Banc Ceannais na hÉireann
Central Bank of Ireland

Eurosystem

Consultation Paper 131

Regulations for pre-emptive recovery planning for (re)insurers

June 2020

Contents

1. Introduction

Although the Solvency II (SII) framework has reduced the likelihood of insurers failing in the future, it is not designed to eliminate this risk completely.

Having in place an effective recovery framework for insurers would contribute to achieving policyholder protection, as well as maintaining financial stability.

Adequate preparation and planning in the form of pre-emptive recovery planning should reduce both the probability of insurers failing and the impact of such failures.

2. Background

Pre-emptive recovery planning is necessary to facilitate increased awareness and preparedness within firms

2.1 Over the last five years, both consumers and the insurance sector in Ireland have been affected by a number of insurance failures, both domestic firms and firms operating in Ireland on a freedom of services basis. Consumers and businesses were left out of pocket and without insurance, claimants were at risk of not receiving claims and have suffered considerable delays. Because of insurance failure, consumers are required to pay high levies to finance the Insurance Compensation Fund. Failures have also caused reputational damage for the insurance sector in Ireland.

2.2 While the 2008 financial crisis caused severe financial distress in the banking industry, it showed that insurance undertakings were not immune to the crisis. A number of insurance undertakings were affected and this was attributable to, among other things, inappropriate investment decisions, poor governance and controls and management and staff competence. In fact, in the period between 1999 and 2016 180 insurance failures or nears misses in 31 European countries have been recorded[1]. These failures and near misses arose from all the sectors; life insurers, non-life insurers, composite insurers and a few reinsurers.

[1] EIOPA report "*Failures and Near misses in Insurance*" (2018)

2.3 The speed and scale of the recent Covid-19 developments further demonstrates the potential for severe stresses to emerge both from within the insurance business and from connectivity to entities operating in the broader economy.

2.4 Since the 2008 financial crisis, there has been a lot of focus on recovery and resolution, initially focused on banking, but now that the recovery and resolution framework for banking has been established by the Banking Recovery and Resolution Directive (BRRD) in 2014[2], attention is turning to other financial sectors, including the insurance sector.

2.5 Solvency II is not a zero failure regime. All firms can face difficulties. Some may recover, but others may fail. Where failure does occur, it should happen in an orderly manner without significant financial stability or consumer protection issues. An appropriate framework is necessary to ensure failure is managed in a manner that minimises the impacts on financial stability, policyholders and beneficiaries in both home and host member states.

2.6 In banking, the recovery and resolution framework, while not perfected, is further advanced than in the insurance sector and lessons can be learned from this framework. In 2017, EIOPA published an Opinion calling for a minimum degree of harmonisation in the field of recovery and resolution for insurers. In 2017, the ESRB published its view that an effective recovery and resolution framework would reduce risks to financial stability from a failure in the insurance sector. In 2019, as part of the 2020 Review of Solvency II, the European Commission requested advice from EIOPA on whether harmonised requirements for a recovery and resolution framework should be introduced in Europe. EIOPA are due to respond to the Commission in December 2020. An application paper on recovery planning was published by IAIS in November 2019[3]

2.7 The Central Bank has been very engaged in the discussions on recovery and resolution frameworks for the insurance sector in

[2] Directive 2014/59/EU of the European Parliament and of the Council of 15 May 2014 establishing a framework for the recovery and resolution of credit institutions and investment firms and amending Council Directive 82/891/EEC, and Directives 2001/24/EC, 2002/47/EC, 2004/25/EC, 2005/56/EC, 2007/36/EC, 2011/35/EU, 2012/30/EU and 2013/36/EU, and Regulations (EU) No 1093/2010 and (EU) No 648/2012, of the European Parliament and of the Council (Text with EEA relevance)Text with EEA relevance.

[3] https://www.iaisweb.org/page/supervisory-material/application-papers//file/87519/application-paper-on-recovery-planning##

Europe. As of yet, there is no European legislative proposal for a harmonised recovery and resolution framework for (re)insurers.

2.8 A well-functioning insurance sector safeguards consumers and contributes to economic growth and financial stability, therefore, it is important that insurers have tools to and means to prevent or reverse a deteriorating financial position in order to protect itself, its policyholders and the wider economy from failure.

2.9 The Central Bank of Ireland (the 'Central Bank') is therefore proposing to introduce regulations (the "Regulations"), as set out in Schedule 1 of this Consultation Paper, in accordance with Section 48 of the Central Bank (Supervision and Enforcement) Act 2013. Specifically, pursuant to section 48(2)(w), the Central Bank may make regulations:

"to require regulated financial service providers to establish and maintain—

(i) plans for recovery from any deterioration in specified financial circumstances, in particular by setting out actions that could be taken to facilitate the continuation of the business or part of the business when experiencing financial instability, and

(ii) *plans for the orderly winding-up or transfer of business in specified financial circumstances."*

2.10 It is the view of the Central Bank that Pre-emptive recovery planning is necessary to facilitate increased awareness and preparedness within firms. Pre-emptive recovery planning will inform strategic decision-making processes during a crisis - developing a strategy during an extreme stress can limit the scope of the planning, the detail of the review, and the efficacy of decision-making.

2.11 The Central Bank is also proposing to issue guidelines (the "Guidelines"), as set out in Schedule 2 of this Consultation Paper, setting out its expectations with respect to the structure and content of pre-emptive recovery plans prepared in accordance with the Regulations.

3. Objective of the Regulations

3.1 The objective of requiring a Pre-emptive recovery plan is to:

a. Promote awareness and allow firms to prepare for a range of possible adverse situations;

b. Enable firms to consider and evaluate the most appropriate and effective mitigation without the resulting pressures of actual severe stress; and

c. Enable firms to make more effective, comprehensive and thoughtful measures to ensure their timely implementation if required.

4. Objective of the Guidelines

4.1 The purpose of the Guidelines is to assist Firms in understanding their obligations under the Regulations. The Guidelines do not purport to address, in detail, every aspect of the legislative requirements.

4.2 The Central Bank may update or amend the Guidelines from time to time, as and when the need arises.

5. Proposal for Consultation

5.1 The Central Bank invites general feedback on the Regulations and the Guidelines from interested stakeholders, including Firms, representative bodies, industry consultancies and service providers. In addition, the Central Bank requests that respondents consider the specific questions under section 6 of this Consultation Paper.

6. Questions

6.1 The Central Bank asks respondents to consider the following questions in addition to providing any general comments or suggested changes to the Regulations or the Guidelines.

6.2 Questions

1. **What, if any, other areas should be covered in the Guidelines or in future guidance?**

2. **Are there any areas where the application of proportionality can be improved or clarified?**

7. Consultation Process

7.1 The public consultation process will run from **25 June 2020 to 30 October 2020**. Any submissions after this date may not be considered.

The Central Bank intends to make submissions available on its website after the deadline for receiving submissions has passed. Therefore, please do not include commercially sensitive material in your submission, unless you consider it essential. If you do include such material, please highlight it clearly, so that reasonable steps may be taken to avoid publishing that material. This may involve publishing submissions with the sensitive material deleted and indicating the deletions.

Notwithstanding the above, the Central Bank makes no guarantee not to publish any information that you deem confidential. So be aware that, unless you identify any commercially sensitive information, you are making a submission on the basis that you consent to it being published in full.

Please clearly mark your submission 'Pre-emptive Recovery Planning' and send it to:

Insurance Consultation 2020

Recovery Planning

Central Bank of Ireland

PO Box 9708

Dublin 1

Or by e-mail to: recoveryplanning@centralbank.ie

Please ensure to include contact details if you are responding by post.

