



Pre-emptive recovery planning for (re)insurers
Industry benchmarking survey 2022

mazars

Foreword

Mazars are delighted to publish this comprehensive insight into the insurance sector's first Pre-Emptive Recovery Plans (PERPs) produced in early 2022.

Further to a period of consultation by the Central Bank of Ireland (CBI), the new requirements were implemented in April 2021 and gave insurers just 11 months to prepare their initial recovery plans. These plans are unique to each company and highly confidential. Nonetheless, insurers are keen to benchmark their approach with that of their peers and to incorporate some of that learning in future iterations of their pre-emptive recovery plans.

To facilitate and support insurers in this area, we ran a survey during the summer of 2022 covering a broad range of aspects of the requirements. The survey was completed by senior management from 23 different insurers in Ireland, and so is representative of industry practice at this time.

We hope you find the report insightful and supportive as you plan and prepare for your next review of your pre-emptive recovery plans.



Olive Gaughan
Director, Head of Actuarial Services,
Mazars

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Introduction

Welcome to our 2022 Pre-Emptive Recovery Planning survey report

A recovery plan identifies options to restore financial strength when a company comes under severe stress. Recovery plans are a natural extension of companies' financial projections, stress/scenario testing and general risk management.

As of 31st March this year, all (re)insurance undertakings are required to have documented Pre-Emptive Recovery Plans in place, outlining actions that could be taken should they find themselves in financial difficulty.

Through client engagement, we are aware that insurers & reinsurers would benefit from some sight of market practice in the area of pre-emptive recovery planning.

As a result, through the performance and publication of our Pre-Emptive Planning survey, we are seeking to provide our clients and the insurance industry with insight into:





Key metrics

While the first iteration of anything is likely to be challenging, the industry has generally coped well with the new regulations, building on the experience of Solvency II Pillar 2 requirements and similar initiatives.

9%

of respondents found the new regulations to be very challenging. These entities were in the Low and Medium-Low prism rating categories.

18%

of respondents say their undertaking has very specific plans in place to improve the effectiveness of recovery options.

41%

of respondents say their company has a list of desirable actions to improve the effectiveness of recovery options, but these are without rigid owners or timelines.

45%

of respondents plan to review or improve their recovery plan by end 2022.

73%

of respondents believe that their company's documented recovery communication plans are reasonably well prepared but would like to improve their communication plan in the future.

While some firms are better prepared than others, or more advanced in certain areas, these results indicate that firms are generally starting from a good place and are aware of the key areas for improvement in their plans.

Major findings



Recovery Plan Report Style & Content

Pre-Emptive Recovery plan documents tend to be quite substantial documents, with 55% of participants stating that their report was at least 60 pages in length. Life Company participants tended to have longer reports than non-life entities.

The sections of the recovery plan which proved to be most challenging were Scenario Analysis (41%), Recovery Options (27%) and Information on Preparatory Measures (14%).



Governance

77% of companies said their CRO / Risk function owns the Recovery plan at executive level.

73% of Life companies said the recovery plan is highly integrated into existing systems of governance and risk management frameworks. Most non-life entities consider that theirs were somewhat integrated but more work is needed in this area.



Recovery Indicators

Insurers with higher PRISM ratings tended to have more recovery indicators in place than lower rated entities. The most common volume of indicators is 4 – 10. This range was typical across all PRISM ratings and segments of the market. 32% of respondents use either 2 or 3 indicators, and these tended to be mostly low and Medium-Low rated entities. Three life companies used over 10 indicators.

The majority of firms (77%) plan to update /recalculate / monitor recovery indicators quarterly.

The setting of Recovery Indicator Thresholds is an area that currently relies quite heavily on judgement, especially in the case of non-life insurers. Life companies seem to be further along the path to using sophisticated scientific approaches.



Integration with ORSA

Most companies said that the ORSA was somewhat connected with the recovery plans (68%), with life company responses being more skewed towards higher level of integration, while non-life responses were more skewed towards limited connections between the two.

The majority of companies (55%) said their ORSA only models adverse outcomes and does not model recovery options. However, all High rated insurers (23% of total) said their ORSA models several recovery options.



Scenario Analysis

59% of insurers considered four or less scenarios in their scenario analysis. Just 9% of insurers use more than 10 scenarios. Higher rated firms showed a slight trend of using more scenarios than lower rated insurers.

The majority of insurers (64%) said a cross-departmental working group was in charge of developing and assessing the scenarios for the Recovery Plan. The trend was similar across different insurer type and PRISM ratings.

