



# IAIS

INTERNATIONAL ASSOCIATION OF  
INSURANCE SUPERVISORS

**Public**

# IAIS activities on recovery and resolution of insurers

IAIS Stakeholder Meeting on resolution-related matters  
19 January 2016



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# 1. IAIS Resolution Working Group

# IAIS Resolution Working Group

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|            | Jurisdiction, Authority |
|------------|-------------------------|
| Chair      | Switzerland, FINMA      |
| Vice-Chair | US, FIO                 |
| Members    | Australia, APRA         |
|            | China, CIRC             |
|            | France, ACPR            |
|            | Germany, BaFin          |
|            | Italy, IVASS            |
|            | Japan, FSA              |
|            | Netherlands, DNB        |
|            | South Africa, FSB       |
|            | UK, PRA                 |
|            | US, FRB and Texas       |
|            | EIOPA                   |

# IAIS Resolution Working Group

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## Mandate

The Resolution Working Group (ReWG) addresses matters relating to resolution of insurers (both G-SIIs and non-G-SIIs). Specifically, the ReWG is to:

- (i) develop and maintain supervisory materials on insurance resolution (including development of guidance for G-SII resolution and relevant part of ComFrame, and revision of resolution-related ICPs);
- (ii) deal with all standard-setting matters regarding resolution initiated by the Financial Stability Board (FSB) (including addressing consultations by the FSB on resolution-related principles and standards); and,
- (iii) represent the IAIS at relevant working parties within the FSB, such as Steering Group on Resolution and insurance Cross-border Crisis Management group.

# IAIS Resolution Working Group

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## **Mandate (cont.)**

The ReWG, where appropriate, closely coordinates with relevant external groups, such as those within the FSB, and also with other IAIS working groups and task forces to fulfil its mandate.

The ReWG reports to the Financial Stability and Technical Committee.

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## 2. ReWG work streams

# ReWG work streams

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## Overview of ReWG main activities

| Work stream                                                                                                               | Current status                       |
|---------------------------------------------------------------------------------------------------------------------------|--------------------------------------|
| (a) Stock-taking on troubled insurers in the past and developments of resolution/insolvency regimes                       | Data collected and analysed          |
| (b) Analysis of the structure of liabilities of G-SIIs                                                                    | Data collected annually and analysed |
| (c) Analysis of policyholder protection schemes and the hierarchy of creditor claims in resolution in major jurisdictions | Data collected and analysed          |
| (d) ICP review (12 and 26)                                                                                                | On-going                             |
| (e) ComFrame development (M3E3)                                                                                           | On-going                             |
| (f) Loss absorbing capacity in resolution                                                                                 | On-going                             |
| (g) Technical input/assistance to work streams of the FSB Cross-border Crisis Management Group for Insurers (iCBCM)       | Continuous                           |



# ReWG work streams

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## **(a) Stock-taking on troubled insurers in the past and developments of resolution/insolvency regimes**

- Conducted late 2014/early 2015
- Selected 13 jurisdictions participated
- Survey on troubled insurers
  - Scope: Mid- and large-sized insurers that were in trouble over the past around 15 years
  - Information collected: total assets, financial assistance provided (solvency and liquidity support purposes), etc.
- Survey on developments of resolution/insolvency regimes
  - Information collected: Changes made to resolution and/or insolvency regimes for insurers before or after events.

# ReWG work streams

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## **(b) Analysis of the structure of liabilities of G-SIIs**

- G-SIIs' liability structure in 2012, 2013, and 2014 have been analysed both on a consolidated basis and at a parent company level
- Financial data was taken from Annual Reports
- Key findings include:
  - Insurance liabilities account for the large part of the credit side of G-SIIs' financial statements on a consolidated basis.
  - At a parent company level, some G-SIIs issue long-term debt instruments, while others do little.

# ReWG work streams

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## **(c) Analysis of policyholder protection schemes and the hierarchy of creditor claims in resolution in major jurisdictions**

- Conducted in 2014 (PPSs) and early 2015 (creditors' hierarchy), respectively
- 9 jurisdictions who are either the home jurisdiction of a G-SII or a member of the ReWG participated in the respective surveys
- Information collected include:
  - (PPSs) membership, funding, coverage, and functions
  - (Creditors' hierarchy) the hierarchy of creditors in liquidation with respect to general assets and restricted assets (such as those held for backing insurance liabilities), respectively

# ReWG work streams

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## **(d) ICP review (12 and 26)**

- ICPs 12 (Winding-up and Exit from the Market) and 26 (Cross-border Cooperation and Coordination on Crisis Management) are currently under review by ReWG
- Public consultation of these ICPs is planned in mid-2016
- ‘Other ICPs’ in which ReWG has found ‘issues’ that would need to be addressed include:
  - Introduction
  - ICP 1 (Objectives, Powers and Responsibilities of the Supervisor)
  - ICP 10 (Preventive and Corrective Measures)
  - ICP 11 (Enforcement)
  - ICP 17 (Capital Adequacy)
  - ICP 25 (Supervisory Cooperation and Coordination)