Schedule 1 – Draft Regulations

S.I. No. [] of 2020

CENTRAL BANK (SUPERVISION AND ENFORCEMENT) ACT 2013 (SECTION 48(1)) (RECOVERY PLAN REQUIREMENTS FOR INSURERS) REGULATIONS 2020

In exercise of the powers conferred on the Central Bank of Ireland (the “Bank”) by section 48 of the Central Bank (Supervision and Enforcement) Act 2013 (No. 26 of 2013) (the “Act”), the Bank, having consulted with the Minister for Finance and the Minister for Business, Enterprise and Innovation in accordance with section 49(1) of the Act hereby makes the following regulations:

Citation and commencement

1. (1) These Regulations may be cited as the Central Bank (Supervision and Enforcement) Act 2013 (Section 48(1)) (Recovery Plan Requirements for Insurers) Regulations 2020.

(2) These Regulations come into operation on [day in numerals][month in words][year in numeral].

Interpretation

2. In these Regulations -

“Bank” means Central Bank of Ireland;

“captive” means a captive insurance undertaking or a captive reinsurance undertaking, within the meaning of Regulation 3 of the Solvency II Regulations;

“captive manager” means a firm to which the board of a captive has delegated by way of contract the management and administrative functions of the captive.

“group” means a group for the purposes of the Solvency II Regulations;

“insurer” means a regulated financial service provider authorised by the Bank that is an insurer or reinsurer within the meaning of section 1(1) of the Insurance (No. 2) Act, 1983 (No. 29);

“recovery indicator” means an indicator in the recovery plan as required to be provided for in accordance with Part F of the Schedule;

“recovery option” means an action in the recovery plan as required to be provided for in accordance with Part G of the Schedule;

“recovery plan” means the plan that the insurer is required to establish in accordance with Regulation 3(1);

“Solvency II Regulations” means the European Union (Insurance and Reinsurance) Regulations 2015 (S.I. No. 485 of 2015);

“branch” means a permanent presence in the State of a third-country insurance undertaking that has received authorisation from the Bank to pursue insurance business within the State;

“third-country insurance undertaking” has the meaning ascribed to it in Regulation 3 of the Solvency II Regulations.

Application

2A. (1) Subject to paragraph (2), these regulations apply to insurers.

(2) These regulations do not apply to an insurer that is subject to Regulations 13A and 13B of the Solvency II Regulations.

Insurer to establish recovery plan

3. (1) An insurer shall prepare a plan which complies with the requirements of the Schedule and which provides a detailed description of the information required in the Schedule.

(1A) Paragraph (1) applies subject to any modifications in the Schedule in respect of an insurer that is either of the following:

(a) a captive;

(b) a third-country insurance undertaking which obtained an authorisation from the Bank in relation to a branch.

(2) Where an insurer provides for a recovery option that involves provision of financial support from another undertaking within a group of which the insurer is part, the insurer shall include in the recovery plan confirmation that it has obtained that other undertaking’s written confirmation of the undertaking’s willingness and ability to provide such financial support in the scenario contemplated.

(3) If requested by the Bank to do so, an insurer shall provide the following to the Bank:

(a) a copy of the recovery plan;

(b) information on the recovery indicators provided for in the recovery plan.

Insurer to maintain recovery plan

4. (1) An insurer shall maintain the recovery plan.

(2) For the purposes of paragraph (1), the insurer shall –

(a) review and, if necessary, update the recovery plan, at least annually,

(b) update the recovery plan after any change to the legal or organisational structure of the insurer, its business or its financial position, where such a change could have a material effect on, or necessitate a change to the recovery plan,

(c) ensure that its board formally assesses and approves the recovery plan, and each version thereof,

(d) ensure that, if the recovery plan has been reviewed by the insurer's internal audit function, external auditor or risk committee, the recovery plan confirms that this review has taken place and sets out any recommendations arising from that review, and

(e) ensure that its internal reporting system –

(i) facilitates frequent monitoring by the insurer of recovery indicators in the recovery plan, and

(ii) ensures that information necessary for the insurer to take decisions on whether to implement recovery options will be available in a reliable and timely way, including when the insurer is operating under conditions of financial stress.

Schedule

Part A - Summary

The recovery plan shall provide a summary of information outlined for the purposes of each of Parts D to J of the Schedule, under the following corresponding headings:

- Governance;
- Strategic analysis;
- Recovery indicators;
- Recovery options;
- Scenario analysis;
- Communication plan;
- Information on preparatory measures.

The summary shall in particular include a summary of the overall recovery capacity of the insurer, the point at which the insurer would initiate a closure to new business and a summary of how this situation would be managed by the insurer.

Part B - Changes since last recovery plan

The recovery plan shall identify any material changes to the insurer, the group of which the insurer is part, or the recovery plan itself, since the recovery plan was last approved by the board of the insurer.

Part C - Approval of recovery plan

The recovery plan shall confirm the date of approval of the recovery plan by the board of the insurer.

Part D - Governance

The recovery plan shall provide for the following governance information:

(a) roles and functions within the insurer that are responsible for preparing, implementing and updating each section of the recovery plan;

(b) roles and functions within the insurer that have responsibility for approving the recovery plan as a whole;

(c) a description of how the recovery plan is integrated into the system of governance and risk management framework of the insurer, including use of existing committee structures for escalation of decision-making with respect to the recovery plan or alignment of key risk indicators supporting the insurer’s risk appetite statement with recovery indicators;

(d) the insurer’s policies and procedures governing review, update and approval of the recovery plan by the insurer;

(e) the role of the board of the insurer in review, update and approval of the recovery plan;

(f) the insurer’s policies and procedures for timely implementation of any recovery options including –

(i) the insurer’s internal escalation and decision-making procedures where a threshold specified in a recovery indicator is met, which determine which recovery option, if any, the insurer will take in response,

(ii) roles and functions within the insurer that are involved in the procedures referred to in subparagraph (i), including a description of the responsibilities of those roles and functions for the purposes of that procedure, or, if such persons constitute a committee, the roles, functions and responsibilities of each committee member in the procedure, and

(iii) the insurer’s procedure for notifying the Bank that a threshold specified in a recovery indicator has been met, which identifies the point at which and the means by which the Bank will be so notified;

(g) the insurer’s Internal Reporting System which provides access to relevant information to facilitate decision making for the purpose of the insurer’s recovery plan.

Part E - Strategic analysis

The recovery plan shall provide information about the insurer that is relevant to the plan, important to understanding the plan, and appropriate to the nature, scale and complexity of the insurer, under each of the following headings:

(a) the lines of the insurer’s business, including the corresponding geographical areas or markets, that are critical to the ongoing viability of the insurer (hereinafter referred to as ‘core business lines’);

(b) the types of services provided by the insurer, either to policyholders with respect to the performance of the policies held by them, or to the market in general in terms of the provision of ongoing insurance services for specific risks to facilitate economic activity (hereinafter referred to as ‘key services’);

(c) the insurer’s operational activities and functions required to provide key services to its policyholders, including information technology, claims management or payment capabilities (hereinafter referred to as ‘critical functions’);

(d) the insurer’s business insofar as concerns the following:

(i) the insurer’s overall global business and risk strategy;

(ii) a list of the jurisdictions in which the insurer carries on the business of providing one or more key services, whether through a branch or on the basis of the freedom to provide services pursuant to the Solvency II Regulations;

(iii) a mapping of the core business lines, key services and critical functions to any jurisdiction listed by the insurer for the purposes of subparagraph (ii), including to any subsidiary or branch of the insurer in that jurisdiction;