Next steps for firms

Whilst the CBI feedback to the industry on Pre-Emptive Recovery Plans has not yet been received, there are several worthwhile steps that firms can take to improve their plans and better align them with those of their peers. These include:

Board reflection on governance and ownership of the recovery planning process, especially in the context of the Senior Executive Accountability Regime (SEAR)

Articulation of a clear timeline and delivery plan ahead of the firm's next iteration of Recovery Plans

Consideration as to whether the current plans should be subject to Internal Audit review, Risk Committee review or external review, taking into account the firm's scale and complexity

The majority of firms need to revise their strategic approach with regard to integration and consistency of approach between the ORSA and Pre-Emptive Recovery Plans

Ensuring mechanisms are in place to monitor and report on recovery indicators & Developing more sophisticated, scientific approaches towards recovery indicator thresholds

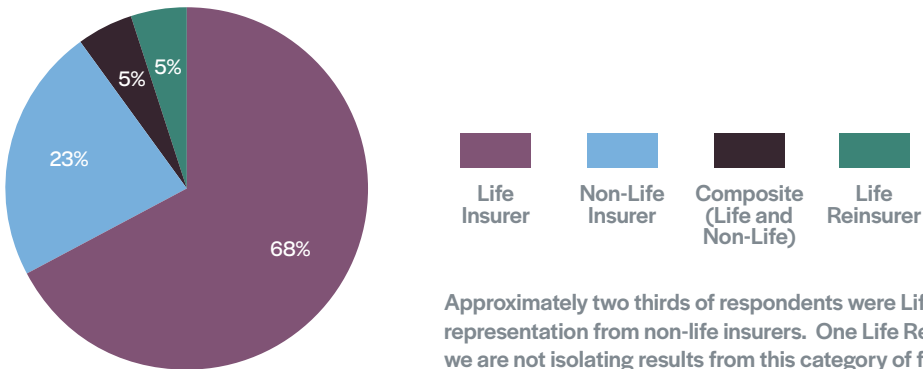
Conducting mature reflection on the adequacy of the Communication Plan, ensuring that it is comprehensive across internal and external aspects

Conclusion

This topic will remain a key area of focus for the Insurance Industry for the next few years until Pre-Emptive Recovery Plans (PERPs) have become "business as usual". We will continue to provide analysis and insights on the latest developments via our Quarterly Insurance Regulatory Newsletter. We are also available to support you should you require any assistance in reviewing your PERPs.

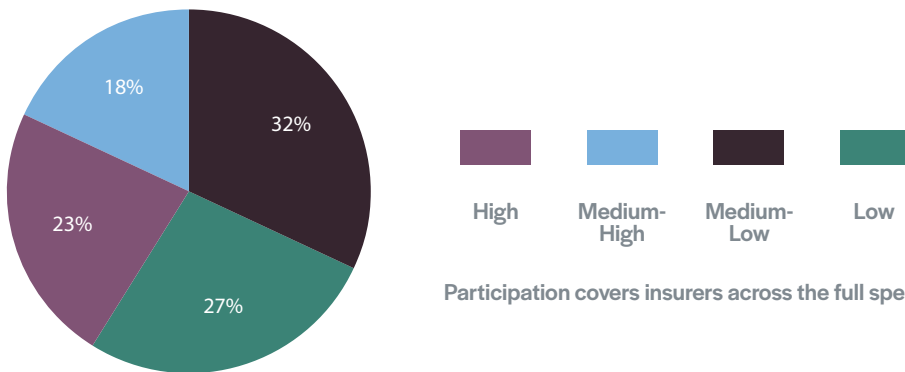
Detailed survey results: participant profile

Mix of participant (re)insurance firms



Approximately two thirds of respondents were Life Insurers, while there was also strong representation from non-life insurers. One Life Reinsurance entity responded, and so we are not isolating results from this category of firm. No responses were received from non-life reinsurers or captives.

