

# **Draft revisions to supervisory material related to the Holistic Framework in ICPs 12 and 16 and related ComFrame standards**

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## About the IAIS

The International Association of Insurance Supervisors (IAIS) is a voluntary membership organisation of insurance supervisors and regulators from more than 200 jurisdictions. The mission of the IAIS is to promote effective and globally consistent supervision of the insurance industry in order to develop and maintain fair, safe and stable insurance markets for the benefit and protection of policyholders and to contribute to global financial stability.

Established in 1994, the IAIS is the international standard-setting body responsible for developing principles, standards and other supporting material for the supervision of the insurance sector and assisting in their implementation. The IAIS also provides a forum for Members to share their experiences and understanding of insurance supervision and insurance markets.

The IAIS coordinates its work with other international financial policymakers and associations of supervisors or regulators, and assists in shaping financial systems globally. In particular, the IAIS is a member of the Financial Stability Board (FSB), member of the Standards Advisory Council of the International Accounting Standards Board (IASB), and partner in the Access to Insurance Initiative (A2ii). In recognition of its collective expertise, the IAIS also is routinely called upon by the G20 leaders and other international standard-setting bodies for input on insurance issues as well as on issues related to the regulation and supervision of the global financial sector.

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International Association of Insurance Supervisors  
c/o Bank for International Settlements  
CH-4002 Basel  
Switzerland  
Tel: +41 61 280 8090

This document was prepared by the Macroprudential Supervision Working Group (MSWG) and Resolution Working Group (ReWG) in consultation with IAIS members.

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## Background

The Insurance Core Principles (ICPs) were adopted on 1 October 2011. Since then, amendments have been made to various individual ICPs, the most recent being adopted in November 2019. The Common Framework for the Supervision of Internationally Active Insurance Groups (ComFrame) builds on ICPs and was adopted ComFrame also in November 2019.

This document includes proposed draft revisions to supervisory material related to the Holistic Framework in ICP 12 and ICP 16. This document only contains the relevant standards and guidance paragraphs that have proposed changes. The changes are underlined and shown in blue font.

The full overview of the ICPs and ComFrame can be found on [our public website](#).

## Proposed changes to ICP 12 and related ComFrame standards

### ICP 12 Exit from the Market and Resolution

Legislation provides requirements for:

- the voluntary exit of insurers from the market; and
- the resolution of insurers that are no longer viable or are likely to be no longer viable, and have no reasonable prospect of returning to viability.

#### *Introductory guidance*

[...]

**12.1. Legislation provides a framework for voluntary exit from the market that protects the interests of policyholders.**

[...]

**12.2. Legislation provides a framework for resolving insurers which:**

- protects policyholders; and
- provides for the absorption of losses in a manner that respects the liquidation claims hierarchy.

#### Preparation for resolution

**12.3. The supervisor and/or resolution authority has in place effective processes and procedures to be prepared for and used in the resolution ~~as of insurers. insurers to evaluate prospectively their specific operations and risks in possible resolution scenarios and procedures for use during a resolution.~~**

12.3.1 Resolution processes and procedures are aimed at supporting the resolution preparedness of a jurisdiction. It should entail the establishment of strategies and actions for effectively resolving an insurer if it becomes necessary while minimising the impact on policyholders, financial stability, the real economy and taxpayers. Such actions include being able to put in place a resolution plan for an insurer (see Standard 12.4), and may also entail preparing to resolve certain types of insurers that have common characteristics or offer similar services. The supervisor ~~may~~ and/or resolution authority should involve the insurer as appropriate.

12.3.2 Resolution processes and procedures aim to identify ~~risks~~ and prepare options in advance for resolving all or part(s) of an insurer, or certain types of insurers.

to maximise the likelihood of an orderly resolution if resolution becomes necessary. The options used may vary based on the insurer's activities, nature, scale and complexity, the resolution scenario and the resolution powers available to the supervisor and/or resolution authority (see Standard 12.8).

~~12.3.1~~12.3.3 Risks may be identified, specific to an insurer's circumstances, that ~~would~~could arise in resolution and ~~which may adversely~~could impact achieving the jurisdiction's resolution objectives ~~of the jurisdiction~~. For example, such risks may relate to the insurer's provision of relevant information to the supervisor or resolution authority, the continuity of certain business operations, and/or the orderly implementation of a jurisdiction's PPS. When such risks are identified, the supervisor and/or resolution authority should require the insurer to consider such risks, and where appropriate, ~~prepare contingency plan~~take steps to mitigate the risk.

~~12.3.2~~12.3.4 ~~The supervisor~~Insurers should ~~require that the insurer~~ have procedures in place to be able to provide necessary information (eg policyholders' names, types of their contracts, and the value of each contract) to the supervisor and/or resolution authority, as well as any other relevant organisation (such as a PPS) in a timely manner when the insurer enters into resolution.

~~12.3.3~~12.3.5 Insurers should evaluate prospectively their specific operations and risks in possible resolution scenarios and ~~put in place~~have procedures available for use during a resolution.

**CF 12.3.a** [former CF12.3.c] **The group-wide supervisor and/or resolution authority, in coordination with the IAIG CMG, requires the Head of the IAIG to have and maintain group-wide management information systems (MIS) that are able to produce information on a timely basis, for supervisors and/or resolution authorities, for the purposes of preparing for resolution planning and taking resolution actions.**

CF 12.3.a.1 Information should be available at the level of the Head of the IAIG and also at the relevant legal entity level.