(e) the corporate and financial structures of the insurer insofar as concerns the following:

(i) all material financial exposures and risk transfer arrangements of the insurer that are in place, and that are expected to be in place, with other undertakings within a group of which the insurer is part, when a recovery option is implemented;

(ii) legally binding reinsurance arrangements, financial guarantees, financial support agreements or other agreements, between the insurer and undertakings within a group of which the insurer is part, that are relied upon by the insurer for the purposes of taking a recovery option;

(iii) the form of financial support provided to or by the insurer pursuant to a financial support agreement referred to in subparagraph (ii) and the conditions associated with the provision of such financial support;

(iv) the insurer’s operational interconnectedness within a group of which the insurer is part, being functions that are centralised in one undertaking or branch that are important for the functioning of the insurer, including centralised information technology functions, investment or treasury functions, risk functions or administrative functions provided to or by the insurer;

(f) the insurer’s external interconnectedness insofar as concerns the following:

(i) the insurer’s material financial exposures and liabilities to its counterparties outside any group of which the insurer is part;

(ii) the services which undertakings outside any group of which the insurer is part provide to the insurer which are critical to the proper functioning of the insurer.

Modification of this Part in respect of an insurer that is a captive:

In substitution for paragraphs (a) to (d) of this Part, the recovery plan shall provide the following:

(a) a summary of the lines of business and level of cover provided to any undertakings within the group of which the captive is part;

(b) identification for the purposes of paragraph (a) of any compulsory insurance underwritten and any current or potential exposure to third party claimants;

(c) information on obligations to such third party claimants in the event of insolvency of the captive;

(d) information on obligations to such third party claimants in the event of insolvency of the group of which the captive is part.

In substitution for paragraph (f)(ii) of this Part, the recovery plan shall specify any arrangements in place with a captive manager including the circumstances in which either of the captive or the captive manager may terminate such arrangements.

Modification of this Part in respect of an insurer that is a third-country insurance undertaking which obtained an authorisation from the Bank in relation to a branch:

In substitution for paragraphs (a) to (d) of this Part, the recovery plan shall provide a summary of the core business lines, key services, critical functions and business of the branch, insofar as relates to the branch only.

In substitution for paragraph (e) of this Part, the recovery plan shall include information on functions that are important for the functioning of the branch that are not carried out by the branch itself, including functions referred to in paragraph (e),

In substitution for paragraph (f), the recovery plan shall include information on the following insofar it relates to the business carried on by the branch:

(a) material financial exposures of the branch
(b) critical services provided by persons to the branch.

Part F - Recovery indicators

The recovery plan shall include a framework of indicators that identify, in a timely manner, progression of risks that have the potential to threaten the insurer's financial viability. The indicators shall specify thresholds which, when met, require the insurer to increase monitoring of those risks, to implement one or more recovery options or to escalate the issue in accordance with its governance requirements. The framework of indicators shall include the following:

(a) indicators with reference to at least the following:

(i) Solvency of the insurer;

(ii) Liquidity of the insurer;

(b) indicators that -

(i) are relevant to the business model and strategy of the insurer;

(ii) reflect the insurer's vulnerabilities which are most likely to impact upon the insurer's financial position and, as result, require the insurer to consider whether to implement a recovery option;

(iii) are sufficient in number in each of a variety of areas of the insurer's business;

(iv) clarify the point at which the insurer would consider closure to new business so that the insurer remains solvent and can continue to honour, in full, agreements made prior to the date of its closure to new business;

(v) are integrated into the insurer's governance framework, including forming part of its day-to-day decision-making procedures;

(vi) are forward-looking in nature;

(c) an explanation of how the calibration of any specified thresholds has been determined by the insurer.

Part G - Recovery options

The recovery plan shall include a range of actions which could reasonably be expected to contribute to restoring the financial position of the insurer following a significant deterioration thereof and/or to maintaining the insurer's ongoing viability.

The actions shall include at least the following (hereinafter the 'Specific Actions'):

(a) a range of capital and liquidity actions to maintain ongoing viability or restore the financial position of the insurer, which have a primary aim of ensuring the viability of the core business lines and key services of the insurer, as referred to in Part E of the Schedule, and of maintaining the critical functions referred to in that Part;

(b) actions the primary aim of which is to conserve or restore the insurer's own funds through recapitalisation of the insurer;

(c) actions to ensure that the insurer has adequate access to liquidity so that the insurer can carry on its operations and meet its obligations as they fall due;

(d) actions to reduce the insurer's risk profile and related Solvency Capital Requirement under the Solvency II Regulations, or to restructure the insurer's business lines, including, where appropriate, an analysis of possible divestment of assets, insurance portfolios or business lines;

The actions shall further include the following:

(a) a description of each action with sufficient detail that enables an assessment of its expected impact and feasibility for the insurer, including an assessment by the Bank;
(b) an impact assessment of each action with the following:

> (i) a financial and operational impact assessment which sets out the expected impact on the solvency, liquidity, risk profile, profitability and operations of the insurer and, where relevant, the different subsidiaries or branches of the insurer which may be affected by the action or involved in its implementation;
>
> (ii) an assessment of external impact and systemic consequences which sets out the expected impact on key services performed by the insurer, as referred to in Part E of the Schedule, the impact on the insurer's shareholders, the insurer's policyholders, the insurer's counterparties and, where applicable, the group of which the insurer is part;
>
> (iii) a description of the process that has been used by the insurer in the impact assessment for determining the value and marketability of any business lines, operations or assets which are to be divested by the insurer when implementing the action;
>
> (iv) valuation assumptions and all other material assumptions made for the purpose of the assessments referred to in subparagraphs (i) to (iii), including assumptions about the marketability of assets or the behaviour of other market participants;

(c) a feasibility assessment of each action comprising -

> (i) an assessment of the risk associated with implementing each action, specifying any of the insurer's experience of implementing the action concerned or an equivalent measure,
>
> (ii) a description and analysis of any material impediment, or potential material impediment, to the effective and timely implementation of each action including, where applicable, potential impediments which would result from the corporate structure of the group of which the insurer is part or other

arrangements within the group, or material impediments to the prompt transfer of own funds or the repayment of liabilities or assets within the group,

(iii) an analysis of whether and how the impediments described could be overcome by the insurer, and

(iv) where an action relies upon the provision of financial support from an undertaking within the group of which the insurer is part, the confirmation that the insurer is required to include in the recovery plan pursuant to Regulation 3(2) and information on the insurer's plan in the eventuality that the financial support is not provided;

(d) an assessment in respect of each action of how continuity of the insurer's operations would be ensured when implementing that action, including in respect of –

(i) the internal operations of the insurer, including its information technology systems, suppliers and human resources operations, and

(ii) the insurer's access to market infrastructure, including custody, trading and payment systems or risk transfer facilities;

(e) an assessment in respect of each action of –

(i) the expected timeframe for the implementation of the action by the insurer, and

(ii) the effectiveness of the action to restore the insurer's financial position.

Modification of this Part in respect of an insurer that is a captive:

The recovery plan may include all of the Specific Actions but is not required to do so. Any actions that are included shall be relevant to the captive.

Modification of this Part in respect of an insurer that is a third-country insurance undertaking which obtained an authorisation from the Bank in relation to a branch:

The recovery plan may include all of the Specific Actions but is not required to do so. Any actions that are included shall be relevant to the branch.

