



## GUIDELINE NO. TIU/G-2/2020/12

### GUIDELINES ON ELEMENTS OF A RECOVERY PLAN FOR INSURANCE COMPANIES AND TAKAFUL OPERATORS

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#### 1. **INTRODUCTION**

- 1.1. These Guidelines are issued pursuant to Section 88 of the Insurance Order, 2006 and Section 90 of the Takaful Order, 2008 (“the Orders”) to provide guidance on the appropriate development of a recovery plan. These Guidelines are to be read with the Notice found in “*Notice on Recovery Planning for Insurance Companies and Takaful Operators*” [Notice No. TIU/N-2/2020/13] (hereinafter referred to as “Notice No.: TIU/N-2/2020/13”).
- 1.2. These Guidelines should be read in conjunction with the following:
  - 1.2.1. Notice on Corporate Governance for Insurance Companies and Takaful Operators [Notice No. TIU/N-3/2017/7];
  - 1.2.2. Guidelines on Risk Management and Internal Controls for Insurance Companies and Takaful Operators [Guideline No. TIU/G-3/2018/8]; and
  - 1.2.3. any other notices, directives or guidelines, which the Authority may issue from time to time.
- 1.3. These Guidelines take effect from 1 January 2021.

#### 2. **DEFINITIONS**

- 2.1. For the purpose of these Guidelines:
  - 2.1.1. “board” means the Board of Directors of the company;
  - 2.1.2. “insurer” means a registered insurance company under the Insurance Order, 2006 and a registered takaful operator under the Takaful Order, 2008, unless otherwise specified; and
  - 2.1.3. “recovery plan” means a plan developed and maintained by the insurer that identifies in advance options to restore the financial position and viability if the insurer comes under severe stress.

### **3. GOVERNANCE**

- 3.1. Effective governance for an insurer's recovery planning process should be documented in written policies and/or procedures that provide a clear and sufficiently detailed description of the operational development process, approval process, schedule and process for updating recovery plans, and operational procedures for activation of the recovery plan and any escalation processes.
- 3.2. The recovery planning process should be integrated into the insurer's overall corporate governance and risk management framework and be commensurate with the nature, scale, complexity, incorporation<sup>1</sup>, risk profile and business model of the insurer's operations. This includes the development, review, approval, monitoring, escalation, activation and implementation of the recovery plan.
- 3.3. The insurer should establish a regular test of the recovery plan to ensure that the plan can be implemented in a timely manner in a stress scenario, taking into account the menu of recovery options and calibration of the trigger framework.

### **4. TRIGGER FRAMEWORK**

- 4.1. An insurer should develop a framework that identifies a set of pre-defined criteria which may trigger implementation of the recovery options within the recovery plan and to allow the insurer to successfully monitor, escalate and activate the appropriate range of responses for an emerging stress event.
- 4.2. The trigger framework should be used to identify any foreseeable risks that may have the potential to threaten the viability of the insurer, and should be tailored to reflect the insurer's risk profile and operating environment.
- 4.3. The framework should include quantitative and qualitative criteria and include a forward-looking element, where possible. An effective trigger framework may include criteria relating to capital, liquidity, asset quality, profitability, market conditions, macro-economic conditions, and the insurer's operational conditions. An appropriate process should be established to regularly monitor the criteria in the trigger framework.

### **5. RECOVERY OPTIONS**

- 5.1. The key to the recovery plan is the menu of options that an insurer should identify in advance of any stress as potential pathways to effective recovery in the event of severe stress. The options should be comprehensive, focusing on options that are

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<sup>1</sup> Locally incorporated insurers are expected to develop recovery plan on a group basis, taking into consideration the holding company, as well as local and overseas subsidiaries and branches. Branches of foreign insurers when developing the recovery plan should adequately cover and address the Brunei Darussalam stress scenarios.

able to significantly enhance and restore the capital and/or liquidity position in times of severe stress.

- 5.2. The recovery options should not only be applicable to specific stress scenarios and should provide sufficient recovery capacity across a range of potential stresses.
- 5.3. The insurer should also identify the potential hurdles, challenges and constraints that it may face for each recovery option. These should be documented in the recovery plan, along with measures that the insurer intends to take to address these impediments.
- 5.4. The insurer may consider incorporating the following types of recovery options, but is not limited to:
  - 5.4.1. strengthening the capital position such as recapitalisations;
  - 5.4.2. actions of capital conservation including cost containment, suspension of dividends and variable remuneration payment, and elimination of major projects;
  - 5.4.3. business strategies, including changes in underwriting practices, repricing of insurance contract premiums, re-alignment to reinsurance programmes or other de-risking of the business;
  - 5.4.4. investment strategies, such as changes to asset allocation and to hedging programmes;
  - 5.4.5. reinsurance actions including expanding use of quota share on all or selected business lines or products;
  - 5.4.6. strategic, such as run-off, portfolio transfer arrangements, and sales; and
  - 5.4.7. liquidity including accessing available contingent capital as envisioned in the liquidity management plan, more frequent settlement of intra-company balances and deferring or halting unnecessary cash outflows.