CF 12.3.a.2 The IAIG may rely on its existing information system, so long as it fulfils the objectives of producing information on a timely basis for the purposes of preparing for resolution ~~planning~~ and taking resolution actions.

CF 12.3.a.3 The IAIG should:

- maintain a detailed inventory, including a description and location, of the key MIS used in material legal entities of the IAIG, mapped to core services and critical functions;
- identify and take steps to address legal constraints on the exchange of management information among material entities of the IAIG (for

example, as regards the information flow from individual entities of the group to/from the Head of the IAIG);

- demonstrate, as part of the [process for preparing for resolution-planning process](#), that it is able to produce the essential information needed to implement plans within an appropriate period of time; and
- maintain specific information at a legal entity level, including, for example, information on intra-group guarantees booked on a back-to-back basis, or information on the assets supporting policyholder liabilities.

#### 12.4. The supervisor and/or resolution authority:

- has a process to regularly assess for which insurers having a resolution plan is necessary, based on established criteria that consider the nature, scale and complexity of the insurer;
- requires, at a minimum, resolution plans for any insurer(s) assessed to be systemically important or critical if it fails; and
- ensures that such resolution plans are in place, which are regularly reviewed and where necessary updated, and resolvability assessments are regularly undertaken.

12.4.1 When deciding for which insurers a resolution plan is necessary, the criteria should consider factors such as:

- the insurer's size, activities and its lines of business;
- the insurer's risk profile and risk management mechanisms;
- the level of substitutability of the insurer's activities or business lines;
- the complexity of the insurer's structure, including the number of jurisdictions in which it operates;
- the insurer's interconnectedness; and/or
- the insurer's impact of failure.

The supervisor and/or resolution authority may also decide to require resolution plans for a minimum share of its insurance sector.

12.4.2 The supervisor and/or resolution authority should also consider the factors above when deciding on the necessary level of detail of the plan, where a plan is required.

12.4.3 The assessment of an insurer's potential systemic importance should be in line with ICP 24 (Macroprudential Supervision).

12.4.4 Insurers are considered critical if their failure is likely to have a significant impact on the financial system and/or the real economy of the jurisdiction, including by:

- materially affecting a large number of policyholders in the case that the insurer's activities, services or operations are significantly relied upon and cannot be substituted with reasonable time and cost; or
- causing a systemic disruption or a loss of general confidence in the insurance sector.

~~12.4.1~~12.4.5 The resolution plan should identify:

- financial and economic functions that need to be continued to achieve the resolution objectives for the insurer;
- suitable resolution options to preserve such functions or ~~wind~~discontinue them ~~down~~ in an orderly manner;
- data requirements for the insurer's business operations, structures and financial and economic functions;
- potential barriers to effective resolution and actions to mitigate those barriers; and
- actions to protect policyholders.

~~12.4.2~~12.4.6 ~~Where a~~For the purpose of the resolution plan ~~is necessary~~, the supervisor and/or resolution authority should:

- require the insurer to submit necessary information for the development of the resolution plan; and
- where necessary, require the insurer to take prospective actions to improve its resolvability.

~~12.4.3~~12.4.7 Resolvability assessments should consider if it is feasible and credible for the supervisor and/or resolution authority to resolve the insurer in a way that protects policyholders and contributes to financial stability while minimising reliance on public funds.

~~12.4.4~~12.4.8 Resolvability assessments should be undertaken on a regular basis, or when there are material changes to the insurer's business or structure, or any other change that could have a material impact on the resolvability assessment.

12.4.9 When the resolution plan and/or resolvability assessment identifies potential barriers to effective resolution, the insurer may be given the opportunity to propose its own prospective actions to improve its resolvability by mitigating these barriers, before it is required to do so by the supervisor and/or resolution authority.

**CF 12.4.a The group-wide supervisor and/or resolution authority conducts assessments of each IAIG within its jurisdiction to determine whether a resolution plan is needed, in consultation with the crisis management group of the IAIG (IAIG CMG).**

CF 12.4.a.1 Factors to be considered in the criteria for the assessment of whether a resolution plan is needed are set out in Standard 12.4.

CF 12.4.a.2 The group-wide supervisor and/or resolution authority should lead the development of the group-wide resolution plan, in coordination with members of the IAIG CMG, and involve the IAIG as appropriate.

~~CF 12.4.a.1~~CF 12.4.a.3 Other involved supervisors and/or resolution authorities may deem it appropriate to have their own resolution plan for the IAIG's insurance legal entity in their jurisdictions when, for instance:

- the insurance legal entity's presence in the jurisdiction is large in scope and/or scale;
- the insurance legal entity provides critical and/or non-substitutable insurance coverages; and/or
- its resolution may impact that jurisdiction's policyholders, financial stability and/or real economy.

Host jurisdiction resolution plans should be established in cooperation with the group-wide supervisor and/or resolution authority to ensure that the plan is as consistent as possible with the group-wide resolution plan for the IAIG.

CF 12.4.a.4 Resolution plans should be reviewed on a regular basis, or when there are material changes to the IAIG's business or structure or any other change that could have a material impact on the resolution plan, and be updated when necessary. These plans should also be subject to regular reviews within the IAIG CMG.