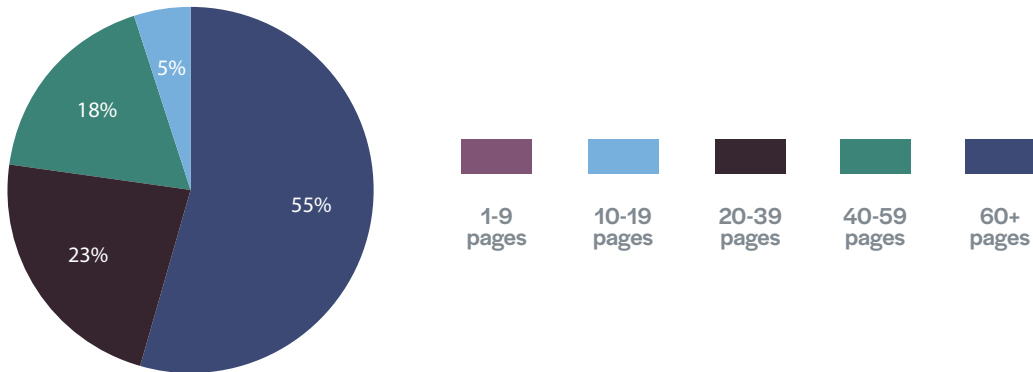
PRISM rating profile of participant firms



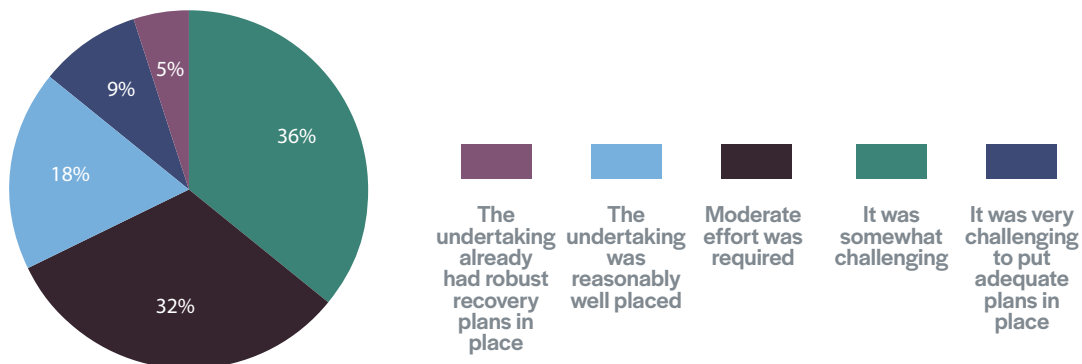
Participation covers insurers across the full spectrum of PRISM rating.

Detailed survey results: general information

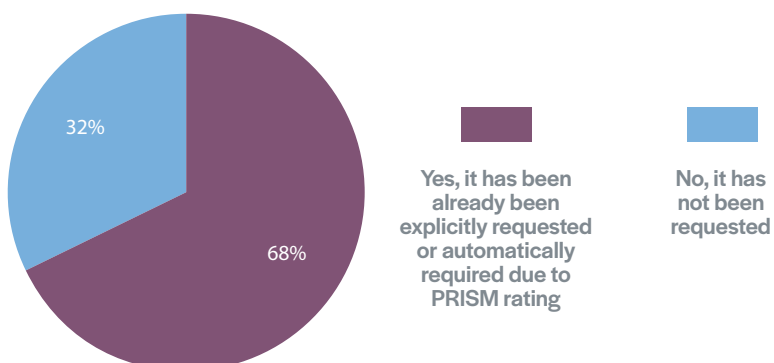
How long is your Recovery Plan document?



To what extent have the new regulations been a burden on the undertaking?

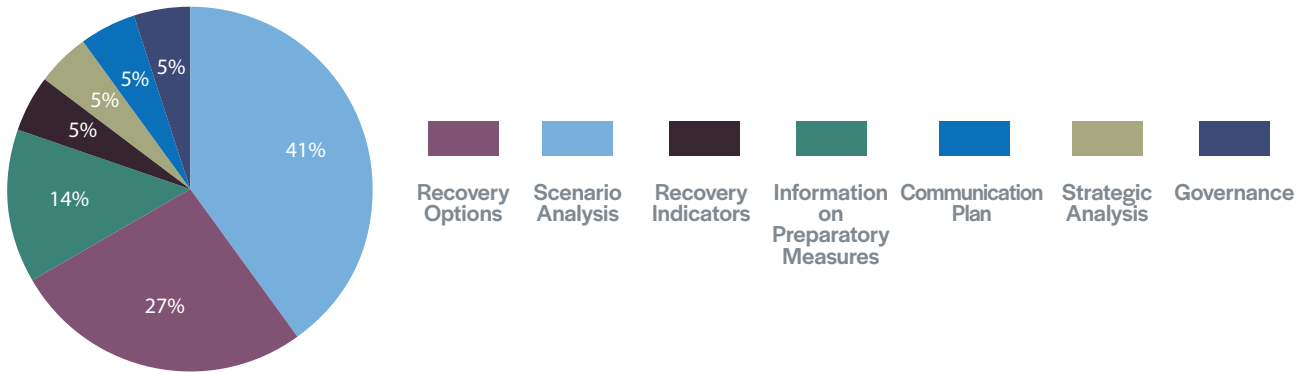


Has the Central Bank of Ireland requested a copy of your company's Recovery Plans already (June 2022)?

