

INSURANCE & REINSURANCE

New Recovery Planning Regulations for (Re)insurers *authorised by the Central Bank of Ireland*

Under new Regulations commenced on 19 April 2021, (re)insurers authorised by the Central Bank of Ireland (CBI) are now required to prepare pre-emptive recovery plans by 31 March 2022. Where a (re)insurer is newly authorised on or after 19 April 2021, the deadline for preparation of the plan is within 12 months of authorisation.

In this publication, we highlight key elements of this development that are of particular importance for Irish (re)insurers.

4 MIN READ

Background

On 25 June 2020, the CBI published CP 131 ([Consultation Paper 131 – Regulations for pre-emptive recovery planning for \(re\)insurers](#)). From 25 June 2020 to 30 October 2020, the CBI undertook a public consultation on proposals to introduce formal recovery planning requirements for (re)insurers. On 27 April 2021, the CBI published the nine responses it received to CP 131 and its [feedback statement](#). In its feedback statement, the CBI notes that the proposed recovery framework is broadly aligned with International Association of Insurance Supervisors (IAIS) principles and best practice “*and therefore intended to be consistent with any future EU-wide framework.*”



The Regulations

Following the consultation, the Central Bank (Supervision and Enforcement) Act 2013 (Section 48(1)) (Recovery Plan Requirements for Insurers) Regulations 2021 (the **Regulations**) commenced on 19 April 2021. The Regulations take into account certain responses to CP 131 received by the CBI.

Under the Regulations, (re)insurers are now required to prepare a pre-emptive recovery plan. The Schedule to the Regulations provides a detailed description of the information to be included in the recovery plan. This includes:

- Summary
- Changes since last recovery plan (material changes to the (re)insurer, its group or the plan itself, relevant to recovery capacity since the plan was last approved)
- Approval of recovery plan
- Governance
- Strategic analysis
- Recovery indicators
- Recovery options

- Scenario analysis
- Communication plan
- Information on preparatory measures

Information regarding any material concentration of the (re)insurer’s core business lines, key services or critical functions in any jurisdiction or in any subsidiary or branch of the (re)insurer must be included in the recovery plan.

Scope:

- All (re)insurers (except certain captives) and third-country (re)insurer branches authorised by the CBI are in scope.
- Captives that do not write motor, liability or credit and suretyship business and do not otherwise have an exposure to claims from persons outside of their group are permitted to apply to the CBI for an exemption from the Regulations.
- Firms availing of the Temporary Run-Off Regime (TRR) are not required to prepare a recovery plan but are advised by the CBI to 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.



Group Support

Originally, the CBI had proposed that a (re) insurer that is part of a wider group would need a written guarantee from its parent entity where the recovery option is based on financial support from the parent entity. A number of responses to CP 131 remarked that this could amount to a contingent liability on the parent or related undertaking. In the final Regulations, that requirement has been removed.

Instead, where a recovery option involves provision of financial support from another undertaking within a group of which the (re) insurer is part, the (re)insurer shall include confirmation from its board that it has carried out (in consultation with the other undertaking) a realistic assessment of the other undertaking’s willingness and ability to provide that support in the scenarios contemplated (together with the key points from that assessment).

Maintaining Recovery Plans:

- High and Medium-High impact firms will be required to review and, if necessary, update recovery plans at least every 12 months.
- Medium-Low and Low impact firms will be required to review and, if necessary, update recovery plans at least every 24 months.
- However, all recovery plans must be updated after any change to the legal or organisational structure of the (re) insurer, its business or its financial position, where such a change could have a material effect (there is no specific guidance on the meaning of “material effect”) on or necessitate a change to, the recovery plan.

The board of directors of the (re)insurer must formally assess and approve each version of a recovery plan.



The Guidelines

The CBI has published Recovery Plan Guidelines for (Re)Insurers (the **Guidelines**) to assist with preparation of the recovery plan. The Guidelines set out the CBI’s expectations regarding content, format and factors that (re)insurers should take into account when developing a recovery plan. Among other matters, the Guidelines state that the level of detail within a recovery plan should be appropriate to the scale and complexity of the (re)insurer and should be proportionate. Key points of note in the Guidelines include:

1. Aim

Recovery plans are used to identify options to restore financial strength and viability when a (re)insurer comes under severe stresses. The CBI notes that an effective recovery framework will contribute to achieving policyholder protection, as well as maintaining financial stability. The CBI draws the distinction between resolution planning (where a (re)insurer is no longer in control of its affairs) and recovery planning (which is implemented at the discretion of a (re) insurer that is in control of its own affairs).

2. Link with Other Measures

The CBI considers that recovery plans are part of a (re)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). The CBI states that interlinkages can be expected between a (re)insurer’s recovery plan and other preventative or corrective measures that are in place (e.g. Risk Appetite Statement, Own Risk and Solvency Assessment (ORSA) and contingency planning).

3. Group Recovery Plans

The CBI notes that a (re)insurer should not rely exclusively on a group recovery plan, but states that it may be appropriate to place some reliance on such a plan by including extracts of relevant elements in its own recovery plan.

Deadline

(Re)insurers that are in scope of the Regulations must have recovery plans in place by 31 March 2022. However, where a (re)insurer is newly authorised on or after the date on which the Regulations come into operation, the deadline is within 12 months of authorisation. High or Medium-High impact (re)insurers will need to submit an initial recovery plan to the CBI by 31 March 2022 and subsequent versions within one month of the plan’s approval by the board of directors. All other (re)insurers will be required to provide a copy of the recovery plan to the CBI on request.



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