Banc Ceannais na hÉireann
Central Bank of Ireland
Eurosystem

Recovery Plan Guidelines for (Re)Insurers

April 2021

1. Introduction

1.1 Purpose and Scope

The purpose of the Recovery Plan Guidelines for Insurers ('the Guidelines') is to assist undertakings authorised by the Central Bank of Ireland ('Central Bank') as an insurer or reinsurer, within the meaning of those terms in section 1(1) of the Insurance (No. 2) Act, 1983 (No. 29) and which, for the avoidance of doubt, includes captive (re)insurers and branches of third-country insurance undertakings authorised by the Central Bank, together hereinafter referred to as an 'insurer', to prepare a recovery plan, as required by the Central Bank (Supervision and Enforcement) Act 2013 (Section 48(1)) (Recovery Plan Requirements for Insurers) Regulations 2021 [S.I. 184 of 2021] ('Recovery Planning Regulations').

The Guidelines set out the expectations of the Central Bank regarding content and format of the recovery plan and the factors that insurers should take into account when developing a recovery plan that is appropriate to the nature, scale and complexity of their business.

1.2 Status

The Guidelines do not constitute secondary legislation and insurers 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 insurers 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 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 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 insurers.

It is essential that insurers prepare and regularly update 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 sufficiently 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, recovery plans:

(i) Promote awareness and allow insurers to prepare for a range of possible adverse situations;
(ii) Enable insurers to consider and evaluate the most appropriate and effective mitigation measures without the resulting pressures of actual severe stress; and
(iii) Enable insurers to take 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. A recovery plan covers any period when the insurer is in control of its own affairs and includes entry into solvent run-off. It is implemented at the discretion of the insurer.

This is different to resolution planning. Resolution plans cover the period when the insurer is no longer in control of its own affairs and identify how an insurer would be resolved. It is initiated and managed by the relevant resolution authority 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.

Recovery planning should be part of the overall risk management process of insurers and recovery plans are considered by the Central Bank to be part of an insurer's system of governance for the purposes of Regulations 44 to 51 of the European Union (Insurance and Reinsurance) Regulations 2015 (S.I. No. 485/2015) (the 'Solvency II 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 Risk Appetite Statement, Own Risk and Solvency Assessment ('ORSA'), contingency planning and other preventative or corrective measures that the insurer may have in place.

The objective of the Risk Appetite Statement is to set out the insurer's overall risk strategy and risk tolerances ("risk appetite") i.e. what types of risk is it willing to take and to what extent. The supporting Key Risk Indicators ("KRIs") are intended to ensure that there is regular reporting to the board of directors of the insurer ("Board") on compliance with the risk appetite. The recovery plan should reflect the vulnerabilities inherent in the risk appetite however, its focus is on identifying emerging stresses arising from the stated risk strategy and identifying the measures that could be taken to maintain or restore the financial position of the insurer in the event of a severe stress.

The objective of the 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.

The Central Bank expects that some of the work completed in the development of the ORSA may be similar or, in some cases, may be sufficient, to what is required for recovery planning. However insurers 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. This is one aspect where scenarios used in recovery planning may differ from those used in the ORSA. Frequently ORSAs use immediate deterministic stresses to identify an appropriate solvency target or to test its robustness. Scenarios within the recovery plan should contemplate an emerging stress over an appropriate timeframe in order to test the effectiveness of the indicator framework and the usefulness of recovery options under different circumstances.

2.4 Link with Solvency II Ladder of Intervention

The ladder of intervention under the Solvency II Regulations 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 recovery plan will likely include possible measures that would be included in a recovery plan required in the event of non-compliance with SCR (Regulation 146 of the Solvency II Regulations) or in a finance scheme required in the event of non-compliance with the MCR (Regulation 148 of the Solvency II Regulations). However, in the event that a requirement for a recovery plan or finance scheme is triggered under Regulation 146 or Regulation 148, while a recovery plan previously submitted may represent a good starting point, it is unlikely to be sufficient. The recovery plan required under Regulation 146 must comply with the requirements of the Solvency II Regulations and would need to reflect the exact circumstances giving rise to the non-compliance with SCR and identify the specific recovery actions that the insurer proposes to take.

Insurers are not expected to review and update their recovery plan when a recovery plan required under Regulation 146 or a finance scheme required under Regulation 148 is being developed or being implemented.