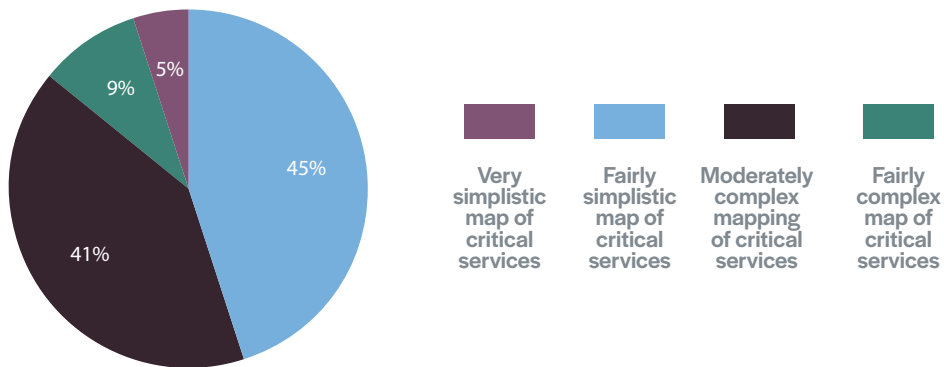


Detailed survey results: general information

What section of the Recovery Plans proved to be the most challenging for the undertaking?

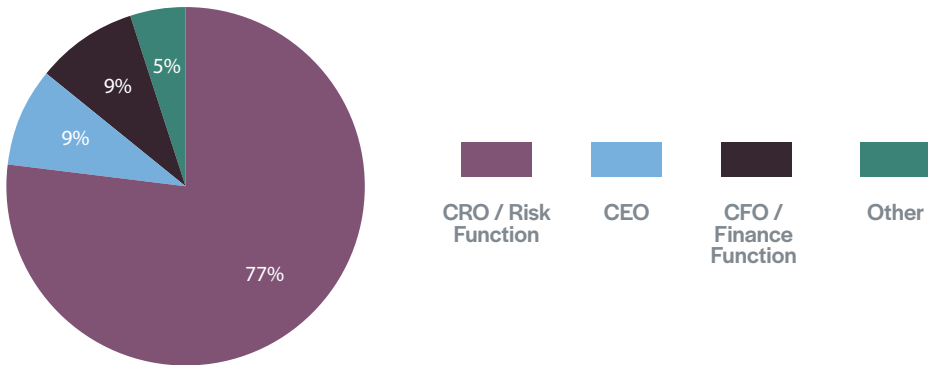


How would the undertaking describe the complexity of key services provided to policyholders?