CF 12.4.b **Where a resolution plan is required, the group-wide supervisor and/or resolution authority, in coordination with the IAIG CMG:**

- ensures that the plan covers at least the group's material entities;
- requires relevant legal entities within the IAIG to submit necessary information for the development of the resolution plan;
- **regularly undertakes resolvability assessments to evaluate the feasibility and credibility of resolution strategies, in light of the possible impact of the IAIG's failure on policyholders, financial stability and/or real economy in the jurisdictions in which the IAIG operates; and**
- **requires the IAIG to take prospective actions to improve its resolvability.**

CF 12.4.b.1 Resolvability assessments should be conducted at the level of those entities where it is expected that resolution actions would be taken, in accordance with the resolution strategies for the IAIG, as set out in the resolution plan.

CF 12.4.b.2 Resolvability assessments should also be subject to regular reviews within the IAIG CMG.



- 12.5 The roles and responsibilities of relevant authorities within a jurisdiction that are involved in exit of insurers from the market or their resolution are clearly defined.
- 12.6 The supervisor and/or resolution authority shares information, cooperates and coordinates with other relevant authorities for the exit of insurers from the market or their resolution.
- 12.7 Legislation provides criteria for determining the circumstances in which the supervisor and/or resolution authority initiates resolution of an insurer.

## Powers

- 12.8 Legislation provides ~~an appropriate a~~ range of powers to resolve insurers effectively, which are appropriate to the nature, scale and complexity of the jurisdiction's insurance sector. These powers are exercised proportionately ~~and~~, with appropriate flexibility and subject to adequate safeguards.

~~12.8.1~~ 12.8.1 ~~Powers to resolve insurers~~The range of available resolution powers in a jurisdiction should allow the orderly resolution of insurers, in particular to protect policyholders and contribute to financial stability. In jurisdictions with more developed insurance markets and/or that include large, complex insurers, legislation should provide a sufficiently wide range of powers to allow the supervisor and/or resolution authority to resolve an insurer effectively. Some powers may not be needed for all insurers but only for insurers that are, for example, of systemic importance or critical in failure in the jurisdiction.

~~12.8.1~~12.8.2 ~~[moved from the existing ICP 12.7.5]~~ The choice and application of the powers set out ~~above~~ below should take into account whether an insurer's disorderly failure would potentially cause significant disruption to policyholders, the financial system and/or real economy, the types of business the insurer is engaged in, and the nature of its assets and liabilities.

~~12.8.2~~12.8.3 Resolution powers should be exercised in a proportionate manner that resolves the insurer most effectively in light of the circumstances and objectives of resolution. ~~Some powers may not be needed for all insurers but only for insurers that are, for example, of systemic importance in the jurisdiction.~~ Some powers may only affect the insurer, while others may impact contractual rights of third parties (such as a suspension of policyholders' rights or restructuring of policies).

~~12.8.3~~12.8.4 Some resolution powers are exercised with the aim to stabilise or restructure an insurer and avoid liquidation. On the other hand, liquidation ~~Liquidation~~ can be used in conjunction with other resolution powers. Creditors should have a right to compensation where they do not receive at a minimum what they would have received in a liquidation of the insurer under the applicable insolvency regime (NCWOL principle).

~~12.8.4~~12.8.5 If a court order is required for the resolution authority to exercise resolution powers, the time required for court proceedings should be taken into consideration for the effective implementation of resolution actions.

12.8.6 ~~Powers to resolve insurers that may be exercised, subject to adequate safeguards,~~Resolution powers should include the following. This list is not exhaustive and the resolution authority should have discretion to apply other available powers. The order of presentation of the powers is not an indication of the sequence in which these powers could be exercised ~~or of their importance. While each power is only listed once, some can support more than one objective:~~

#### Taking control

- take control of and manage the insurer, or appoint an administrator or manager to do so;
- remove or replace Members of the Boards, Senior Management and/or Key Persons in Control Functions;
- prohibit the payment of dividends to shareholders;
- prohibit the payment of variable remuneration to, and allow the recovery of monies from, Members of the Boards, Senior Management, Key Persons in Control Functions and major risk taking staff, including claw-back of variable remuneration; and
- prohibit the transfer of the insurer's assets without supervisory approval.

#### Withdrawal of licence

- withdraw the license to write new business and put all or part of the insurance ~~business~~ contracts into run-off;

#### Override rights of shareholders

- override requirements for approval by shareholders of particular transactions or to permit a merger, acquisition, sale of substantial business operations, recapitalisation, or other measures to restructure and dispose of the insurer's business or its liabilities and assets; and
- sell or transfer the shares of the insurer to a third party

#### Restructuring mechanisms

- restructure, limit or write down liabilities (including insurance liabilities), and allocate losses to creditors, shareholders and policyholders, where applicable and in a manner consistent with the liquidation claims hierarchy and jurisdiction's legal framework.