2.5 Overall Recovery Capacity

A key outcome from a recovery plan is an understanding of the insurer's overall recovery capacity under different circumstances. In this context, recovery capacity means the degree of deterioration in financial position that the insurer could absorb and still be able to restore its financial position and maintain its viability given the range of recovery options available to it. Recovery capacity may differ for liquidity and solvency stresses. Restoration of financial position or viability does not necessarily imply returning the insurer exactly to its pre-stress position or business model and viability includes being able to enter a solvent run-off where the insurer permanently closes to new business but continues to honour agreements made prior to that date. As such, the insurer should also seek to identify the point at which entering solvent run-off is the most appropriate option unless it would not be a reasonable recovery option under any circumstance.

When completing this assessment the insurer should consider the time required for the various options to have the expected impact.

The objective is increased awareness of recovery capacity in terms of both quantum and speed. There is no right or wrong answer but the expectation is that the Board is aware of the insurer's recovery limits and manage their business accordingly. This is similar to the concept of Overall Solvency Needs within the ORSA process.

3. Requirement to prepare a recovery plan.

3.1 Scope of the Recovery Planning Regulations

The Recovery Planning Regulations apply to all undertakings authorised by the Bank as an insurer or reinsurer within the meaning of those terms in section 1(1) of the Insurance (No. 2) Act, 1983 (No. 29) and which, for the avoidance of doubt, includes captive (re)insurers and branches of third-country insurance undertakings authorised by the Central Bank under the Solvency II Regulations, referred to herein as 'insurers'.

Each insurer shall draw up and maintain a recovery plan providing for measures to be taken by the insurer to restore its financial position or maintain its viability following a significant deterioration of its financial situation. The recovery 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 recovery plan should include any subsidiary entities of the insurer.

Insurers shall update their recovery plans after a change to the legal or organisational structure of the insurer, its business or its risk profile, where such a change could have a material effect on the recovery capacity of the insurer, or necessitate a change to the plan. Such a review might be prompted by the deployment of a recovery option, which may limit its further use in the future.

Recovery plans should be periodically reviewed and updated if necessary, including to reflect any changes in the external environment, which may affect the feasibility of recovery options. Such reviews are required to be completed within twelve months of preparation of the recovery plan or its last review by High impact and Medium-High impact insurers and within twenty-four months of preparation of the recovery plan or its last review by Medium-Low and

Low impact insurers. Where an insurer's impact rating changes from Medium-Low impact or Low impact, to Medium-High impact or High impact, the insurer is required to review its recovery plan within six months of that change in impact rating coming into operation.

3.2 Application of Proportionality

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

This objective is relevant to all insurers and therefore all insurers should prepare and maintain a recovery plan using the structure set out in the Recovery Planning Regulations. However, the level of detail within a recovery plan should be appropriate to the scale and complexity of the insurer and should be proportionate.

In this context appropriate and proportionate means such information that is necessary to understand the key vulnerabilities of the insurer (for example, arising from its business model, connectedness etc.), its recovery capacity (for example, available recovery options, potential impediments) and the governance arrangements for the development and operation of the plan.

Recovery plans should contemplate scenarios of severe macroeconomic and financial stress that are relevant to the insurer's risk profile whether arising from system-wide events or events specific to the entity or the group to which it belongs.

The level of detail required in the recovery plan will depend on the nature, scale and complexity of the insurer however it should be sufficient to enable the recovery plan be understood on a standalone basis by a reasonably informed reader of the plan.

3.3 Applicability of Recovery Planning Regulations to Captives

Recovery planning is relevant to a captive however, given that a captive's principle relationship is to the group of which it is a part of, a more simplified strategic analysis is 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.

Captives that do not write motor, liability or credit and suretyship business[1] and which do not otherwise have an exposure to claims from persons outside of its group may apply to the Central Bank for an exemption from the Regulations. For this purpose, persons outside of the group do not include third party insurance undertakings ceding business to a captive. Exposure to claims from persons outside of the group is determined by reference to the specific policy terms and conditions and whether the captive only provides cover in respect of losses incurred by group entities (for example in respect of own property damage) or not.