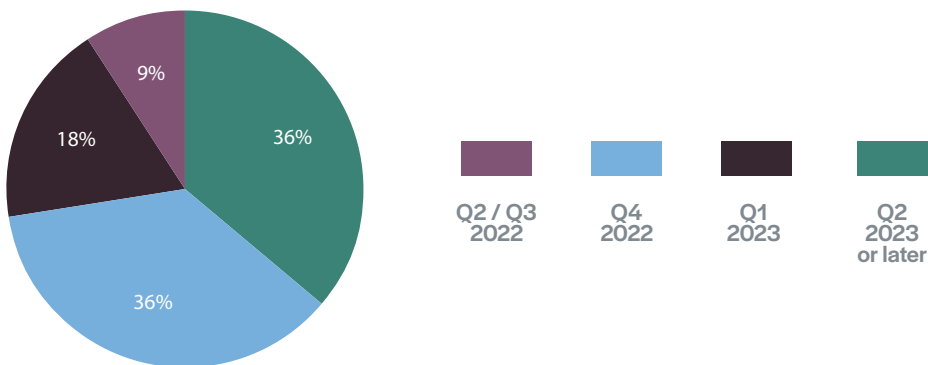


Detailed survey results: governance & ownership

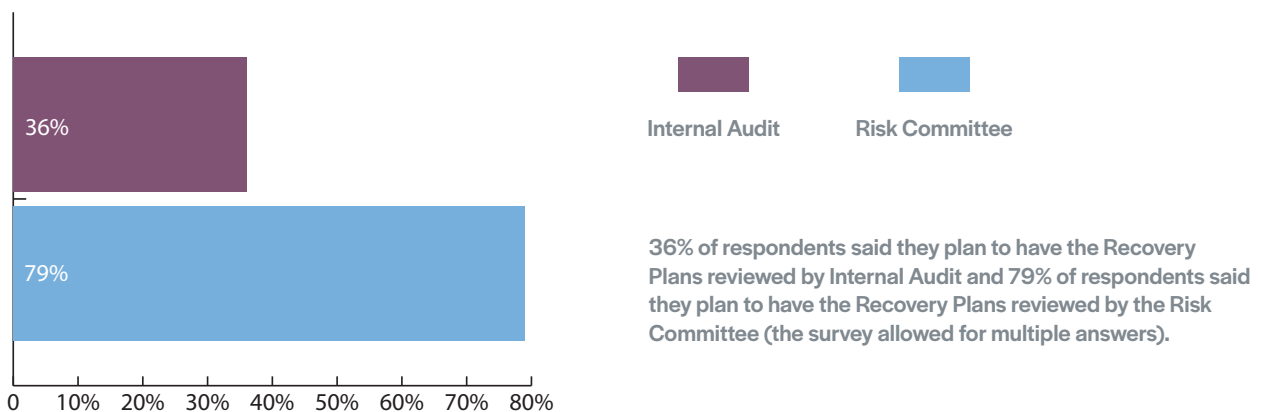
What individual / department owns the Recovery Plan at an executive level?



When does the undertaking next plan to review or improve its Recovery Plan?

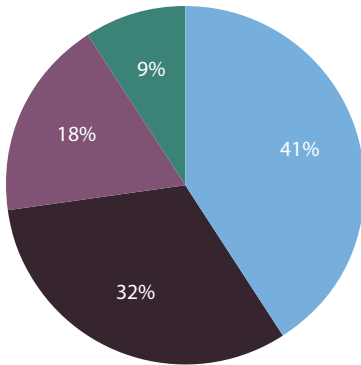


Does the undertaking plan to have its Recovery Plans reviewed in the next 12 months by _____?



Detailed survey results: governance & ownership

Preparatory measures: future actions required to improve the effectiveness of recovery options. The undertaking:



has very specific plans in place, including owners and timelines, on next steps required to improve recovery options

has a list of desirable actions but without rigid owners or timelines

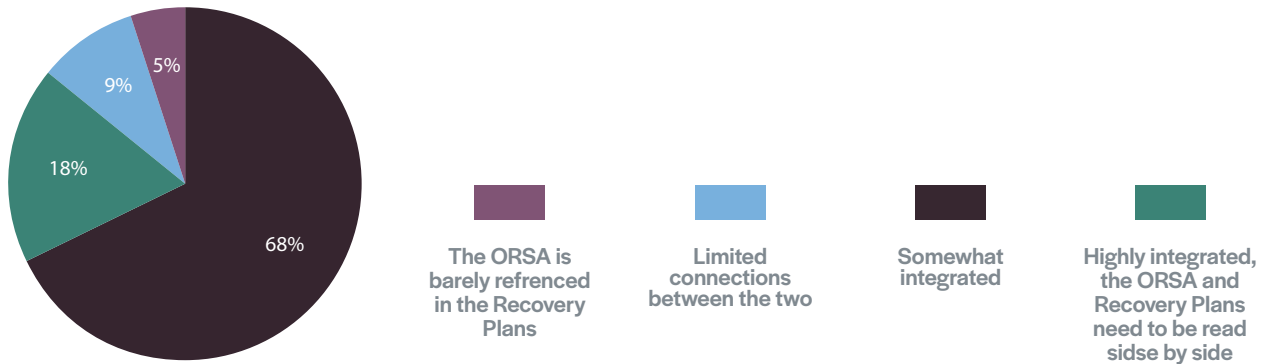
might carry out further reviews, possibly including external or internal audit, or third-party review, but no concrete commitments have been made