#### Suspension of rights

- temporarily restrict or suspend the policyholders' rights of withdrawing their insurance contracts;
- stay rights of the reinsurers of the ceding insurer in resolution to terminate, or not reinstate, coverage relating to periods after the commencement of resolution;
- impose a temporary suspension of payments to unsecured creditors and a stay on creditor actions to attach assets or otherwise collect money or property from the insurer; and
- [temporarily stay early termination rights associated with derivatives and securities financing transactions.](#)

#### [Transfer or sell assets or liabilities](#)

- transfer or sell the whole or part of the rights, assets and liabilities of the insurer to a solvent third party, and to take steps to facilitate transfer, run-off and/or liquidation
- terminate, continue or transfer certain types of contracts, including insurance contracts; [and](#)
- transfer any reinsurance associated with transferred insurance policies without the consent of the reinsurer.

#### [Bridge institution](#)

- [establish a bridge institution.](#)

#### [Essential services and functions](#)

- [take steps to provide continuity of essential services and functions.](#)

#### [Liquidation](#)

- [initiate the liquidation of the whole or part of the insurer.](#)

[12.8.5](#)[12.8.7](#) Where the resolution authority takes action which leads to another person taking control of an insurer with a view to restoring, restructuring or running off the business, the resolution authority should continue to be responsible for the orderly resolution of the insurer. In particular, the resolution authority should continue to exercise functions which ensure that the objectives of resolution are met, notwithstanding any additional responsibilities which the person appointed may have to the insurer or to the courts.

[12.8.6](#)[12.8.8](#) Resolution powers should be exercised in a manner that does not discriminate between creditors on the basis of their nationality, the location of their claim, or the jurisdiction where it is payable.

[12.8.7](#)[12.8.9](#) Mechanisms should be in place to (i) enable continuity of cover for policyholders where this is needed and (ii) ensure timely payment of claims to policyholders of the insurer in resolution, with the aim to minimise disruption to

the timely provision of benefits to policyholders. A PPS can be one of the mechanisms that can help ensure timely payments to policyholders and minimise disruption.

~~42.8.8~~12.8.10 When requiring contracts to be transferred to another insurer, the resolution authority should satisfy itself that the interests of the policyholders of the transferor and of the transferee are safeguarded. In some cases this may be achieved through varying, reducing or restructuring the transferred liabilities.

~~42.8.9~~12.8.11 Portfolio transfers and transfers of other types of contracts of the insurer in resolution should not require the consent of each policyholder or party to the contract.

~~42.8.10~~12.8.12 Consistent with the liquidation claims hierarchy, insurance liabilities should be written down only after equity and all liabilities that rank lower than insurance liabilities have absorbed losses, and only if the resolution authority is satisfied that policyholders are no worse off than in liquidation after compensation, where necessary.

~~42.8.11~~12.8.13 Information on the period during which policyholders are prohibited from withdrawing from their insurance contracts should be available to policyholders in a transparent manner for the purposes of policyholder protection.

~~42.8.12~~12.8.14 The exercise of stay powers, their scope of application and the duration of the stays should be designed to address the specific situation of the insurer in resolution. For example, the duration of the stay could depend on the type of the insurance or financial contract.

#### *Group and Branch Perspectives*

~~42.8.13~~12.8.15 There may be circumstances where resolution powers will need to be exercised at the level of the head of the insurance group and/or non-regulated entities. Resolution authorities should have the capacity to exercise resolution powers directly on such entities within their jurisdiction to the extent necessary and appropriate. Where resolution powers need to be exercised on entities outside of their jurisdiction or legal authority, the resolution authority should cooperate and coordinate with relevant supervisors and resolution authorities in the relevant jurisdictions, to the extent necessary and appropriate.

~~42.8.14~~12.8.16 Unless otherwise specified by the resolution authority, resolution powers exercised on an insurance legal entity (for instance to cease writing business) should also apply to the legal entity's branches. However, the resolution authority responsible for a branch can also exercise powers toward the branch. In either case, the resolution authorities responsible for the branch and the insurance legal entity should consult and cooperate with one another.

~~42.8.15~~12.8.17 The resolution authority may choose which power, or which combination of powers, is applied to which entity within the group. Different types of powers may be applied to different parts of the entity's business.

CF 12.8.a ~~The powers that the supervisor and/or resolution authority may exercise, subject has the power to adequate safeguards and proportionality, for the resolution of an IAIG include, at least take~~ take control of, and the IAIG, including to:

- manage, the IAIG, or appoint an administrator or manager to do so;
- ~~remove or replace the Members of the Boards, Senior Management and/or Key Persons in Control Functions;~~
- prohibit the payment of dividends to shareholders;
- prohibit the payment of variable remuneration to, and allow the recovery of monies from, Members of the Boards, Senior Management, Key Persons in Control Functions and major risk taking staff, including claw-back of variable remuneration; and
- prohibit the transfer of the IAIG's assets without supervisory approval;

~~CF 12.8.a~~ CF 12.8.b The supervisor and/or resolution authority has the power to withdraw the licence to write new business and put all or part of the insurance contracts into run-off;

CF 12.8.c The supervisor and/or resolution authority has the power to override rights of shareholders of the IAIG in resolution, including to:

- override requirements for approval by shareholders of particular transactions or to permit a merger, acquisition, sale of substantial business operations, recapitalisation, or other measures to restructure and dispose of the IAIG's business or its liabilities and assets; and
- sell or transfer the shares of the IAIG to a third party;

CF 12.8.d The supervisor and/or resolution authority has the power to restructure, limit or write down liabilities (including insurance liabilities), and allocate losses to creditors, shareholders and policyholders, where applicable and in a manner consistent with the liquidation claims hierarchy and jurisdiction's legal framework;

CF 12.8.d.1 Except for secured liabilities, the power to restructure liabilities should include the power to amend or alter the maturity of debt instruments issued by the insurer and the power to cancel debt instruments.