[1] As each is defined in Schedule 1 Part 2 of the Solvency II Regulations

3.4 Applicability of Recovery Planning Regulations to Third Country Branches

Recovery planning is also relevant to an Irish branch of a third country insurance undertaking however, only in respect of the business carried on from the Irish branch authorised by the Central Bank pursuant to the Solvency II Regulations. In this context, it is appropriate that the strategic analysis focuses on that business including any operational reliance on head office, other group entities or third parties that are necessary for the continuation of that business. In addition, the most relevant scenarios for which recovery actions may be required are those where the head office decides or is obliged to withdraw from the market and wind up the business of the Irish branch.

3.5 Applicability of Recovery Planning Regulations to Firms availing of the Temporary Run-Off Regime

Firms availing of the Temporary Run-off Regime, being firms to whom Regulation 13A and Regulation 13B of the Solvency II Regulations apply, are not required to prepare a recovery plan. However, such firms should consider the merits of identifying recovery options in the event that their ability to complete a solvent run-off is impacted by a stress event.

Except where expressly excluded by the Recovery Planning Regulations, insurers which are authorised by the Central Bank are within the scope of the Regulations. Some of these firms may be in run-off or managing run-off portfolios. Notwithstanding this, they should prepare a recovery plan appropriate to their business and which reflects the fact that their ability to complete a solvent run-off may be impacted by a stress event and require recovery actions to be taken.

3.6 Governance and Approval of Recovery Plans

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

The Board shall formally assess and approve each version of the recovery plan.

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, as well as identifying the executive director with overall accountability.

While there is no specific requirement for a recovery plan to be tested or independently reviewed, it is regarded as best practice that the plan be periodically challenged in this manner to ensure that it is realistic and operationally effective.

In addition to having a recovery plan, insurers need to ensure that the plan is adequately supported by their management information system. This system will need to be capable of enabling timely and accurate reporting of relevant recovery indicators. In addition, insurers need to anticipate the potential information needs for evaluating and executing recovery options and to ensure that relevant and reliable information will be available even when under stress.

3.7 Submission of Recovery Plans to the Central Bank.

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

The Central Bank's expectation is that insurers with a PRISM impact rating of High or Medium-High would be required to submit an initial recovery plan by 31 March 2022 and subsequent versions within 1 month of its approval by the Board. Relevant firms will be formally notified of this requirement.

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 recovery plan applies to each insurer individually.

It may be appropriate to place some reliance on a group recovery plan by including extracts of the 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 primarily be based on calling on group support).

Where recovery options include reliance on a related entity the recovery plan should include a realistic assessment of the other undertaking's willingness and ability to provide such financial support in the scenarios contemplated. The assessment should include consultation with the related entity.

5. Information to be included in a Recovery Plan.

5.1 Minimum Contents and Structure

The Recovery Planning Regulations require that the recovery plan include the following parts:

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 parts is provided below.

5.2 Summary

The objective of the summary part is to provide a clear overview of the key elements of the recovery plan for a reader of the plan.

It should highlight key points in relation to: governance of the recovery plan; the strategic analysis of the insurer; the main recovery options considered; the recovery indicator framework; the results of scenario analysis; the communication plan; and any necessary preparatory measures. In addition, the summary should include a separate summary of the insurer's conclusion on its overall recovery capacity.

5.3 Changes since the Last Recovery Plan

The objective of this part is to highlight for a reader of the recovery plan any material changes to the plan from the previous version approved by the Board which are relevant to the insurer's ability to recover or which impact the plan itself.

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 part should simply confirm the date that the plan, and each subsequent version of the plan, was approved by the Board.

5.5 Information on Governance

The objective of this part is to document the governance arrangements for recovery planning including both the arrangements for the development and updating of the recovery plan and the arrangements for the implementation of the recovery 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 cover the following matters:

1. How the recovery plan was developed. This should include the processes for developing each section of the plan, to what extent each of the various control 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 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 recovery plan to respond to any material changes affecting the insurer or its group or their environment;

3. How the 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;

4. The policies and procedures for invoking and implementing the 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 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. 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 the 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 overview of the key facts about the insurer's business strategy, operating model, risk profile and organisational structure that are relevant to recovery planning. This is with a view to identifying likely vulnerabilities or impediments to recovery and enabling an informed assessment of the recovery plan's credibility and feasibility.