does not have any areas of improvement identified or documented

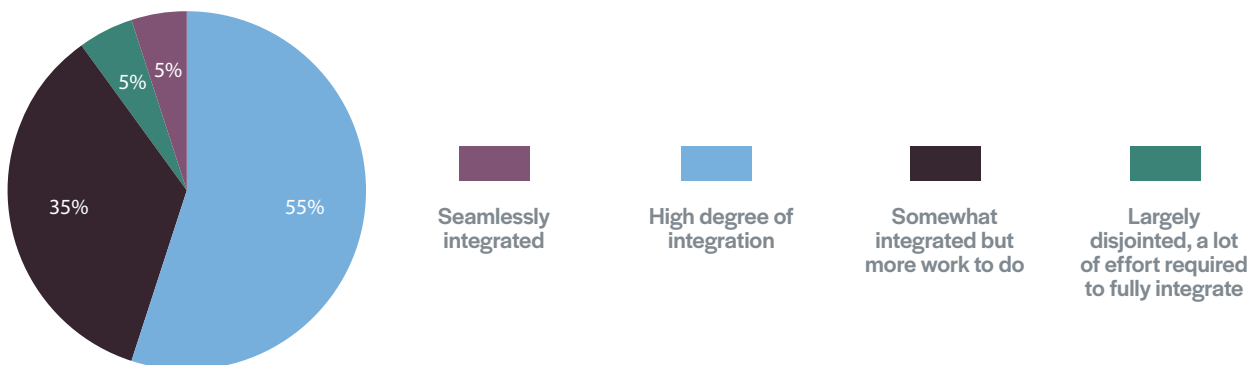


Detailed survey results: ORSA & the risk management framework

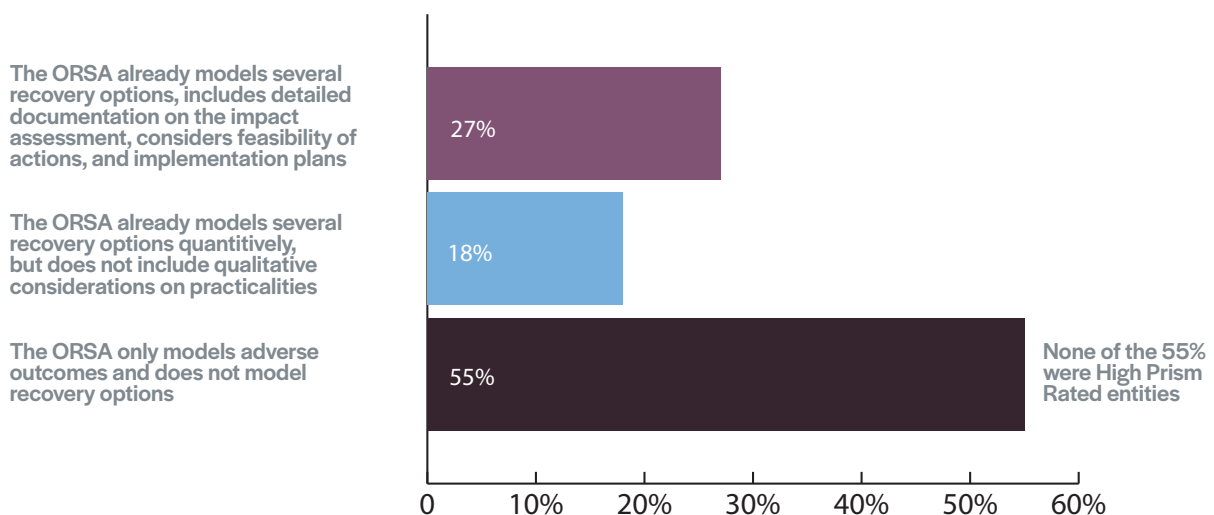
To what extent was the ORSA process connected to the Recovery Plans?



To what extent is the Recovery Plan integrated into existing systems of governance and risk management frameworks?

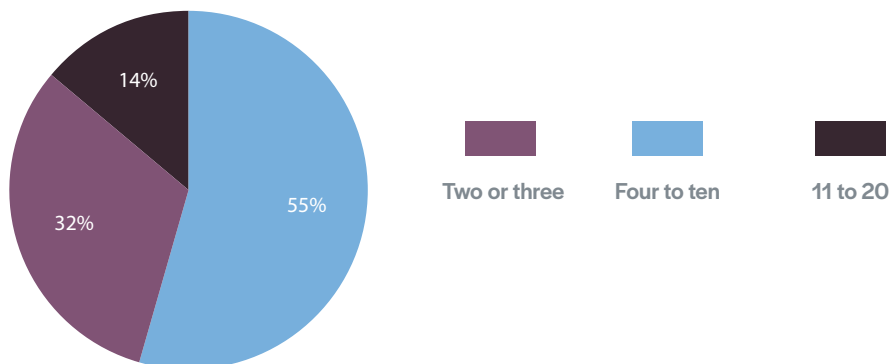


To what extent have solvency / liquidity related recovery options already been considered by the undertaking's ORSA?

