



NOTICE NO. TIU/N-2/2020/13

NOTICE ON RECOVERY PLANNING FOR INSURANCE COMPANIES AND TAKAFUL OPERATORS

1. INTRODUCTION

- 1.1. This Notice is issued pursuant to Section 88 of the Insurance Order, 2006 and Section 90 of the Takaful Order, 2008 (“the Orders”) to require insurance companies and takaful operators (hereinafter referred to as “insurers”) to develop recovery plans and the assessment processes between insurers and the Authority. This Notice shall be read with the guidance found in “*Guidelines on Recovery Planning for Insurance Companies and Takaful Operators*” [Guideline No. TIU/G-2/2020/12] (hereinafter referred to as “Guideline No.: TIU/G-2/2020/12”).
- 1.2. This Notice shall also 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];
 - 1.2.3. Guidelines on Outsourcing Arrangement for Insurance Companies and Takaful Operators [Guideline No. TIU/G-1/2019/10]; and
 - 1.2.4. any other notices, directives or guidelines, which the Authority may issue from time to time.
- 1.3. This Notice shall take immediate effect.

2. DEFINITIONS

- 2.1. For the purpose of this Notice:
 - 2.1.1. “action plan” includes recovery plans and any written documents that are used to document actions in developing a recovery plan;
 - 2.1.2. “board” means the Board of Directors of the company;
 - 2.1.3. “group” means an insurer’s Head Office or parent insurer, subsidiaries, affiliates, and any entity (including their subsidiaries, affiliates and special purpose entities) that the insurer exerts control over or that exerts control over the insurer;

- 2.1.4. “insurer” means a registered insurance company under the Insurance Order, 2006 and a registered takaful operator under the Takaful Order, 2008, unless otherwise specified;
- 2.1.5. “key responsible person” means a person whose activity is regulated by the Authority under the Orders, and refers to senior persons that are accountable or responsible for the management and oversight of the insurers of which they may hold controlled functions in executive positions;
- 2.1.6. “material outsourcing” means an outsourcing arrangement which, if disrupted, has the potential to significantly impact an insurer’s business operations, reputation and profitability;
- 2.1.7. “outsourcing” means an arrangement where an insurer engages a third party (the service provider) to provide the insurer with a service that may already or may conceivably be performed by the insurer itself which includes the following characteristics:
- a) the insurer is dependent on the service on an ongoing basis but excludes services that involves the provision of a finished product;
 - b) the service is integral to the provision of a financial service by the insurer and/or the service is provided to the market by the service provider in the name of the insurer; and
 - c) it is prohibitive to change the service provider as substitutes are lacking in the market or may only be replaced at a significant cost to the insurer.
- 2.1.8. “recovery plan” means a plan developed and maintained by an insurer that identifies in advance options to restore the financial position and viability if the insurer comes under severe stress;
- 2.1.9. “resolution” means any action by an authority, with or without private sector involvement, that deals with serious problems in an insurer or group that imperils the viability of an insurer or the group; and
- 2.1.10. “senior management” means persons having authority and responsibility for planning, directing and controlling the activities of the company as appointed by the board, including the principal officer as defined in the Insurance Order, 2006 and Takaful Order, 2008.

3. RECOVERY PLANNING

- 3.1. A recovery plan is intended to serve as an aid to sound risk management for an insurer. It outlines actions the insurer can take to stabilise and restore its financial strength and viability under situations of severe stress. Ownership and responsibility for recovery planning lies primarily with the board of the insurer.

- 3.2. A recovery plan includes three elements:
 - 3.2.1. credible options to cope with a range of severe stress scenarios, including both idiosyncratic and market-wide stress;
 - 3.2.2. scenarios that address capital shortfall, liquidity pressures and business continuity; and
 - 3.2.3. processes to ensure timely implementation of effective recovery options in a range of severe stress situations.
- 3.3. The insurer shall prepare a recovery plan proportionate to the insurer's size, complexity, incorporation¹, risk profile and business model, which includes, but is not limited to the following:
 - 3.3.1. a framework of recovery triggers that identifies the points at which appropriate recovery options may be taken;
 - 3.3.2. an escalation process upon the occurrence of a trigger event, to facilitate prompt assessment of the impact, and decision on the appropriate course of action;
 - 3.3.3. a menu of recovery options which are available in situations of severe stress to address capital shortfalls and liquidity pressures; and
 - 3.3.4. a communication plan to ensure timely communication with internal and external stakeholders.
- 3.4. The insurer shall maintain and regularly test management information systems that are able to produce, in a timely manner, information required for such recovery planning.
- 3.5. The insurer shall put in place adequate measures such that material outsourcing arrangements can be maintained in crisis situations and in resolution.

4. GOVERNANCE

- 4.1. An insurer shall have in place a recovery plan approved by the board (for insurers incorporated in Brunei Darussalam) or by the group/regional or its equivalent oversight function for the operations in Brunei Darussalam (for insurers incorporated outside Brunei Darussalam). The recovery plan shall be ready for inspection by the Authority as and when requested subject to the requirements under paragraph 5.1.

¹ 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.

- 4.2. The insurer shall appoint a key responsible person as the key person to oversee the recovery planning process which includes the maintenance and submission of the insurer's recovery plan, and to inform the Authority of the appointment.
- 4.3. The recovery plan shall be subject to periodic review at least biennially, and upon the occurrence of an event that could materially impact the recovery plan. This includes any changes in circumstances facing the insurer, group or the financial system.
- 4.4. The insurer shall notify and engage the Authority if it plans to make material changes to its recovery plan.
- 4.5. The insurer shall immediately inform the Authority in the event that the insurer assesses that its viability is, or is potentially, threatened or upon the occurrence of any event that may necessitate the implementation of its recovery plan.

5. REPORTING REQUIREMENT

- 5.1. An insurer shall submit their recovery plans to the Authority no later than 31 December 2021. Thereafter, submissions are to be made no later than 31 December for every two years.
- 5.2. The insurer shall inform the Authority immediately when the recovery plan is activated.

6. TRANSITIONAL PROVISION

- 6.1. An insurer shall perform a gap analysis of its current action plans against the requirements in this Notice and including, but not limited to aspects found in Guideline No. TIU/G-2/2020/12. All gaps shall be addressed no later than the submission date in paragraph 5.1. The Authority, may, from time to time, request for the progress of the action plan to address the gaps, should it deem necessary to ascertain compliance with the provisions of this Notice.

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