The strategic analysis should identify **core business lines**, **key services** and **critical functions** to be maintained following recovery from a situation of financial stress. More particularly:

- 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 and their contribution to the future viability of the insurer;
- **Key services** should be considered from the perspectives of both the current policyholders and claimants and the wider economy. For current policyholders and claimants the key consideration is their ability to continue or replace cover and have claims paid. For the wider economy the key considerations are market share of insurance segments that are necessary or important to facilitate economic activity, the availability of alternative insurance cover and the potential for current or prospective policyholders to switch to another provider;
- 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 information about the insurers business to allow an understanding of potential vulnerabilities and 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 strategic analysis is key to the credibility of the recovery plan and the following aspects of the insurer should be considered:

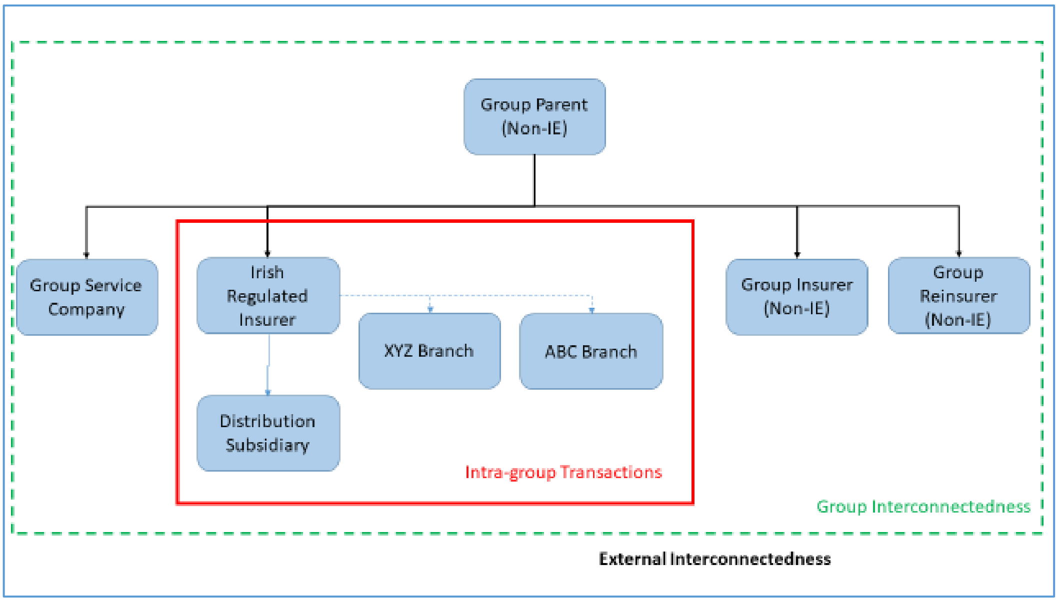
1. (i) The business and risk strategy identifying the key success drivers and potential risks;
   (ii) The business and operating model identifying any key financial or operational dependencies and the main jurisdictions in which they are active whether through a legal entity, a branch or on a freedom of services basis;

2. Its interconnectedness with the group of which it is a member (if any) including details of both material 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 insurer, its branches or its subsidiaries;

- interconnectedness with the broader group refers to any financial, operational or other arrangements that the insurer, 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 recovery plan should include consideration 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;

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

In this context significant means either having a material influence on the insurers likelihood of coming under stress (for example due to concentration of credit risk or onerous contractual terms) or a material impact on the insurers overall recovery capacity (for example due to covenant restrictions or inability to maintain critical functions).

5.7 Information on Recovery Indicators:

The objective of this part 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, for example, increase monitoring, escalate issues to appropriate governance body or invoke the recovery plan.