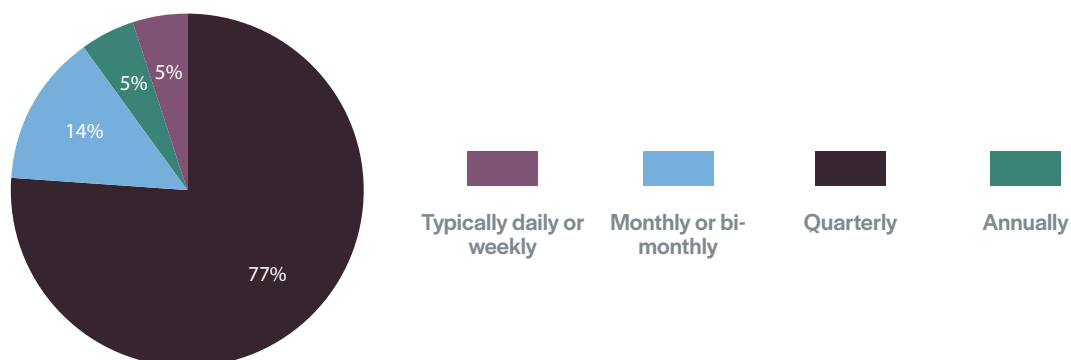


Detailed survey results: recovery indicators

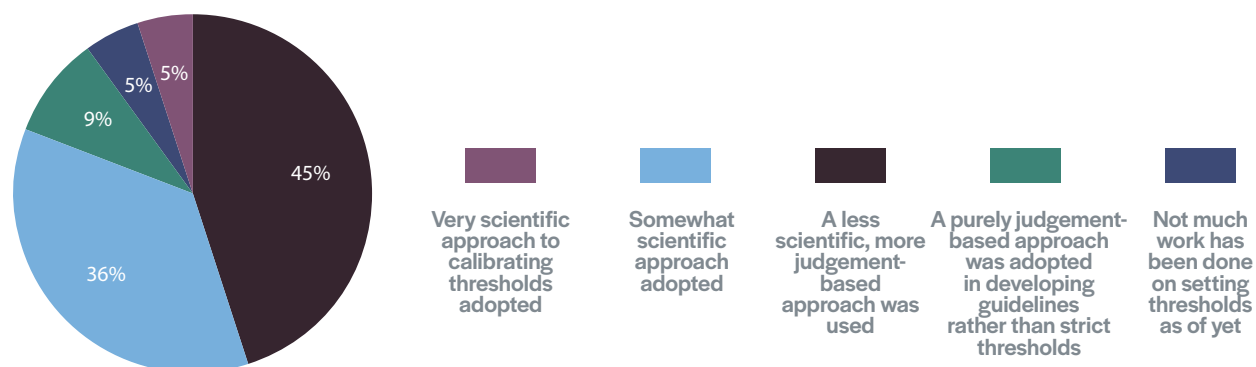
Approximately how many formal recovery indicators does the undertaking have in place and track on a regular basis?



How frequently are most of the recovery indicators updated, recalculated or monitored?

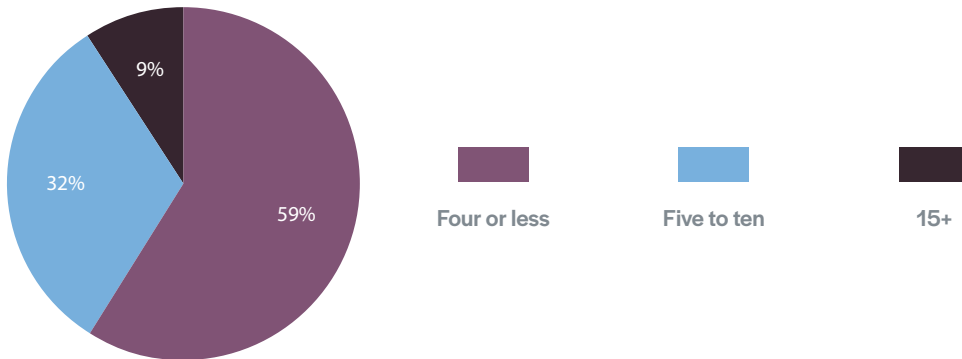


Describe the sophistication level of the choice of recovery indicator thresholds?