CF 12.8.d.2 The power to restructure liabilities should include the power to convert debt into ownership instruments; this power may also include the possibility to apply it to insurance liabilities as a last resort measure.

CF 12.8.d.3 The power to restructure liabilities should include the power to terminate, or continue with amended terms, the contracts issued by the insurer, including insurance contracts.

~~CF 12.8.b~~ CF 12.8.e The supervisor and/or resolution authority has the power to impose stays, including to:

- temporarily restrict or suspend the policyholders' rights of withdrawing their insurance contracts;
- stay rights of the reinsurers of the ceding insurer in resolution to terminate, or not reinstate, coverage relating to periods after the commencement of resolution;
- impose a temporary suspension of payments to unsecured creditors and a stay on creditor actions to attach assets or otherwise collect money or property from the IAIG; and
- temporarily stay early termination rights associated with derivatives and securities financing transactions.

1.CF 12.8.f The supervisor and/or resolution authority has the power to transfer or sell the whole or part of the rights, assets and liabilities of the insurer to a solvent third party, and to take steps to facilitate transfer, run-off and/or liquidation, including ~~terminate, continue or transfer certain types of contracts, including insurance contracts;~~ to:

- terminate, continue or transfer certain types of contracts, including insurance contracts; and
- transfer any reinsurance associated with transferred insurance policies without the consent of the reinsurer; ~~;~~

~~CF 12.8.e~~ CF 12.8.g The supervisor and/or resolution authority has the power to take steps to provide continuity of essential services and functions, including to:

- ~~requiring~~require other legal entities within the IAIG (including non-regulated entities) to continue to provide these essential services to the entity in resolution, any successor, or an acquiring entity;
- ~~ensuring~~ensure that the residual entity in resolution can temporarily provide such services to a successor or an acquiring entity; ~~or~~and
- ~~procuring~~procure necessary services from unaffiliated third parties; ~~;~~

CF 12.8.g.1 Essential services include, in particular, IT.

CF 12.8.g.2 Any transfer of rights, assets or liabilities should not require the consent of any interested party or creditor to be valid, except that of the transferee.

CF 12.8.g.3 Any transfer of rights, assets or liabilities should not constitute a default or termination event in relation to the transferred elements.

~~CF 12.8.d~~ CF 12.8.h The supervisor and/or resolution authority has the power to establish a bridge institution.

CF 12.8.h.1. In some jurisdictions, PPSs can be utilised as a bridge institution to which insurance contracts of the IAIG are transferred.

1.CF 12.8.i The supervisor and/or resolution authority has the power to initiate the liquidation of the whole or part of the IAIG.

- CF 12.8.i.1 Like the other resolution powers, this power may be used in conjunction with, or after the use of other resolution powers. For example, it may be that only a part of the insurance group is put into liquidation, whereas other parts of the group may be transferred or sold to other entities.
- CF 12.8.i.2 The power to put the insurer into liquidation may be exercised in a variety of ways, such as (i) all or part of the insurance contracts are put into run-off; or (ii) the resolution authority passes on the authority to resolve the insurer to a judicial body or court of law (judicial liquidation).

## Proposed changes to ICP 16 and related ComFrame standards

### ICP 16 Enterprise Risk Management for Solvency Purposes

The supervisor requires the insurer to establish within its risk management system an enterprise risk management (ERM) framework for solvency purposes to identify, measure, report and manage the insurer's risks in an ongoing and integrated manner.

- 16.1** The supervisor requires the insurer's ERM framework to provide for the identification of all reasonably foreseeable and relevant material risks and risk interdependencies for risk and capital management.
- 16.2** The supervisor requires the insurer's ERM framework to:
- provide for the quantification of risk and risk interdependencies under a sufficiently wide range of techniques for risk and capital management; and
  - as necessary, include the performance of stress testing to assess the resilience of its total balance sheet against macroeconomic stresses.
- 16.3** The supervisor requires the insurer's ERM framework to reflect the relationship between the insurer's risk appetite, risk limits, regulatory capital requirements, economic capital and the processes and methods for monitoring risk.
- 16.4** The supervisor requires the insurer to have a risk appetite statement that:
- articulates the aggregate level and types of risk the insurer is willing to assume within its risk capacity to achieve its financial and strategic objectives, and business plan;
  - takes into account all relevant and material categories of risk and their interdependencies within the insurer's current and target risk profiles; and
  - is operationalised in its business strategy and day-to-day operations through a more granular risk limits structure.



**16.5** The supervisor requires the insurer's ERM framework to include an explicit asset-liability management (ALM) policy which specifies the nature, role and extent of ALM activities and their relationship with product development, pricing functions and investment management.

**16.6** The supervisor requires the insurer's ERM framework to include an explicit investment policy that:

- addresses investment risk according to the insurer's risk appetite and risk limits structure;
- specifies the nature, role and extent of the insurer's investment activities and how the insurer complies with regulatory investment requirements; and
- establishes explicit risk management procedures with regard to more complex and less transparent classes of asset and investments in markets or instruments that are subject to less governance or regulation; and
- as necessary, **specifies** ~~includes a~~ the insurer's counterparty risk appetite **statement**.

