



CP 131 – Regulations for pre-emptive recovery planning for (re)insurers

Irish Life and Canada Life Companies Submission

October 2020

INTRODUCTION

ABOUT IRISH LIFE AND CANADA LIFE

Canada Life was founded as Canada's first life insurance company in 1847. It has now grown into one of the world's largest and most financially secure providers of life insurance. Since 2003, Canada Life has been a part of Great-West Lifeco Inc., one of the leading financial service providers in Canada. Great-West Lifeco Inc. cares for more than 28 million clients around the world.

Irish Life empowers its customers to look to the future with more confidence and certainty. We manage the financial needs of more than 1.3 million Irish customers. We think ahead to find opportunities and anticipate challenges to help deliver more security and certainty for their futures. We have over 75 years' experience serving corporate and private customers in Ireland. So we pride ourselves on having a deep understanding of our customers' needs, interests and concerns for themselves and their families.

Irish Life Group (ILG) includes inter alia Irish Life Assurance and Irish Life Health as well as its associated companies Irish Life Investment Managers and Setanta Asset Management. We currently have 2,400 people working at our campuses in Dublin and Dundalk, and we continue to grow.

There are three significant businesses operating under the Canada Life brand in Ireland, Canada Life Assurance Europe, Canada Life Re Ireland and Canada Life International Assurance (Ireland).

Canada Life Assurance Europe plc has been operating in Germany since the year 2000 and is regulated by the Central Bank of Ireland and regulated by the German regulator Bundesanstalt für Finanzdienstleistungsaufsicht (BaFin) for business conduct purposes.

Canada Life Re Ireland dac forms part of the Reinsurance Division of Great West Lifeco. The primary focus of the Reinsurance Division is on life reinsurance business in Europe and the United States.

Canada Life International Assurance (Ireland) dac sells unit-linked life assurance and capital redemption bonds to UK residents through UK independent regulated intermediary channels. Canada Life International Assurance (Ireland) dac is authorised and regulated by the Central Bank of Ireland and regulated by the FCA for business conduct purposes in relation to UK sales.

EXECUTIVE SUMMARY

Irish Life Group and the Canada Life companies welcome the opportunity to participate in this discussion paper with the Central Bank. We welcome the initiative by the Central Bank to promote the development and use of pre-emptive recovery plans across the insurance industry.

Recovery plans can complement existing risk management processes in a firm, increasing its financial resilience and thus benefitting consumers and the industry. The industry has already taken some steps in this direction, with some firms having already developed Recovery Plans and a keen interest amongst most other firms, evidenced by strong participation in a number of industry presentations on Recovery Plans.

It is important to recognise the primary purpose of pre-emptive recovery plans, which is to identify options to restore financial strength and viability when a firm comes under severe stress, recognising that they will sit alongside other documentation and initiatives within insurance companies, including the ORSA, SFCR, RSR, operational resilience / BCM plans and business strategy plans. Recovery Plans will not replace these other initiatives, and Recovery Plans should not be required to cover issues already addressed in these other documents. For example, whilst a Recovery Plan may broadly outline a firm's strategy, the Plan should not be the primary source of reference for internal or external parties to understand a firm's strategy. Nor should a Recovery Plan be required to address BCM / operational resilience, which will be addressed elsewhere in a firm's risk management structures. A number of the specific comments below point to areas where the draft Recovery Plan requirements appear to stray into these other areas.

It is also important to recognise that Solvency II establishes a clear regulatory capital requirement and associated ladder of intervention. The Recovery Plan will likely include trigger points internal to the firm to take capital action, but these should not become de facto regulatory capital requirements.

Similar to an ORSA, a Recovery Plan should be tailored to the specifics of a firm. The Central Bank's draft guidelines provide a very comprehensive list of items to be covered within a Recovery Plan. Whilst we agree with the majority of these, the specific comments below point to areas where the specifications appear to be overly prescriptive. An overly prescriptive regime risks creating standardised documents, which are less likely to be tailored to the specifics of a firm. There is also a significant risk that an overly burdensome requirement will strain the resources of firms, but also result in less accessible documentation due to their length and repetition of other material. This would, in our view, be counterproductive.

In addition, the requirements set out in the draft CBI regulations on pre-emptive recovery plans for insurers look to be significantly more prescriptive and onerous compared to the requirements for the content of recovery plans for Irish Banks which are set out in the Bank Recovery and Resolution Directive (BRRD)¹.

While noting the differences between (re)insurance companies and banks it is clear that the Banking Recovery Plan regulations enable banks to develop recovery plans that are more tailored to the specific nature of their business rather than being overly prescriptive on content and allow for a far greater degree of proportionality in developing recovery plans compared to the draft

¹ S.I. No. 289/2015

Recovery Plan regulations for Insurance companies. We would recommend that a similar approach be applied to insurance undertakings.