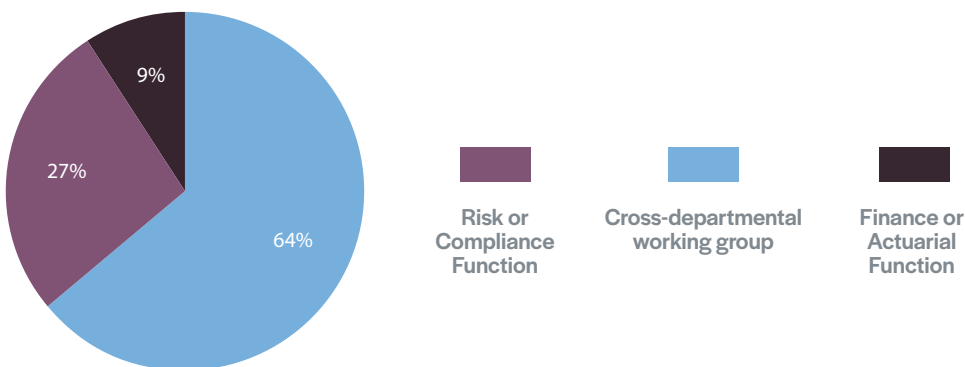


Detailed survey results: scenario analysis

How many scenarios are considered in the Recovery Plans?

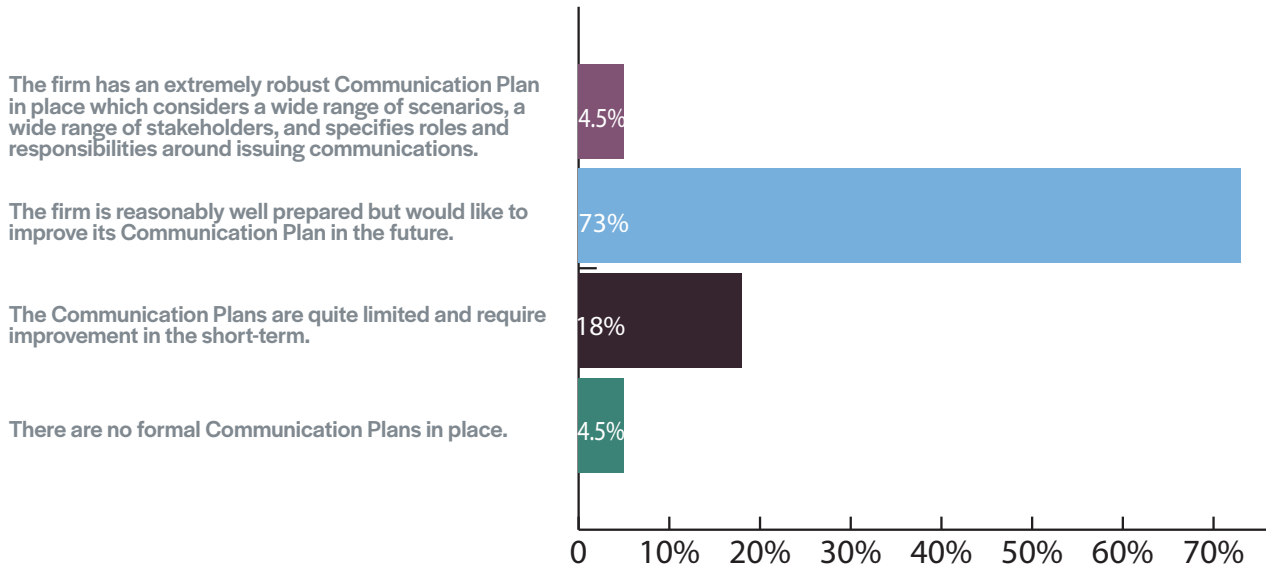


Who was charged with developing and assessing the suite of scenarios considered in the Recovery Plan?



Detailed survey results: communication plan

What level of maturity best describes the company's documented recovery communication plan?



Contact

Olive Gaughan
Mazars
Block 3, Harcourt Centre
Harcourt Road, Dublin 2
Ireland
D02 A339

T: +353 1 4211218
E: ogaughan@mazars.ie

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