16.6.11 ~~A~~The counterparty risk appetite ~~statement sets out~~ establishes the level of risk the insurer is willing to accept that a counterparty will be unable to meet its obligations as they fall due with a focus on the relevant risk limits. This may impact the insurer's financial position through, for example, reductions in fair value or impairment of investments, loss of reinsurance cover, open market exposures or the loss of securities that have been loaned.

16.6.12 In deciding whether it is necessary to ~~require~~ specify a counterparty risk appetite ~~statement~~, the supervisor should take into account the size of the insurer's counterparty exposures, both in absolute terms and relative to the insurer's portfolio, according to the characteristics outlined in Guidance 16.6.4, as well as the complexity and form of these exposures. Particular attention should be paid to financial sector counterparties, as these counterparties may be more likely to contribute to the build-up of systemic risk. Attention should also be paid to off-balance sheet exposures or commitments, as these may be more likely to materialise during stress.

**CF 16.6.b The group-wide supervisor requires the Head of the IAIG to:**

- set limits, or other requirements, in the group-wide investment policy so that assets are properly diversified and asset concentration risk is mitigated; and
- ~~specify its~~ **have a** counterparty risk appetite ~~statement~~.

**16.7** The supervisor requires the insurer's ERM framework to include an underwriting policy that addresses the:

- insurer's underwriting risk according to the insurer's risk appetite and risk limits structure;
- nature of risks to be underwritten, including any material relationship with macroeconomic conditions; and
- interaction of the underwriting strategy with the insurer's reinsurance strategy and pricing.

**16.8** The supervisor requires the insurer's ERM framework to address liquidity risk and to contain strategies, policies and processes to maintain adequate liquidity to meet its liabilities as they fall due in normal and stressed conditions.

**16.9** The supervisor requires, as necessary, the insurer to establish more detailed liquidity risk management processes, as part of its ERM framework, that include:

- liquidity stress testing;
- maintenance of a portfolio of unencumbered highly liquid assets in appropriate locations;
- a contingency funding plan; and
- the submission of a liquidity risk management report to the supervisor.

~~16.9.3 Liquidity stress testing is a forward looking risk management tool to reveal vulnerabilities in the insurer's liquidity profile and provide information on its ability to meet liabilities as they fall due. A portfolio of unencumbered highly liquid assets may provide a source of liquidity for the insurer to meet its liabilities as they fall due. A contingency funding plan, describing the strategies for addressing liquidity shortfalls in stress situations, may assist the insurer in addressing an unforeseen stress situation, where its liquid assets are insufficient or unexpectedly become illiquid. A liquidity management report could assist the insurer and the supervisor to address shortcomings in the insurer's risk management by laying out details of its liquidity risk management in an accessible format.~~

- ~~16.9.4~~ [16.9.3](#) In deciding whether it is necessary to require more detailed liquidity risk management processes, and the intensity of such processes, the supervisor should take into account the nature, scale and complexity of the insurer's activities that lead to increased liquidity risk exposure as well as the risk amplification effects related to the size of the insurer. Increased liquidity risk exposure may depend on, for example, the magnitude of potential collateral or margin calls from derivatives or other transactions, the use of securities financing transactions or the characteristics of insurance contracts that may affect policyholder behaviour around lapse, withdrawal or renewal.
- ~~16.9.5~~ [16.9.4](#) The supervisor may increase or decrease the intensity of these requirements by, for example, varying the frequency, scope and granularity of liquidity stress testing, the proportion of various types of highly liquid assets allowed in the portfolio or the form and level of detail in the contingency funding plan and liquidity risk management report.
- ~~16.9.6~~ [16.9.5](#) Where an insurer is required to establish more detailed liquidity risk management processes, the supervisor should assess the effectiveness of their implementation, including the interaction with existing control mechanisms. Additionally, the supervisor should evaluate the quality and quantity of the assets that the insurer includes in its portfolio of highly liquid assets in light of the liquidity characteristics of its activities. The supervisor may develop its own, general, criteria for highly liquid assets.
- ~~16.9.3~~ [16.9.6](#) Liquidity stress testing is a forward looking risk management tool to reveal vulnerabilities in the insurer's liquidity profile and provide information on its ability to meet liabilities as they fall due. A portfolio of unencumbered highly liquid assets may provide a source of liquidity for the insurer to meet its liabilities as they fall due. A contingency funding plan, describing the strategies for addressing liquidity shortfalls in stress situations, may assist the insurer in addressing an unforeseen stress situation, where its liquid assets are insufficient or unexpectedly become illiquid. A liquidity management report could assist the insurer and the supervisor to address shortcomings in the insurer's risk management by laying out details of its liquidity risk management in an accessible format.
- [16.9.7](#) The contingency funding plan is documented and, at the discretion of the supervisor, may be either a standalone document or integrated fully and comprehensively into another document as part of other elements of the ERM.