## **6. STRESS SCENARIOS**

- 6.1. A recovery plan should include credible options to respond to a range of severe stress scenarios. The use of scenario analysis helps to assess the credibility and feasibility of the recovery plan, including the trigger framework and recovery actions. Furthermore, scenario analysis may support the decision-making process concerning the recovery actions to be taken after implementation of the recovery plan.

- 6.2. The scenarios should cover clearly defined events that are most relevant to an insurer, taking into account the insurer's risk profile, business model, group structure (where applicable) and other relevant factors including the following:
  - 6.2.1. idiosyncratic events, e.g. events that have serious negative consequences for the insurer or group which may include the failure of significant counterparties and major cyber-security attacks;
  - 6.2.2. market-wide or systemic events, i.e. events that may have serious negative consequences for the financial system or real economy including a fall in financial markets, a persistent low interest rate environment and a high-impact catastrophic event; and
  - 6.2.3. a combination of idiosyncratic and market-wide stress.
- 6.3. Each scenario should calculate the impact on the solvency, capital and liquidity of the insurer and any other relevant entities in the group, as well as what the impact is on the functions and/or services that are significant for the continuation of the insurer.
- 6.4. The insurer should set out which recovery actions it would take in each of the scenarios, taking into account the stressed market conditions in the specific scenarios. This will further the insurer's identification of which recovery actions are less viable in given scenarios.

## **7. COMMUNICATION STRATEGY**

- 7.1. A communication strategy will ensure effective and clear communications with internal and external stakeholders and will be particularly important in helping to manage external stakeholders' expectations, and retain (or restore) their confidence if necessary.
- 7.2. An insurer should develop a proper communication strategy with relevant stakeholders including supervisors, management, staff, key counterparties, policyholders and investors including analysts and the press, where relevant.
- 7.3. The communication strategy should also specify the roles and responsibilities of persons involved in the communication to stakeholders, and include ready templates where applicable.
- 7.4. As part of its communication strategy, the insurer should inform the Authority on the following:
  - 7.4.1. in anticipation of a likely breach of one or more recovery trigger points, including a description of the circumstances leading to the potential activation of the recovery plan;

- 7.4.2. immediately in the event of a breach of one or more recovery trigger points, describing the causes and consequences of such breach;
  - 7.4.3. when a trigger point is breached but the insurer deems that activation of the recovery plan is not necessary, the insurer should fully discuss that decision with the Authority, explain management's assessment and reasoning for not activating the recovery plan, and advise as to the possible mitigating actions that the insurer intends to execute to restore its position and prevent further deterioration of the situation. The insurer should also regularly report on the effectiveness of those mitigating actions, and whether further action is required; and
  - 7.4.4. upon activation of the recovery plan, updates on the progress and implementation status of the selected recovery options and its effects on the causes of the stress scenario, e.g. the solvency and liquidity positions of the insurer.
- 7.5. The strategy should address the different tools that the insurer could use, depending on the circumstances and the stakeholder involved, including written notices, press releases, conference calls, and physical meetings.

## **8. SUPERVISORY ASSESSMENT OF RECOVERY PLANS**

- 8.1. In reviewing and evaluating an insurer's recovery plan, the Authority will have regard to the following key factors, amongst others:
- 8.1.1. the degree of integration of the recovery planning process into the insurer's risk management framework;
  - 8.1.2. the robustness of the insurer's governance framework, including the level of understanding and involvement of the insurer's board and/or senior management in the recovery plan;
  - 8.1.3. the clarity of the escalation process and decision-making mechanism upon the trigger of a recovery plan, and the communication plan with stakeholders;
  - 8.1.4. the capability of the insurer's management information system to enable timely monitoring of recovery triggers, and to provide full sets of information in a timely manner;
  - 8.1.5. the appropriateness of recovery triggers, stress scenarios and recovery options developed in respect of the recovery plan;
  - 8.1.6. the credibility of the assumptions underpinning the recovery plan;

- 8.1.7. the comprehensiveness of the recovery plan, in particular whether a suitably broad range of recovery options has been considered;
  - 8.1.8. the execution readiness and feasibility of each recovery option;
  - 8.1.9. whether the recovery planning process is adequately resourced by the insurer in terms of staffing and expertise, with sufficient board and senior management ownership and oversight; and
  - 8.1.10. whether the recovery plan can be implemented in a timely manner.
- 8.2. The assessment process of the Authority generally involves a review of the documentation of the insurer's recovery plan, discussions between the Authority and the board and/or senior management of the insurer, on-site examinations and other methods that the Authority may identify as appropriate for evaluating the robustness of the insurer's recovery plan.

**Issue date: 17 Rejab 1441 / 12 March 2020**