When determining what recovery indicators might be used insurers should consider the following:

1. Indicators that are relevant to their specific circumstances and vulnerabilities. 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 recovery plan. The indicators chosen may include firm specific indicators relating to the financial position and business performance of the insurer (such as solvency, liquidity or profitability indicators) or more general lead indicators highlighting risks that are particularly relevant to the insurer (such as interest rates, market values or claims inflation). In addition, insurers should consider recovery indicators of both a quantitative and qualitative nature including, for example, indicators that might highlight a deterioration in operational capabilities or brand and reputation which, in turn, may materially impact its business model and ultimate viability;

2. In particular, 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;

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;

   b. be adequate to the size and complexity of the insurer. In particular, the range of indicators should be sufficient to alert the insurer of deteriorating conditions in a variety of areas that are material to the insurer. 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 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 Key Risk Indicators ("KRIs") underpinning the insurer's Risk Appetite Statement so that it is integrated into the insurer's day to day governance and risk management arrangements. In this context, it is expected that the KRIs underpinning the Risk Appetite Statement are sufficiently comprehensive to cover all of the key vulnerabilities noted above and that the framework of recovery indicators will build on those KRIs. However, it should be noted that while KRIs supporting the Risk Appetite Statement are designed to confirm compliance with the intended risk profile, recovery indicators are expected to identify emerging stresses given the vulnerabilities inherent in the insurer's risk appetite;

   e. include sufficiently forward-looking indicators. In this context, sufficiently forward-looking means either lead indicators or indicators based on projected solvency or capital that may indicate impending stress or where the insurer is mainly relying on indicators of actual or current financial position it should establish limits and triggers that provide sufficient warning to allow recovery actions to be deployed;

4. For the purposes of determining the point at which solvent run-off may be the most appropriate recovery option the following should be taken into consideration:
    a. the insurer's governance arrangements for managing the run-off, the critical functions that are required to provide key services, the resulting future expense projections and any expected cost savings from ceasing to write new business;
    b. the ongoing capital and liquidity requirements of the insurer and how those requirements would be met;
    c. the insurer's assumptions with respect to the parts of its business that may be sold by the insurer;
    d. the timescale over which either the solvent run-off is expected to be completed or the relevant business transferred to another insurer, and the potential costs of funding any such transfer;

5. 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;

6. An insurer should review the recovery indicators and the related limits and triggers as part of its review of the recovery plan and recalibrate them when necessary;

7. 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 sufficiently early to be effective. In this context, the likely magnitude and speed of a breach of the threshold should be taken into account;

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

9. 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. The Central Bank expects that insurers will have appropriate monitoring arrangements in place to identify, on a timely basis, any breaches of limits or triggers within the framework of recovery indicators. Given that recovery indicators are likely to be closely aligned with the KRIs underpinning the Risk Appetite Statement the expectation is that they will be monitored at least as frequently. Further, where an insurer's proposed response to a breach of a recovery indicator limit is that the frequency of monitoring be increased then the internal reporting systems should be capable of supporting such increased frequency of monitoring.

5.8 Information on Recovery Options:

The objective of this part 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 used in a specific scenario will depend on the actual circumstances. Therefore, to facilitate future decision making under potentially stressed conditions the recovery plan should include an assessment of the impact, feasibility and timeliness of each of the options. Such assessments should be proportionate to the scale and complexity of the insurer and, where appropriate, be based on qualitative or deterministic analysis. The key outcome is that there is a clear and credible rationale for the insurers view on the potential impact of the recovery action under various conditions and the feasibility of successfully executing the action within an appropriate timescale in different circumstances. When identifying and evaluating potential recovery options the insurer should consider the following points:

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. 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 to maintain or restore the viability and/or financial position of the insurer with a view to ensuring the viability of some or all of the core business lines and key services and maintaining critical functions:

    a. 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;

    b. 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 such as, for example, drawing down lines of credit or sale of assets;

    c. arrangements and measures to increase solvency coverage by reducing risk (and the related SCR) 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 also consider what actions could be taken in the event that such support is not forthcoming;

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

a. the financial impact including the expected impact on own funds, liquidity, risk profile and required capital, and profitability of the insurer. For example, the insurer should consider both the short term benefit of the action and any longer term implication for profitability;

b. any 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. For example, if an option is based on divesting certain business operations, the consequences of any loss of or need to replace elements of operational capability should be considered;

c. any external impact or systemic consequences such as the expected impact on the continued availability of key services or any other material impact on other stakeholders such as shareholders, policyholders (in particular retail customers), counterparties and, where applicable, its broader group.

Where a recovery option involves the disposal of assets including, for example, switching investment holdings the impact analysis should clearly reference the assumptions with respect to the value expected to be realised. In addition, all other material assumptions underpinning the impact assessment should be noted including, for example, assumptions about costs of implementation.

