

Task & Finish Group - Terms of Reference

Recovery & Resolution Planning

Background

Recovery Plans are documents produced by financial institutions that identify and assess the appropriate options available to firms to restore their capital and / or liquidity position in different scenarios of severe financial stress. Resolution Plans address a situation where those options have failed or are unavailable and the firm is no-longer financially viable and set out how the firm will resolve itself, i.e. wind-down its regulated activity and run-off or transfer its liabilities whilst protecting the interests of its customers.

To date in the UK, full recovery and resolution plans have primarily been produced by banks, but over the last few years larger insurers have also been increasingly expected / requested to produce fully developed recovery and resolution plans and keep these up-to-date. In January 2024 the PRA launched a consultation into proposals for PRA-regulated insurers to prepare for an orderly 'solvent exit' as part of business-as-usual activities and to be able to execute a solvent exit if needed.

Outside of the UK, there have been several other regulatory developments in recent years including:

- the Central Bank of Ireland introduced a requirement for insurers to produce recovery plans in April 2021, with the first plans due by March 2022; and
- in July 2022, EIOPA published a proposal for an insurance recovery and resolution directive.

Also of relevance, is a paper the FCA published in April 2022 setting out its observations on wind-down planning: a separate but closely related requirement for the financial institutions that it regulates.

Insurers would be well placed to do some preparatory work now to consider the different aspects of recovery and resolution planning in anticipation of a policy statement from the PRA later this year.

Purpose

The Risk Management Research & Thought Leadership Committee (RMRTL) has established this Task & Finish Group ('TFG') to develop practical ideas and guidance for how insurers can develop their recovery and resolution plans and prepare for a 'solvent exit'. Adoption of these ideas and guidance should allow firms to not only demonstrate robust plans to their regulator but provide useful insight to the firm's Board and executive management on how the firm would respond most effectively to severe financial stress.

Output from the TFG should help to establish and promote the actuarial profession as a source of expertise and insight on recovery and resolution planning.

It will be necessary for the TFG to consider at least the following:

- the consultation paper published by the PRA on planning for a 'solvent exit' (CP2/24) as well as the subsequent policy statement when published;
- general lessons learned and best practice from other sectors (e.g. banking) and other jurisdictions (e.g. Ireland);
- developing a proportionate but robust set of financial stress scenarios;
- developing appropriate trigger points for the execution of recovery options / resolution plans;
- assessing the efficacy, limitations, and constraints associated with different recovery options / resolution plans;
- how to allow for intra-group / third-party relationships;
- developing appropriate assumptions and methodology for the run-off financial projections in resolution;
- effective consideration of operational resilience and operational continuity in resolution; and
- drawing meaningful conclusions and appropriate next steps from recovery and resolution analysis.

Membership

We are currently seeking expressions of interest from a small number of members of the IFoA and other relevant parties who wish to volunteer for this TFG. Non-actuaries who are keen to share their practical insight and contribute to research into further developing and enhancing recovery and resolution planning are particularly welcome.

We encourage contact from a diverse range of backgrounds including (but not limited to) age, gender, ethnicity, and disability as well as reflecting the geographical spread and practice areas of our membership.

Skills & Experience

Members of the TFG will ideally have some or all of the following:

- a good understanding of regulatory requirements and expectations in relation to recovery and resolution planning;
- practical experience of developing and / or reviewing recovery and resolution plans in the banking sector, other jurisdictions, etc.;
- awareness of industry practice - minimum standards, typical maturity, and (emerging) best practice; and
- a keen interest in thoughtful consideration for how actuarial skills and techniques can be applied to improve recovery and resolution planning.

Term

It is expected that the TFG will deliver the outcomes over 12 to 18 months.