**CF 16.9.c The group-wide supervisor requires the Head of the IAIG to maintain a contingency funding plan to respond to liquidity stress events.**

- CF 16.9.c.1 The group-wide supervisor should consider the nature, scale, and complexity of the IAIG's activities that lead to increased liquidity risk exposure, as well as the risk amplification effects related to the size of the IAIG, when setting its expectations of the IAIG's contingency funding plan

requirements. This includes the form [\(standalone or, if allowed by the supervisor, integrated fully and comprehensively into another document as part of other elements of the ERM\)](#) and level of detail of the contingency funding plan and the frequency for reviewing and updating the plan. The group-wide supervisor's expectations may be informed by the IAIG's liquidity stress testing or scenario analysis, which may reveal funding sources most likely to be impacted during stress and those on which the IAIG is most reliant. The group-wide supervisor may consider requiring a more detailed or frequently updated plan from an IAIG with more unpredictable cash inflows and outflows or where cash inflows and outflows are more significantly impacted by the IAIG's liquidity stress tests or scenario analysis.

- CF 16.9.c.2 [An IAIG's](#) contingency funding plan describes the strategies for addressing liquidity shortfalls in stress situations, including the methods that the IAIG would use to access alternative sources of funding.
- CF 16.9.c.3 [An IAIG's](#) contingency funding plan should include quantitative metrics that the IAIG would use to identify a liquidity stress event, including the level and nature of the effect it would have on the IAIG's liquidity position and on sources of available funding.
- CF 16.9.c.4 [An IAIG's](#) contingency funding plan should outline the strategies, policies and processes to manage a range of stresses. The plan should establish a clear allocation of roles and clear lines of management responsibility. The plan should define procedures for identifying early warning indicators for potential liquidity stress events that are based on the features of the IAIG's business.
- ~~CF 16.9.c.5 The supervisor may allow the IAIG's contingency funding plan to be developed as part of a recovery plan.~~

- 16.10 The supervisor requires the insurer to perform regularly its own risk and solvency assessment (ORSA) to assess the adequacy of its risk management and current, and likely future, solvency position.**
- 16.11 The supervisor requires the insurer's Board and Senior Management to be responsible for the ORSA.**
- 16.12 The supervisor requires the insurer's ORSA to:**
  - **encompass all reasonably foreseeable and relevant material risks including, at least, insurance, credit, market, concentration, operational and liquidity risks and (if applicable) group risk; and**

- identify the relationship between risk management and the level and quality of financial resources needed and available

and, as necessary:

- assess the insurer's resilience against severe but plausible macroeconomic stresses through scenario analysis or stress testing; and
- assess aggregate counterparty exposures and analyse the effect of stress events on material counterparty exposures through scenario analysis or stress testing.

**16.13** The supervisor requires the insurer to:

- determine, as part of its ORSA, the overall financial resources it needs to manage its business given its risk appetite and business plans;
- base its risk management actions on consideration of its economic capital, regulatory capital requirements, financial resources, and its ORSA; and
- assess the quality and adequacy of its capital resources to meet regulatory capital requirements and any additional capital needs.

**16.14** The supervisor requires:

- the insurer, as part of its ORSA, to analyse its ability to continue in business, and the risk management and financial resources required to do so over a longer time horizon than typically used to determine regulatory capital requirements; and
- the insurer's continuity analysis to address a combination of quantitative and qualitative elements in the medium and longer-term business strategy of the insurer and include projections of its future financial position and analysis of its ability to meet future regulatory capital requirements.

### **Recovery Planning**

**16.15** The supervisor requires, ~~as necessary~~, insurers to evaluate in advance their specific risks and options in possible recovery scenarios.

16.15.1 The purpose of recovery planning is to aid the insurer in understanding its own risks from severe stress scenarios, and to be better prepared to provide an effective response. The focus is on situations that pose a serious risk to the

viability of the insurer or any material part of its business. Recovery planning encourages insurers to proactively assess their organisational structure, risk management practices and financial resources. It helps identify and address vulnerabilities, improving overall resilience and preparedness for potential financial stress.

## **16.16 The supervisor may require an insurer**

- to produce a recovery plan that has a process to regularly assess which insurers are required to have a recovery plan, based on established criteria that consider the nature, scale and complexity of the insurer;
- requires, at a minimum, recovery plans for any insurer(s) assessed to be systemically important or critical if it fails; and
- requires such insurers to have a recovery plan in place.

16.16.1 A recovery plan identifies in advance options to restore the financial position and viability if the insurer comes under severe stress (see Application Paper on Recovery Planning). In deciding whether it is necessary to require, The development of a recovery plan, and the form, content and level of detail of such recovery planning, the supervisor is pre-emptive in nature. It should take into account, for example, be developed during business as usual, in advance of any severe stress.

16.16.2 When deciding for which insurers a recovery plan is necessary, the criteria should consider factors such as:

- the insurer's complexity, size, activities and its lines of business;
- the insurer's risk profile and risk management mechanisms;
- the level of substitutability of the insurer's activities or business lines;
- the complexity of the insurer's structure, including the number of jurisdictions in which it operates;
- the insurer's interconnectedness; and/or
- the insurer's impact of failure.

The supervisor may also decide to require recovery plans for a minimum share of its insurance sector.

16.16.3 The assessment of an insurer's potential systemic importance, risk profile and business model, should be in line with ICP 24 (Macroprudential Supervision).

16.16.4 When deciding on the necessary level of detail in cases where a plan is required, the supervisor should consider the criteria above.