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. any regulatory requirements or approvals including for example requirements applicable under the Consumer Protection Code when firms intend to cease operating, merge with another, or to transfer all or part of its regulated activities to another regulated entity.

c. the justification of any valuation assumptions or any other material assumptions made for the purpose of the impact assessment. This would include, for example, assumptions about the value and marketability of investments including assumptions about the behaviour of other market participants, the availability of counterparties and the marketability and value of any business operations or other assets that are assumed to be disposed of under the relevant recovery option;

d. any material impediment to the effective and timely execution of the recovery action and a description of whether and how such impediments could be overcome. A material impediment is any factor that could materially affect the timely execution of the recovery option or its expected impact. These could arise from legal, operational, business or financial constraints or reputational risks such as a risk of a credit rating downgrade. For example, substantial, practical or legal impediments to the prompt transfer of own funds or the repayment of liabilities or assets within the group or restrictions imposed by existing agreements and relationships.

7. When considering the operational impact the insurer should consider how the **continuity of operations** will be ensured when implementing the recovery option. This is likely to be more relevant for those actions which involve significant cost reductions or divestment of business operations. Where relevant 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. Where relevant this should also consider the emergence profile of the expected benefits and the offsetting impact of any related costs or other income reductions.

5.9 Information on Scenario Analysis:

The objective of the part 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 scenario on the insurer with particular emphasis on their capital, liquidity, profitability, risk profile and operations taking into account the impact of recovery options implemented as a result of the recovery indicator thresholds that are expected to be triggered. When developing and evaluating scenarios within the recovery plan the insurer should consider the following points:

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 and its interconnectedness to its broader group, 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. In order to appropriately test the recovery plan the scenarios should be calibrated so that they are based on events that would threaten to cause the failure of the insurer or group, unless recovery measures were implemented in a timely manner. As such, the scenarios are likely to be based on events that are exceptional but plausible.

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

   a. 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.

   b. 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.

4. Reverse stress tests from the ORSA 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.

5. The analysis of each scenario should include, where relevant, an assessment of the impact (if any) 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. operational capability, including claims payment, policy administration and investment settlement operations;
   f. reputation and credit rating.

6. The analysis of each scenario should identify the recovery options that could be appropriate together with the expected impact, feasibility and timeframe for implementation of the relevant recovery options in the circumstances contemplated. The scenario might also be useful for identifying potential impediments to the implementation of certain actions.

7. The analysis of each scenario should consider which recovery indicators would be triggered and when. This is important for validating the appropriateness of the indicator framework set on in Part F of the Schedule to the Regulations.

8. Based on the scenario analysis, the insurer should conclude on its overall recovery capacity. In this context, recovery capacity means the degree of deterioration in financial position that the insurer could absorb and still be able to restore viability given the range of recovery options available to it. Recovery capacity may differ for liquidity and solvency stresses. Viability includes being able to enter a solvent run-off where the insurer permanently closes to new business but continues to honour agreements made prior to that date. As such, the insurer should also seek to identify the point at which entering solvent run-off is the most appropriate option unless such an option would not be a reasonable recovery option under any circumstance.

5.10 Information on the Communication and disclosure plan

Proper and thoughtful communication is key during a crisis and the objective of this part 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 where such communication is relevant to the recovery action;

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

2. A recovery plan shall 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 recovery plan are implemented. This might include consideration of the following details:
    - timing of communications;
    - frequency of communications;
    - contact details required for communications;
    - roles and responsibilities of specific people for communications;
    - legal responsibilities in relation to disclosure and confidentiality;
    - proposals for managing any potential negative market reactions.

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

5.11 Information on preparatory measures

The ultimate objective of a recovery plan is to enable the insurer be adequately prepared for a range of possible adverse situations. This includes having a well thought through governance process for recognising and reacting to crisis as well as a range of options available to implement when required. Therefore, a useful output from any recovery planning exercise is the identification of potential impediments to the smooth operation of the governance processes or the timely execution of any planned actions. The objective of this part is to summarise any such learnings and the proposed actions to improve overall recovery capacity for the future. This is what is meant by ‘preparatory measures’. The recovery plan should reference any preparatory measures as follows:

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

2. Any preparatory measures yet to be taken and which are necessary to overcome impediments to the effective implementation of recovery options identified in the recovery plan should include the timeline for implementation.

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 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 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.