Part H - Scenario analysis

The recovery plan shall include a range of scenarios which shall –

(a) include at least one scenario in respect of each of the following:

(i) a 'system-wide scenario', which means an event that risks having serious negative consequences for the financial system or the real economy;

(ii) an 'insurer-specific scenario', which means an event that risks having serious negative consequences specific to the insurer;

(iii) a scenario that involves a system-wide scenario and an insurer-specific scenario occurring simultaneously;

(iv) a scenario where the insurer is closed to new business but continues to honour, in full or in part, agreements made prior to that date,

(b) include, where a recovery option in the range of recovery options in the recovery plan involves reliance by the insurer on the provision of capital or liquidity from an undertaking within the group of which the insurer is part, a scenario that limits the provision of such capital or liquidity,

(c) reflect, in respect of each scenario, a scenario that is relevant to the insurer having regard to the following:

(i) the insurer's business, investment strategy and reinsurance strategy;

(ii) the insurer's operating model, including outsourcing and distribution arrangements, and the insurer's corporate structure;

(iii) the insurer's asset size;

(iv) any arrangement referred to in the recovery plan for the purposes of paragraphs (e) and (f) of Part E of the Schedule;

(v) any identified vulnerabilities of the insurer relating to the information referred to in Part E of the Schedule,

(d) reflect, in respect of each scenario, an event that would threaten the solvency of the insurer, unless one or more recovery options were implemented in a timely manner and improved the financial position of the insurer,

(e) include in respect of each scenario -

(i) an assessment of the impact of the scenario on the insurer in terms of the following:

(I) the insurer's own funds;

(II) the insurer's available liquidity;

(III) the insurer's risk profile and Solvency Capital Requirement applicable pursuant to the Solvency II Regulations;

(IV) the insurer's operations, including the impact on continuity of the insurer's key services and critical functions as referred to in Part E of the Schedule,

(ii) an assessment of the effectiveness of each recovery option in that scenario, in terms of the potential contribution of the recovery option to restoring the financial position of the insurer or maintaining the insurer's ongoing viability,

(iii) an assessment of the adequacy of the framework of recovery indicators in that scenario, in terms of identifying in a timely manner that a recovery option should be implemented by the insurer, and

(iii) identification of the recovery option that the insurer considers could be appropriate in that scenario including an analysis in that scenario in accordance with Part G of the Schedule, in terms of impact assessment, feasibility assessment and timeframe required for implementation,

(f) include, in respect of the scenario referred to in paragraph (a)(iv) of this Part, an analysis of any action required by the insurer, following closure to new business, in order to satisfy its policyholders' insurance policies and to meet claims in respect of those insurance policies as they fall due,

(g) include for the purposes of paragraph (f) of this Part -

(i) the insurer's governance arrangements and oversight to ensure that the actions are achieved,

(ii) the ongoing capital and liquidity requirements of the insurer and how those requirements would be met,

(iii) a description of the key services provided by the insurer as referred to in Part E of the Schedule, including an analysis of how the critical functions referred to in that Part, that are required to provide those key services, would be maintained,

(iv) the insurer's assumptions with regard to future expense projections and expected cost savings from not continuing with the new business referred to,

(v) the insurer's assumptions with respect to the parts of its business that may be sold by the insurer,

(vi) the timescale over which either the actions are expected by the insurer to be completed or the relevant business transferred to another insurer, and

(vii) the assumptions with respect to the costs of funding any transfer for the purpose of subparagraph (vi), and

(h) include a description of the overall recovery capacity of the insurer across the range of scenarios, being the extent to which implementation of the identified recovery options in those scenarios would contribute to restoring the financial position of the insurer and/or maintain its ongoing viability.

Modification of this Part in respect of an insurer that is a captive:

The recovery plan may include a scenario referred to in paragraph (a)(i) to (iii) of this Part but is not required to do so.

Modification of this Part in respect of an insurer that is a third-country insurance undertaking which obtained an authorisation from the Bank in relation to a branch:

The recovery plan may include a scenario referred to in paragraph (a)(i) to (iii) of this Part but is not required to do so. Paragraph (b) of this Part shall not apply.

Part I - Communication plan

The recovery plan shall include a communication plan that provides for the following:

(a) an internal communication plan for the insurer's communication of the implementation of recovery options to staff, trade unions or other staff representatives, including an analysis of how the internal communication plan would be implemented when a recovery option is implemented;

(b) an external communication plan for the insurer's communication of the implementation of recovery options to shareholders and other investors, the Bank, counterparties, financial markets, reinsurers, policyholders and the public, as appropriate, including an analysis of how the external communication plan would be implemented when a recovery option is implemented.

Part J - Information on preparatory measures

The recovery plan shall include information on preparatory measures including the following:

(a) an analysis of any preparatory measures that the insurer has taken or which are necessary for the insurer to take to facilitate the implementation of recovery options or to improve effectiveness, including any preparatory measures necessary to overcome impediments to the effective implementation of recovery options that are identified in the recovery plan;

(b) a timeline for implementing the measures referred to in paragraph (a) of this Part.

Schedule 2 – Draft Guidelines

Pre-emptive Recovery Plans Guidelines for (Re)Insurers

1. Introduction

1.1 Purpose and Scope

The purpose of the Pre-emptive Recovery Plans Guidelines for (Re)Insurers ('the Guidelines') is to assist authorised insurance and reinsurance undertakings ('insurer') in preparing a pre-emptive recovery plan as required under RECOVERY PLAN REQUIREMENTS FOR INSURERS REGULATIONS 2020 ('Recovery Planning Regulations').

The Guidelines set out the expectations of the Central Bank of Ireland ('Central Bank') regarding content and format of pre-emptive recovery plans and the factors that undertakings should take into account when developing a plan that is appropriate to the nature, scale and complexity of their business.

1.2 Status

The Guidelines do not constitute secondary legislation and undertakings should always refer directly to the Recovery Planning Regulations when ascertaining their statutory obligations. The Guidelines do not replace or override any legal and/or regulatory requirements. In the event of a discrepancy between the Guidelines and the Recovery Planning Regulations, the Recovery Planning Regulations will apply. The Guidelines are not exhaustive and do not set limitations on the steps to be taken by undertakings to meet their statutory obligations.

The Guidelines should not be construed as legal advice or legal interpretation. It is a matter for undertakings to seek legal advice if they are unsure regarding the application of the Recovery Planning Regulations to their particular set of circumstances.

2. Background and Context

2.1 Rationale for Pre-emptive Recovery Planning

Having in place an effective recovery framework for insurers will contribute to achieving policyholder protection, as well as maintaining financial stability. Adequate preparation and planning in the form of pre-emptive recovery planning will, on the one hand, reduce the probability of insurers failing, and, on the other hand, reduce the impact of potential failures by increasing preparedness within undertakings.

It is essential that insurers prepare and regularly update pre-emptive recovery plans that set out measures to be taken by those insurers for the restoration of their financial position following a significant deterioration.

Such plans should be detailed and based on realistic assumptions that are applicable in a range of robust and severe scenarios.

By evaluating risks and recovery options in advance of any severe stress materialising, pre-emptive recovery plans:

(i) Promote awareness and allow undertakings to prepare for a range of possible adverse situations;
(ii) Enable undertakings to consider and evaluate the most appropriate and effective mitigation without the resulting pressures of actual severe stress; and
(iii) Enable undertakings to make more effective, comprehensive and thoughtful measures to ensure their timely implementation if required.

2.2 Link with Resolution Planning

Recovery plans identify options to restore financial strength and viability when an insurer comes under severe stresses. This is different to Resolution Planning, which identifies how an insurer would be resolved and which would be initiated when an insurer is no longer viable or likely to be no longer viable, and has no reasonable prospect of becoming so.