~~16.14.11~~ 16.16.5 A recovery plan is intended to serve the insurer as an aid to sound risk management. Additionally, if the insurer comes under severe stress, a recovery plan may serve the supervisor as valuable input to any necessary supervisory measures.

~~16.14.2~~16.16.6 The supervisor should require the insurer to provide the necessary information to enable the supervisor to assess the robustness and credibility of any recovery plan required. If the supervisor identifies material deficiencies in the plan, it should provide feedback and require the insurer to address these deficiencies.

~~16.14.3~~16.16.7 The supervisor should require the insurer to review any recovery plan required on a regular basis, ~~and be updated when necessary, in particular~~ when there are material changes to the insurer's business, risk profile or structure, or any other change that could have a material impact on the recovery plan, and to update it when necessary.

16.16.8 The supervisor should require the insurer to take actions for recovery if the insurer comes under severe stress.

**CF 16.16.a The group-wide supervisor requires the Head of the IAIG to:**

- **develop a recovery plan that identifies in advance options to restore the financial position and viability of the IAIG if it comes under severe stress;**
- **review and update the recovery plan on a regular basis, or when there are material changes; and**
- **take actions for recovery if the IAIG comes under severe stress.**

CF 16.16.a.1 The group-wide supervisor should consider the IAIG's nature, scale, and complexity when setting recovery plan requirements, including the form, content and detail of the recovery plan and the frequency for reviewing and updating the plan.

CF 16.16.a.2 Recovery planning is the responsibility of the IAIG. The IAIG should be able to take timely actions for recovery, in particular when any pre-defined criteria are met that trigger the activation of the recovery plan.

CF 16.16.a.3 A recovery plan developed by the IAIG should cover all material legal entities within the group.

CF 16.16.a.4 A recovery plan should serve as a guide for the IAIG to plan and manage severe stress scenarios, although the actual nature and timing of recovery actions will depend on the circumstances.

CF 16.16.a.5 The IAIG should ensure that:

- it has a robust governance structure and sufficient resources to support the recovery planning process, which includes clear allocation of responsibilities; and
- recovery planning is integrated into the IAIG's overall governance processes.



CF 16.16.a.6 A recovery plan is an integral part of the risk management process of an IAIG, aimed at identifying actions to be taken in severe stress scenarios that pose a serious risk to the viability of the IAIG, or any material part of its insurance business. A recovery plan describes if and how the IAIG would:

- discontinue or divest certain portfolios, business lines, legal entities, or other services; and/or
- continue operating certain lines of insurance business while restructuring or running off its discontinued business lines in an orderly fashion.

CF 16.16.a.7 A recovery plan should include:

- a description of the legal entities covered by the plan, including their legal structures, interdependencies, core business lines and main risks;
- a description of functions and/or services that are significant for the continuation of the IAIG (for example, shared services, such as information technology services and outsourced functions);
- pre-defined criteria with quantitative and qualitative trigger points, governance, escalation mechanisms and supporting processes;
- a range of severe stress scenarios, including both idiosyncratic and market-wide stress;
- credible options to respond to severe stress scenarios, including actions to address capital shortfalls and liquidity pressures, and to restore the financial condition of the IAIG, taking into account intra-group transactions;
- assessment of the necessary steps, costs, resources and time needed to implement the recovery actions, including the risks associated with the implementation of the actions; and
- strategies for communication with stakeholders.

CF 16.16.a.8 Pre-defined criteria should be well-defined and aligned with contingency plans. They should include qualitative and quantitative criteria, such as a potential breach of a prescribed capital requirement (PCR). Criteria may also include triggers based on: liquidity, market conditions, macro-economic conditions, and the insurer's operational conditions.

CF 16.16.a.9 Possible actions for recovery include:

- strengthening the IAIG's capital position, such as recapitalisations;
- capital conservation, such as cost containment and suspension of dividends and of payments of variable remuneration;



- reorganisation of corporate structure and divestitures, such as sales of legal entities or portfolios;
- voluntary restructuring of liabilities, such as debt-to-equity conversion; and
- securing sufficient diversified funding and adequate availability of collateral in terms of volume, location and quality.

CF 16.16.a.10 As a recovery plan may not be able to cover every possible scenario, the IAIG may take, or the group-wide supervisor may require the IAIG to take, measures for recovery other than those contemplated in the IAIG's recovery plan.

CF 16.16.a.11 The group-wide supervisor should regularly review the recovery plan, including the predefined criteria, the assumptions and severe stress scenarios underlying the plan, to assess its credibility and likely effectiveness. Where necessary, the group-wide supervisor should provide feedback and require the IAIG to address any material deficiencies.

**CF 16.16.b The group-wide supervisor requires the Head of the IAIG to have and maintain group-wide management information systems that are able to produce information relevant to the recovery plan on a timely basis.**

CF 16.16.b.1 The IAIG may rely on an existing information system, so long as it fulfils the objectives of producing information relevant to the recovery plan on a timely basis.

CF 16.16.b.2 It is important that the IAIG has available the information necessary for executing recovery actions when needed. Some of this information may be similar to the information needed for resolution; however, recovery may also require other information (see ComFrame material under ICP 12 Exit from the Market and Resolution).

**16.17 The supervisor undertakes reviews of the insurer's ERM framework, including the ORSA. Where necessary, the supervisor requires strengthening of the insurer's ERM framework, solvency assessment and capital management processes.**