

Suspension of  
Dividends

Liquidity Options

# Perspective matters

Lesson #3: It helps to consider strategy from another perspective



# Indicators and Triggers



## Trigger Framework

- Capital
- Liquidity
- Asset quality
- Profitability
- Market
- Macro-economic
- Operational

## Systemic Scenarios

- Fall in financial markets
- Persistent low interest rates
- Catastrophic event
- Longevity shock

## Idiosyncratic Scenarios

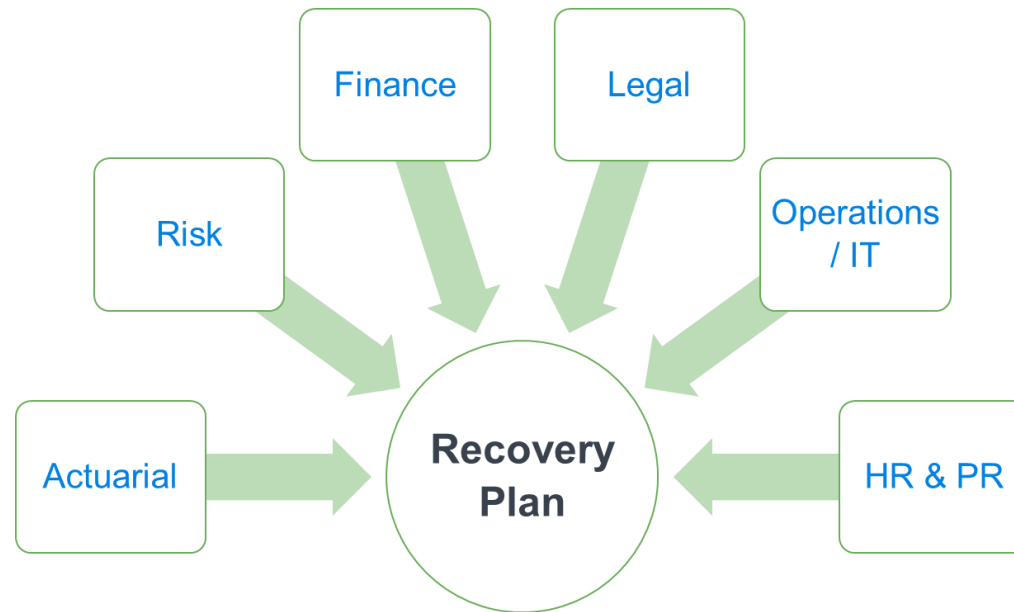
- Adverse move in assets
- Mass lapse
- Counterparty failure
- Rogue trader severe loss
- Major cyber attack



**Lesson #4: KRIs and early warning system are vital in detecting a problem in a timely fashion**



# Recovery Planning



**Lesson #5: We will need a calm and coordinated approach across the business to recover**

**Lesson #6: Many of my recovery options might not necessarily be credible or effective in all scenarios**



**Lesson #7 (“The Enlightenment”): Let’s not go there in the first place**



# Thank you

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