2.3 Link with System of Governance, Risk Management Framework and ORSA.

Pre-emptive recovery planning should be part of the overall risk management process of insurers and Pre-emptive recovery plans are considered by the Central Bank to be a governance arrangement within the meaning of Regulations 44 to 51 of the European Union (Insurance and Reinsurance) Regulations 2015 (S.I. No. 485/2015) (the 2015 Regulations)..

In order to be effective, the recovery plan should be embedded into the insurers overall risk management framework. The Central Bank expects that there will be interlinkages between the recovery plan and the ORSA, contingency planning and other preventative or corrective measures that the insurer may have in place.

The objective of the Own Risk and Solvency Assessment (ORSA) is to prevent an insurer from breaching its Solvency Capital Requirement (SCR) and coming under severe stress, whereas a recovery plan envisions the insurer being confronted with severe stress and contemplates the actions needed to mitigate stress and restore financial strength and viability. Further, the ORSA focuses on solvency and informs the capital risk appetite by identifying the potential impact of plausible but severe stresses. A recovery plan should consider a wider range of causes that might ultimately lead to failure if not appropriately addressed including solvency, liquidity and operational events.

2.4 Link with Solvency II

The ladder of intervention under Solvency II requires a recovery plan or finance scheme to be prepared in the event of non-compliance with the SCR and Minimum Capital Requirement (MCR) requirements respectively. However, these are ex post obligations.

A pre-emptive recovery plan will likely include possible measures that would be included in a recovery plan required in the event of non-compliance with solvency capital requirements (Regulation 146[4]) or in a finance scheme required in the event of non-compliance with the minimum solvency requirement (Regulation 148). However, in the event that a requirement for a recovery plan is triggered under Regulation 146 or Regulation 148, while a pre-emptive recovery plan previously submitted may represent a good starting point, it is unlikely to be sufficient. At a minimum, the insurer will need to update the plan to reflect the exact circumstances giving rise to the non-compliance with solvency capital requirements.

When considering potential recovery options within their pre-emptive recovery plans undertakings should not assume that EIOPA would declare the existence of exceptional adverse situation as provided for in Regulation 146.

3. Requirement to prepare a pre-emptive recovery plan.

3.1 Scope of the Recovery Planning Regulations

The Recovery Planning Regulations apply to all insurance and reinsurance undertakings subject to authorisation by the Central Bank.

According to the Recovery Planning Regulations, each insurer shall draw up and maintain a pre-emptive recovery plan providing for measures to be taken by the insurer to restore its financial position following a significant deterioration of its financial situation. The plan shall also provide details of the governance process, both for the preparation and approval of the plan and for the invocation and execution of the plan in practice.

The pre-emptive recovery plan should include any subsidiary entities of the insurer.

Insurers shall update their pre-emptive recovery plans after a change to the legal or organisational structure of the insurer, its business or its financial situation, where such a change could have a material effect on, or necessitates a change to the plan.

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[4] European Union (Insurance and Reinsurance) Regulations 2015 (S.I. No. 485/2015)

Pre-emptive recovery plans shall be reviewed at least annually and updated if necessary including to reflect any changes in the external environment, which may affect the feasibility of recovery options.

3.2 Application of Proportionality

As noted in paragraph 2.1 above, a key objective of pre-emptive recovery planning is to promote awareness within undertakings and allow them to prepare for a range of possible adverse situations in advance.

This objective is relevant to all undertakings and therefore all undertakings should prepare and maintain a recovery plan using the structure set out in the Recovery Planning Regulations. However, the level of detail within a pre-emptive recovery plan should be appropriate to the scale and complexity of the insurer and should be proportionate, reflecting the systemic importance of the insurer, its interconnectedness with its group or other third parties, including through reinsurance and the degree to which group support would be credibly available.

Systemic importance should be considered from the perspectives of policyholders and claimants (ability to continue or replace cover and have claims paid), the wider economy (availability of required insurances) and the broader financial sector (impact of liquidating investments or defaulting on contractual obligations).

Pre-emptive recovery plans should contemplate a range of scenarios of severe macroeconomic and financial stress relevant to the insurer's risk profile including system-wide events and stresses specific to the entity or the group to which it belongs.

The level of detail required in the pre-emptive recovery plan will depend on the nature, scale and complexity of the insurer. It should be relevant to the recovery of the insurer and sufficient to enable the recovery plan be understood by a reasonably informed reader of the plan.

3.3 Applicability of Recovery Planning Regulations to Captives

Pre-emptive recovery planning is relevant to a captive insurer however, given that its principle relationship is to the group of which it is a part of, a more simplified strategic analysis is likely to be appropriate. In addition, the most relevant scenarios for which recovery actions may be required are those where either the group chooses to put the captive into run-off or the group itself is under severe stress or insolvent.

3.4 Applicability of Recovery Planning Regulations to Third Country Branches

Pre-emptive recovery planning is also relevant to a third country branch however, only in respect of the business carried on from the Irish branch. In this context, it is appropriate that the strategic analysis focuses on that business including any operational reliance on head office, other group entity or third parties that are necessary for the continuation of that business. In addition, the most relevant recovery scenario is one where the head office decides or is obliged to withdraw from the market and wind up the business of the branch.

3.5 Governance and Approval of Pre-emptive Recovery Plans

The insurer is responsible for ensuring that appropriate policies and procedures are in place for the development and review of pre-emptive recovery plans on an on-going basis.

The board of the insurer should formally assess and approve each version of the pre-emptive recovery plan.

Pre-emptive recovery plans should include details of the governance arrangements, policies and procedures to ensure the timely implementation of recovery options if required. These would include identifying those responsible for monitoring early warning indicators, escalating potential issues, invoking the plan and managing the recovery process.

The insurer should ensure that information systems are able to provide the necessary information for taking decisions with respect to recovery options in a reliable and timely way.

3.6 Submission of Pre-emptive Recovery Plans to the Central Bank.

All insurers are required to provide a copy of their latest pre-emptive recovery plan to the Central Bank if requested to do so.

Insurers with a PRISM impact rating of High or Medium High are required to submit an initial pre-emptive recovery plan by [XX] 2021 and for subsequent versions within 1 month of its approval by the board.

Insurers must also promptly provide details of the status of recovery indicators if requested to do so by the Central Bank.

4. Group Recovery Plans.

4.1 Relevance and Reliance on Group Recovery Plans

The requirement to prepare and if required, submit a pre-emptive recovery plan applies to each insurer individually.

It may be appropriate to place some reliance on a group recovery plan by referencing (and sharing) relevant elements, however an insurer should not rely exclusively on a group recovery plan.

At a minimum, an insurer should prepare its own plan setting out local governance and escalation procedures, risk indicators and recovery options (which may exclusively be calling on group support). The plan should be supported with relevant extracts of the group recovery plan or confirmation that the group is capable and willing to provide the support anticipated in the recovery options including under the stresses evaluated in the plan.

5. Information to be included in a Pre-emptive Recovery Plan.

5.1 Minimum Contents and Structure

The Recovery Planning Regulations require that Pre-emptive recovery plans include the following sections:

A. Summary
B. Changes since the last recovery plan;
C. Approval of recovery plan;
D. Governance;
E. Strategic analysis;
F. Recovery indicators
G. Recovery options;
H. Scenario analysis;
I. Communication plan;
J. Information on preparatory measures

Guidance on each of these sections is provided below.

5.2 Summary

The objective of the summary section is to provide a brief synopsis or executive summary of the key elements of the recovery plan.

It should highlight key points in relation to; governance of the plan; the strategic analysis of the insurer; the main recovery options considered; the recovery indicator framework; the results of scenario analysis including the conclusions with respect to the overall recovery capacity, the communication plan and; any required preparatory measures.