# ReWG work streams

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## **(e) ComFrame development (Module 3 Element 3)**

- M3E3 are currently under development by ReWG
- All requirements relating to recovery and resolution are discussed and developed in the context of M3E3 for the time being. Once ReWG develops concrete drafting, other relevant working parties will be consulted regarding appropriate parts of M3E3
- M3E3 considers not only which KAs should be incorporated into ComFrame but also what other requirements are necessary for IAIGs
- Public consultation is planned in mid-2016

# ReWG work streams

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## **(d/e-1) Defining key terms**

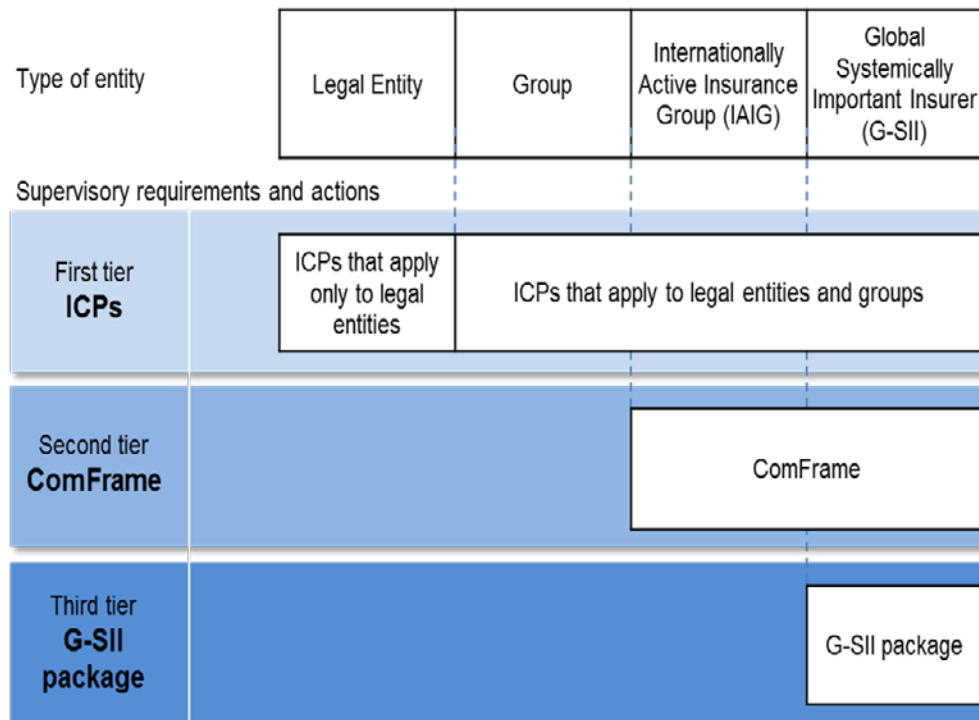
- Terms relating to recovery and resolution of insurers, such as resolution, recovery, run-off, and liquidation/winding-up, have not been defined in the IAIS Glossary.
- Defining these terms could be of help not only for the review of ICPs and development of M3E3 but also for implementation of recovery and resolution-related supervisory materials to be developed.

# ReWG work streams

## (d/e-2) Powers for recovery and resolution of insurers

- One of the key issues that have been discussed is which powers should be applied to whom.

Architecture of IAIS international supervisory requirements



# ReWG work streams

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## **(f) Loss absorbing capacity in resolution**

- The objective of an effective resolution regime is to make feasible the resolution of financial institutions without severe systemic disruption and without exposing taxpayers to loss, while protecting vital economic functions. [Key Attributes; preamble]
- The KAs note that jurisdictions should have in place a resolution regime that include stabilisation options and liquidation options. Stabilisation options achieve continuity of systemically important functions by way of...an officially mandated creditor-financed recapitalisation of the entity that continues providing the critical functions.



# ReWG work streams

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## **(f) Loss absorbing capacity in resolution (cont.)**

- When an insurer becomes no longer viable and has no reasonable prospect of becoming so, there might be a situation where resolving the insurer through existing regimes, such as court-involved insolvency proceedings and administrative processes, is considered to be inadequate to meet the objective of the resolution and, accordingly, the authorities might consider using stabilisation options.

# ReWG work streams

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## **(f) Loss absorbing capacity in resolution (cont.)**

- We are discussing therefore:
  - In what cases (e.g., where an insurer is highly interconnected with other SIFIs through transactions) and/or for what purposes (e.g., ensuring continuity of essential services and functions) creditor-financed recapitalisation can be a legitimate option.
  - Which liabilities can feasibly and credibly absorb losses when stabilisation options are used.
  - What roles policyholder protection schemes can play to facilitate the use of stabilisation options.

# ReWG work streams

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## **(g) Technical input/assistance to work streams of the FSB Cross-border Crisis Management Group for Insurers (iCBCM)**

- ReWG has provided technical input/assistance to the following work streams of iCBCM.
  - Critical functions
  - Resolution strategies
  - Key Attributes Assessment Methodology



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## Any questions?