Finally, we would note that the proposed regulations would seem to pre-empt any European harmonised recovery measures being implemented across all Member States. The requirements set out within the consultation paper would appear to be more extensive than the similar measures that were being examined by EIOPA in its consultation paper of October 2019. The Central Bank needs to ensure that the measures implemented in Ireland do not put Irish registered insurers at a disadvantage to those regulated in other jurisdictions or act as a disincentive to be established in Ireland.

Schedule 1 of draft regulations, paragraph 3.(2)

The requirement for a parent company to confirm its willingness to provide support to an entity is potentially very problematic. One interpretation could conclude that the parent company would effectively be providing contingent capital, in order to meet this requirement. This could prove very problematic, not least in terms of the parent company's home country regulator (if outside of Ireland).

Schedule: Part A (middle of page 11)

Suggest inserting the words 'would consider if it is necessary' between 'would' and 'initiate'.

Schedule: Part B (middle of page 11)

Suggest inserting the words 'and relevant' between 'material' and 'changes'.

Schedule: Part D (b) (bottom of page 11)

This sentence seems to contradict the stated requirement elsewhere that the Board must approve the Plan.

Schedule, Part E

This schedule requires a significant amount of detail in relation to the insurer's operations, much of which will be a repeat of other documentation. As noted in the opening comments above, we do not believe a Recovery Plan should be the primary source of information in relation to a firm's operations and business strategy. At a minimum, a Recovery Plan should be able to point to other documentation without having to repeat the material therein.

Schedule, Part H

Paragraph (a) (iv) does not appear to be a scenario, rather it is a potential outcome from a scenario. Further, this paragraph appears to be straying into the area of Resolution, rather than Recovery Plans. We recommend removing this paragraph, and by extension paragraph (f) on the following page. Many Recovery Plans may include a full or partial closure to new business as a Recovery Option. But this will need to be considered by each individual firm rather than being a specified requirement. We further recommend deleting paragraph (f), or alternatively moving that paragraph to Part G (Recovery Options) and prefacing it with the following text: 'where a Recovery Option involves the full or partial closure to new business, the analysis should include:'.

Paragraph (c), first sentence. The wording is somewhat confusing. We suggest changing to: ‘Scenarios chosen should be relevant to the insurer, having regard to the following:’

Paragraph (d). The wording is somewhat confusing. We suggest changing to: ‘The scenarios should be chosen such that the conditions envisaged in the scenario would threaten the solvency (capital and/or liquidity) of the insurer, unless one or more recovery options were implemented in a timely manner.’

Schedule, Part I (a)

We recommend inserting the words ‘when considered necessary’ after the reference to communicating with staff representatives.

Guidelines, 5.6

Similar to the comment above in relation to the draft regulations, we believe the wording of this section is problematic in that it requires the inclusion of a large amount of detail in relation to an insurer’s operations, which will be a repeat of material elsewhere and is likely to serve little useful purpose in this document.

The requirement of the final paragraph of section 3 of guideline 5.6 (page 32) is somewhat ambiguous. One reading would suggest this is covering BCM type questions, which should be covered elsewhere by an insurer rather than within a Recovery Plan.

Guideline, 5.7

The requirement for all indicators to have specified thresholds is too onerous. Key indicators, such as the solvency and liquidity ratio should have thresholds, but many other indicators, whilst useful in terms of monitoring the position, would not necessarily require the implementation of a Recovery Plan unless the solvency and/or liquidity position has also deteriorated unacceptably.

Guideline, 5.7, paragraph 2.

The reference to ‘operational continuity or brand and reputation’ in the last sentence of this section appears to be straying beyond the purpose of a Recovery Plan.

Guideline, 5.9

This section requires extensive analysis of scenario impacts. The guidelines should recognise that the primary purpose of the Recovery Plan is to develop viable Recovery Options, rather than very detailed analysis of the impact of extreme scenarios, which by their nature are hard to forecast with any degree of accuracy. The requirements in this section could be significantly reduced.

Paragraph 2: Similar to an earlier comment in relation to the regulations, this paragraph is too detailed and strays into the area of Resolution. For many firms, full/partial closure to new business, perhaps on a temporary basis, will be a viable Recovery Option. But this will not be the case for every firm.

Conclusion

As stated above we welcome the initiative by the Central Bank to promote the development and use of pre-emptive recovery plans across the insurance industry. However, proportionality needs to be considered when looking at pre-emptive recovery plans and careful consideration of how these plans interact with other regulatory requirements. The plans need to be flexible to adapt to each insurance undertakings individual needs and specifications and be mindful to the additional regulatory burdens imposed.

The Irish Life and Canada Life companies would welcome the opportunity to meet with the Central Bank to discuss any of the matters set out above.