5.3 Changes Since the Last Recovery Plan

The objective of this section is to highlight for a reader of the plan any material changes to the plan from the previous version approved by the board.

These could include:

- Changes to the governance arrangements for the plan including for example the reallocation of responsibilities for maintaining and updating the plan or for monitoring recovery indicators.
- Changes to the Insurer's business strategy or risk profile such as for example entering or exiting lines of business or materially changing the strategic asset allocation of the investment portfolio.
- Changes to the insurers operating model such as for example the use of re-insurance or outsourcing / insourcing of a critical function.
- Changes to the insurer's corporate structure or that of the group to which it belongs such as for example a change in immediate or ultimate parent.
- Changes to the recovery options considered in the plan or their relative prioritisation in the event of a stress event.
- Changes to the structure or calibration of recovery indicators such as for example the addition or removal of a specific indicator or changes to the calibration of the thresholds or limits.
- Changes to the scenarios considered within the plan or to the impact of previously used scenarios.
- Changes resulting from the implementation of previously identified preparatory measures or indeed identification of any additional measures required.

5.4 Approval of Recovery Plan

This section should simply confirm the date that the plan was approved by the board.

5.5 Information on Governance

The objective of this section is to document the governance arrangements for recovery planning including both the arrangements for the development and updating of the plan and the arrangements for the implementation of the plan in the event of a stress event.

The Central Bank's expectation is that recovery planning is integrated into the normal system of governance and risk management framework. Therefore, this section should demonstrate how this is achieved.

The information on governance should contain a detailed description of the following matters:

1. How the pre-emptive recovery plan was developed. This should include the processes for developing each section of the plan, to what extent each of the various critical functions of the insurer provided

input to the plan, the procedures for reviewing and approving the plan and how the plan is communicated to the relevant people in the insurer.

2. How the pre-emptive recovery plan is updated. This should identify who is responsible for keeping the recovery plan up to date, what would prompt a requirement to update the plan and the process for updating the pre-emptive recovery plan to respond to any material changes affecting the insurer or its group or their environment.

3. How the pre-emptive recovery plan aligns with any group recovery planning processes. For example, if the entity is part of a group, this section may include a description of any measures and arrangements taken within the broader group to ensure the coordination and consistency of recovery options at the level of the group and of individual subsidiaries. In addition, where recovery options include reliance on a related entity the plan should specifically confirm that the management body of that entity has confirmed that they would be willing and able to provide that support in the stressed scenarios contemplated.

4. The policies and procedures for invoking and implementing the pre-emptive recovery plan to ensure the timely implementation of recovery options. This should document the internal escalation and decision-making processes that apply if indicator thresholds are met, to determine which recovery option may need to be applied to address the situation of financial stress that has materialised. This would include details of who is responsible for monitoring recovery indicators and the steps to be taken in the event that thresholds are met, for example, increased monitoring, escalation protocols or invocation of a crisis management committee. It should also include details of the roles and responsibilities of those charged with responding to an emerging recovery scenario, including such matters as information gathering and analysis, deciding on the appropriate recovery option (if any) and taking the required recovery actions.

5. How the pre-emptive recovery plan is integrated into the normal day-to-day system of governance and risk management framework. This could include:

    a. A description of how information and analysis used for preparing the recovery plan is aligned with that used in other governance processes such as the ORSA or business planning processes;
    b. A description of how key functions and existing committees are involved in the review and approval or implementation of the recovery plan;

c. Whether the pre-emptive recovery plan is reviewed by an internal audit function, external auditor or risk committee and if such a review has occurred details of any findings and recommendations; and
d. A description of how the recovery indicator framework is aligned with the relevant key risk indicators (KRIs) or other early warning signals used as part of the insurer's regular internal risk management processes.

6. How the internal reporting system and management information systems are able to facilitate recovery planning, including a description of arrangements in place to ensure that the information necessary to implement the recovery options will be available for decision-making in stressed conditions in a reliable and timely way.

5.6 Information on Strategic Analysis

The objective of this section is to provide a clear description of the insurer's business strategy, operating model, risk profile and organisational structure with a view to identifying likely vulnerabilities or impediments to recovery.

The strategic analysis should identify **core business lines**, **key services** and **critical functions** and set out the steps to maintaining those core business lines, key services and critical functions in a situation of financial stress:

When determining their **Core Business Lines** insurers should take into consideration matters such as the scale, profitability or capital requirements of its various business lines and markets..

When determining their **Key services** insurers should take into consideration the reasonable expectations of its policyholders or other stakeholders such as claimants, the potential for current or prospective policyholders to switch to another provider and their market share of insurance segments that are necessary or important to facilitate economic activity.

When determining their **Critical functions** insurers should consider which activities are required to provide the key services. Consideration should be given to both direct activities such as policy servicing, claims payment or investment management and support activities such as IT services, HR or payment and custody capabilities.

The strategic analysis should include sufficient detail to provide context for the choice of recovery options, recovery indicators and the scenarios used for testing the adequacy of the recovery options and the recovery indicator framework. The following aspects of the insurer should be considered:

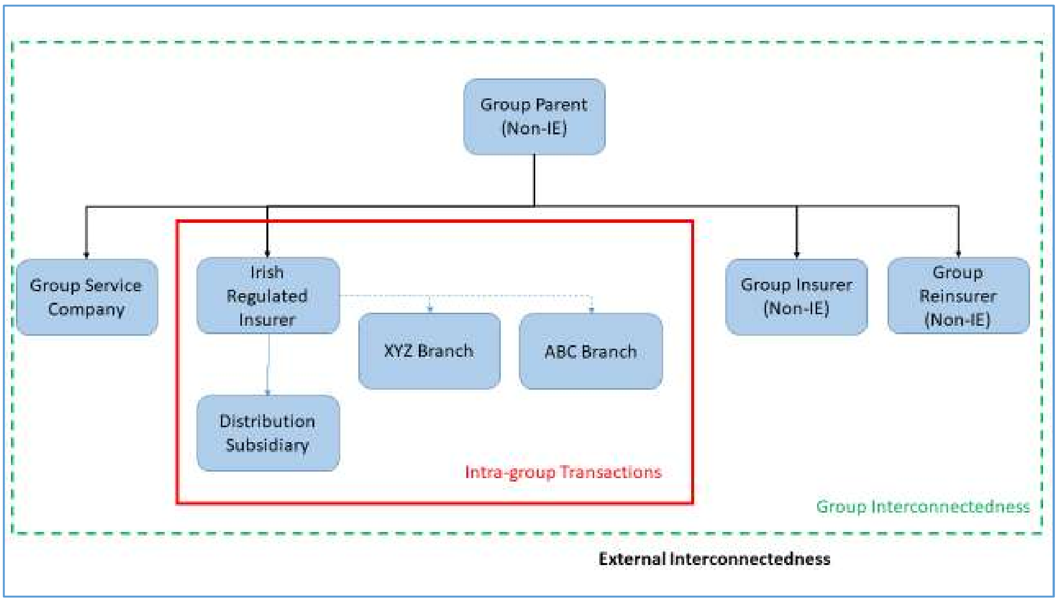
1. The nature, scale and complexity of the insurer's business including the main elements of its:
   (i) business and risk strategy and identifying the key success drivers and potential risks;
   (ii) business and operating model identifying the main jurisdictions in which they are active whether through a legal entity, a branch or on a freedom of services basis;

2. Clarification as to what are considered as being the core business lines, key services and critical functions together with a mapping of the core business lines, key services and critical functions to the subsidiary entities and branches of the undertaking, or where critical functions are outsourced (either to an entity belonging to the same group or to a third party), the legal entity providing the service;

3. Its interconnectedness with the group of which it is a member (if any) including an explanation of both intra-group arrangements and its interconnectedness with the broader group to which it belongs.

   In this context:
   - Intra-group arrangements refers to any financial, operational or other arrangements among the firm, its branches or its subsidiaries.

   - Interconnectedness with the broader group refers to any financial, operational or other arrangements that the firm, its branches or its subsidiaries has with other entities of the broader group to which it belongs.



Such interconnectedness may arise from:

- Financial exposures such as reinsurance arrangements, intercompany loans or guarantees;

- Legal arrangements such as distribution agreements or cost sharing arrangements;

- Operational dependencies such as shared service and group outsourcing arrangements; or

- Other financial support agreements or the relevance of group credit rating assessments or loan covenants.

Taking each of the above into account, the plan should include an analysis of the ability to separate the insurer from its broader group and identify any actions that would be required to secure continuity of critical functions or financial supports in the context of a failure elsewhere within the group.

4. Its external interconnectedness including any significant exposures and liabilities to main counterparties or significant services which third parties provide which are required to maintain critical functions.

5.7 Information on Recovery Indicators:

The objective of this section is to set out how the insurer will monitor the development and progression of key risks so that if deployment of a recovery option is necessary it can be implemented in a sufficiently timely manner.

The recovery indicator framework should consist of a range of recovery indicators each with defined limits and thresholds that will prompt the insurer to take specific action.

Insurers should consider recovery indicators of both a quantitative and qualitative nature.

1. Insurers should consider including the following categories of recovery indicators, which are explained in the Annex.

   (i) Solvency indicators;
   (ii) Liquidity indicators;
   (iii) Profitability indicators;
   (iv) Reserving indicators;
   (v) Market-based indicators;
   (vi) Macroeconomic indicators.

   The Central Bank expects that the recovery indicator framework will include at least Solvency and Liquidity indicators.

2. Insurers should not limit their set of recovery indicators to the above list and should consider the inclusion of other indicators that are relevant to their specific circumstances and vulnerabilities. In particular, insurers should consider recovery indicators of both a quantitative and qualitative nature including for example indicators that might highlight risks to operational continuity or brand and reputation.

3. The framework of recovery indicators should:

   a. Be adapted to the business model and strategy of the insurer and be adequate for its risk profile. The framework should reflect the key vulnerabilities most likely to impact the insurer's financial situation and lead to the point at which it has to decide whether to activate the pre-emptive recovery plan;

   b. Be adequate to the size and complexity of the insurer. In particular, the number of indicators should be sufficient to alert the insurer of deteriorating conditions in a variety of areas. At the same time, the number of indicators should be adequately targeted and manageable by insurers;

   c. Be capable of defining the point at which an insurer has to decide whether to take an action referred to in the pre-emptive recovery plan or to refrain from taking such an action and in particular the point at which the option to close to new business should be considered in order to ensure that the insurer remains solvent and can continue to honour agreements made prior to the date of its closure to new business;

   d. Be aligned with the overall risk management framework and with the existing liquidity, capital or business continuity indicators;

   e. Be integrated into the insurer's day to day governance and risk management arrangements;

   f. Include forward-looking indicators.

4. While setting the quantitative recovery indicator thresholds, an insurer should consider using progressive metrics ('traffic light approach') in order to inform the insurer's management that such indicators could potentially be reached.

5. An insurer should review the recovery indicators at least annually and recalibrate them when necessary.

6. An insurer should be able to provide the Central Bank with an explanation of how the calibrations of the recovery indicator thresholds have been determined and to demonstrate that the thresholds would be breached early enough to be effective. In this context, the magnitude and speed of the breach of the threshold should be taken into account.

7. The internal reporting systems of the insurer should ensure an easy and frequent monitoring of the indicators by the insurer and allow for the timely submission of the indicators to the Central Bank upon request.

8. The monitoring of pre-emptive recovery plan indicators should be undertaken on a continuous basis to ensure the insurer can respond appropriately in a timely manner to restore its financial position following a significant deterioration.

5.8 Information on Recovery Options:

The objective of this section is to identify and assess a range of actions that the insurer may take in order to restore its financial position or maintain its on-going viability in the event of a severe stress event.

Which of the identified actions that may be used in a specific scenario will depend on the actual circumstances. Therefore, to facilitate future decision making under potentially stressed conditions the plan should include an assessment of the impact, feasibility and timeliness of each of the options.

1. Recovery options could include measures that are extraordinary in nature as well as measures that could also be taken in the course of the normal business.

2. A recovery options should not be excluded for the sole reason that it would require a change to the current nature of the business of the insurer.

3. Recovery options could include the following types of actions:

    a. actions required to maintain or restore the viability and/or financial position of the insurer which have as their primary aim ensuring the viability of core business lines and key services and maintaining critical functions;

    b. arrangements and measures the primary aim of which is to conserve or restore the insurer's own funds such as for example recapitalisation or issuance of subordinated debt;

c. arrangements and measures to ensure that the insurer has adequate access to contingency funding sources to ensure that they can carry on their operations and meet their obligations as they fall due;

d. arrangements and measures to increase solvency coverage by reducing risk (and the related Solvency Capital Requirement) such as for example, reinsurance arrangements, restructuring business lines or divestment of material assets, insurance portfolios or business lines;

4. Where the insurer is part of a wider group and the recovery option is based on financial support from the parent, the insurer should:
   a. obtain confirmation from the parent that such support would be made available; and
   b. plan for the eventuality where such support is not forthcoming;

5. The **impact assessment** for each recovery option should consider:

   a. The financial impact including the expected impact on solvency, liquidity, risk profile, and profitability of the insurer;

   b. The operational and organisational impact including any changes to the availability or sourcing of critical functions and where relevant details of the different entities or branches which may be affected by the option or involved in its implementation;

   c. The external impact and systemic consequences including the expected impact on the continued availability of key services and the impact on shareholders, policyholders (in particular retail customers), counterparties and, where applicable, its broader group.

6. The **feasibility assessment** for each recovery option should consider:

   a. Any risks associated with implementing the recovery option such as for example changes to policyholder behaviour or counterparty terms. In this context, the insurer should highlight any previous experience of executing the recovery option or an equivalent measure.

b. The robustness of the processes for determining the value and marketability of any business lines, operations or assets that are assumed to be disposed of under the relevant recovery option.

c. The justification of any valuation assumptions or any other material assumptions made for the purpose of the impact assessment including assumptions about the marketability of assets or the behaviour of other market participants.

d. Any material impediment to the effective and timely execution of the plan and a description of whether and how such impediments could be overcome. A material impediment shall include any factor that could negatively affect the timely execution of the recovery option including, in particular, legal, operational, business, financial, and reputational risks such as a risk of a credit rating downgrade.

e. Any potential impediments to the effective implementation of the recovery option which result from the structure of the broader group or other intra-group arrangements, including whether there are substantial practical or legal impediments to the prompt transfer of own funds or the repayment of liabilities or assets within the group.

7. The insurer should consider and document how the **continuity of operations** will be ensured when implementing each recovery option. This should include consideration of the continued availability of internal operations (including information technology systems, suppliers and human resources operations) and the continued access to market infrastructure (including, custody, trading and payment systems or risk transfer facilities). In particular, the assessment of operational continuity should take into account:

    a. any arrangements and measures necessary to maintain continuous access to relevant markets infrastructure;

    b. any arrangements and measures necessary to maintain the continuous functioning of the critical functions and operational processes including those that are outsourced to group entities or external suppliers;

8. The **expected time frame** for the implementation and effectiveness of each recovery option should be documented.

5.9 Information on Scenario Analysis:

The objective of the section on scenario analysis is to test the effectiveness of the recovery options and the adequacy of recovery indicators under a range of scenarios of financial or operational stress. This is achieved by assessing the impact of each scenarios on the insurer with particular emphasis on their capital, liquidity, profitability, risk profile and operations and taking into account the impact of recovery options implemented as a result of the recovery indicator thresholds that are expected to be triggered.

1. For the scenario analysis to be effective, the range of scenarios used should be commensurate with the nature, scale and complexity of the business of the insurer or its broader group and its interconnectedness to other insurers and to the financial system in general. The scenarios used should reflect both potential stress events that affect the insurer in isolation and those that affect the market in general.

2. For the scenario analysis to be complete, the insurer should consider a scenario where it would close to new business as a recovery options and, where the primary recovery options are based on receiving group support, a scenario that limits the ability of the group to provide further capital or liquidity support or results in the withdrawal of group support.

3. The range of scenarios should consider both slow moving (for example a deterioration in own funds through on-going trading losses) and fast moving (for example a sudden reduction in the market value of investments or default by a material counterparty) adverse events.

4. When developing scenarios the insurer should consider the following:

   a. scenarios that are based on events most relevant to the insurer and where relevant, its broader group, taking into account its business and funding/reinsurance model, its activities and structure or its interconnectedness to other insurers or to the financial system in general, and, in particular, any identified vulnerabilities or weaknesses of the insurer or group;

   b. events that would threaten to cause the failure of the insurer or group, unless recovery measures were implemented in a timely manner; and

   c. scenarios based on events that are exceptional but plausible.

5. Reverse stress testing could be considered as a starting point for developing scenarios that are ‘near-default’; i.e. they would lead

to an insurer's or a group's business model becoming non-viable unless the recovery actions were taken.

6. The analysis of each scenario should include, where relevant, an assessment of the impact of the events on each of the following aspects of the insurer:
   a. available capital;
   b. available liquidity;
   c. risk profile and SCR;
   d. profitability;
   e. operations, including claims payment, policy administration and investment settlement operations;
   f. reputation and credit rating.

7. The analysis of each scenario should identify the recovery options that could be appropriate together with the expected impact of each recovery option, its feasibility, including any potential impediments to its implementation and the time frame required for its implementation.

8. Based on this information, the scenario analysis should conclude on the overall recovery capacity of the insurer, being the extent to which the recovery options (when deployed in line with the recovery indicator framework) allow the insurer to recover in a range of scenarios of severe macroeconomic and financial stress.

9. The pre-emptive recovery plan should include an analysis of the actions required, following closure to new business, in order to run-off in-force policies in line with policyholder reasonable expectations and meet claims payments as they fall due. This analysis should include details of:

   a. Governance arrangements and oversight to ensure that the plan will be brought to conclusion.

   b. The ongoing capital and liquidity requirements and how those will be met.

   c. The key services, and how the critical functions required to provide those key services, will be maintained.

   d. Assumptions with respect to any cost savings that are expected to be achieved.

   e. Assumptions with respect to parts of the business that may be disposed of.

f. The timescale over which the business might be fully run-off or transferred to another insurer and the assumptions with respect to the costs of funding such a transfer.

g. The recovery indicator thresholds, which would prompt consideration of closure to new business and entering orderly run-off.

5.10 Information on the Communication and disclosure plan

Proper and thoughtful communication is key during a crisis and the objective of this section is to anticipate potential communication requirements in the event of a recovery event and develop a plan for dealing with those demands.

1. The communication and disclosure plan should cover the following matters:

    a. internal communication, in particular to staff, work councils or other staff representatives;

    b. external communication, in particular to shareholders and other investors, the Central Bank, counterparties, financial markets, reinsurers, policyholders and the public, as appropriate;

    c. effective proposals for managing any potential negative market reactions.

2. A pre-emptive recovery plan should include an analysis of how the communication and disclosure plan would be implemented when one or more of the arrangements or measures set out in the pre-emptive recovery plan are implemented.

3. The communication and disclosure plan should consider any specific communication needs for individual recovery options.

5.11 Information on Preparatory measures

1. A pre-emptive recovery plan should include details of any preparatory measures that the Insurer, or any other entity, has taken or which are necessary to facilitate the implementation of the Pre-emptive recovery plan or to improve its effectiveness.

2. Any preparatory measures yet to be taken should include a timeline for implementation.

3. Such preparatory measures should include any measures necessary to overcome impediments to the effective implementation of recovery options identified in the pre-emptive recovery plan.

Annex one - Framework of recovery indicators

Capital indicators

Capital indicators should identify any significant actual and likely future deterioration in the quantity and quality of capital in a going concern.

While selecting capital indicators, Insurers should consider the fact that the capacity of such indicators to allow for a timely reaction can be lower than for other types of indicators as certain measures to restore an insurer's capital position could be subject to longer execution periods or greater sensitivity to market and other conditions.

In particular, this can be achieved by means of establishing forward-looking projections, which should consider material contractual maturities relating to capital instruments.

Capital indicators should be aligned with the ORSA and medium-term capital management plan.

The triggers should be calibrated based on the insurer's risk profile and on the time needed to activate the recovery measures; should consider the recovery capacity resulting from those measures; and take into account how quickly the capital situation may change, given the insurer's individual circumstances.

The triggers for indicators based on regulatory capital requirements should be calibrated by the insurer at adequate levels in order to ensure a sufficient distance from a breach of the capital requirements applicable to the insurer.

Liquidity indicators

Liquidity indicators should be able to inform an insurer of the potential for, or an actual deterioration of the capacity of the insurer to meet its current and foreseen liquidity and funding needs.

The liquidity indicators should also cover other potential liquidity needs, such as failure of reinsurers to make payments as contracted and those stemming from off-balance structures (for example margin calls).

The triggers identified by the insurer should be calibrated based on the insurer's risk profile and should take into account how quickly the liquidity situation may change, given the insurer's individual circumstances.

The triggers should be calibrated based on the insurer's risk profile and on the time needed to activate the recovery measures and consider the recovery capacity resulting from those measures.

Profitability indicators

Profitability indicators should capture an insurer's income-related aspect that could lead to a rapid deterioration in the insurer's financial position through lowered retained earnings (or losses) impacting on the own funds of the insurer.

This category should include Pre-emptive recovery plan indicators referring to operational risk-related losses that may have a significant impact on the profit and loss statement, including but not limited to, conduct-related issues, external and internal fraud and/or other events.

Reserving indicators

Reserving indicators should measure and monitor the development of Technical Provisions of the insurer. More specifically, they should indicate when increases in required reserves could lead to the point at which the insurer should consider taking an action described in the Pre-emptive recovery plan.

Reserving indicators may include key reserving assumptions such as relevant yield curve, lapse rates or changes to the value of options and guarantees or Expected Profits Included in Future Premiums.

Market-based indicators

Market-based indicators aim to capture the possibility of a rapid deterioration in the financial condition of the insurer resulting from a decline in the value of its investments and other assets.

Macroeconomic indicators

Macroeconomic indicators aim to capture signals of deterioration in the economic conditions where the insurer operates that may affect its own funds and or capital requirements in terms of new business flows, surrenders and lapses, claims experience or reserving assumptions.

The macroeconomic indicators should be based on metrics that influence the performance of the insurer in specific geographical areas or business sectors that are relevant for the insurer.