



GIAJ comments on the IAIS consultation on " Application Paper on Recovery Planning"

Paragraph 1	<p>(General Comments)</p> <p>We understand that as an Application Paper this document is not intended to bind supervision/regulation in different jurisdictions in a certain manner. The illustrative nature of the Application Paper could lead to variations in its applications in different jurisdictions.</p> <p>While we welcome the reference to proportionality, we would like to stress that variations in the implementation of the Application Paper by each jurisdiction should not undermine a level playing field. To that end, each jurisdiction should, to the extent possible, pursue an equal footing.</p> <p>In order to deepen mutual understanding and ensure transparency, the application of proportionality should be supported by sufficient communication between the supervisor and the insurer.</p>
Paragraph 4	Please refer to our comments on paragraph 1.
Paragraph 6	Please refer to our comments on paragraph 1.
Paragraph 7	Recovery planning should apply the principle of proportionality and items such as the level of the ICS ratio and the results of the ORSA of the insurer should be taken into account when determining requirements. To ensure they are exempt from excessive burden, insurers with sounder financial footprints should be allowed to establish more simplified plans than those with less sound footprints. For example, it is reasonable to require setting only a high-level framework when an insurer is in a financially sound condition, and to consider establishing a detailed plan only when the insurer's financial soundness could be undermined.
Paragraph 13	<p>As mentioned in this paragraph, development of a recovery plan is preemptive in nature. Therefore, we understand that even when the insurer fails to meet the regulatory capital requirement, the plan continues to be valid except under specific situations such as when it is clear that the plan is no longer enforceable.</p> <p>If the supervisor requires an insurer to re-submit the plan, the supervisor should provide its rationale and an explanation of its scope. Pre-established guidelines on re-submission should also be provided.</p> <p>Consistency with an early warning system, which is also a preemptive measure, and a capital management plan, which is required in some jurisdictions, should also be examined.</p>
Paragraph 16	We understand that an insurer should be careful not to simply look to replicate existing tools in developing a recovery plan. We also understand that recovery plans will not be regarded as irrelevant just because they are developed as part of the ORSA, including the case referred to in our comments on paragraph 17, as long as the recovery plans are developed following the relevant process.
Paragraph 17	The objective the ORSA should be expanded to include envisioning the insurer being confronted with severe stress, and assess their recovery plans accordingly. In practice, it is more effective to consider recovery plans as part of the ORSA development process. Therefore, the application paper should allow ORSA to include recovery planning.
Paragraph 18	Please refer to our comments on paragraph 1.
Paragraph 20	Please refer to our comments on paragraph 1.
Paragraph 22	When supervisors choose to make decisions on a case-by-case basis, due consideration should be given so that such decisions do not go against the proportionality principle and that they are reasonable.
Paragraph 24	<p>Paragraph 24 should be amended as follows to include examples of the application of proportionality:</p> <p>(1) add "...for example, develop and revise recovery plans as part of the ORSA." at the end of the second bullet;</p> <p>(2) add "...for example, allow only a high-level framework to be set when an insurer is financially sound, and consider a detailed plan only when it is</p>



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	<p>determined that the financial soundness of the insurer is eroded." at the end of the third bullet.</p> <p>In addition to the above, with regard to insurers with very high levels of capital, only extreme or highly unlikely stress scenarios, such as the worsening of all market indicators or successive natural catastrophes, threaten the soundness and the viability of such insurers. It should be taken into consideration that feasible recovery options following such extreme scenarios are very limited.</p>
Paragraph 33	We understand that the governance of insurers differs depending on size, legal form and characteristics, and that development and approval of individual recovery plans will take into account such differences.
Paragraph 34	It is unnecessary to revise recovery plans unless a major change occurs concerning the business environment or the risk profile of the insurer and the implementation of the recovery plan is affected. It is sufficient to regularly verify that no material change took place in the business environment.
Paragraph 35	Please refer to our comments on paragraph 33.
Paragraph 38	<p>As mentioned in our comments on paragraph 33, we understand that the governance of insurers differs depending on size, legal form and characteristics, and that development and approval of individual recovery plans will take into account such differences.</p> <p>It is unrealistic to assume that an information system can monitor and capture every stress event and stressor. Even if a system capable of capturing macroeconomic changes and natural catastrophes such as earthquakes was feasible, development of such a system would necessitate formidable costs.</p>
Paragraph 39	Please refer to our comments on paragraph 33.
Paragraph 40	<p>As we mentioned in our comments on paragraph 33, we understand that the governance of insurers differs depending on size, legal form and characteristics, and that development and approval of individual recovery plans will take into account such differences.</p> <p>It should be noted that recovery plans include confidential information, the communication of which to all relevant parties may not necessarily be appropriate. Relevant information should be communicated to relevant parties depending on the nature of the information.</p>
Paragraph 41	Depending on the circumstances, recovery planning needs to be dealt with in a prompt manner. Therefore, parties that have been delegated in advance by Senior Management, or by the Board, should be able to assume the necessary decision-making responsibilities.
Paragraph 57	This paragraph provides that a trigger framework will be calibrated to provide enough time for the Board and Senior management to consult and consider the circumstances surrounding the stress. However, it should be noted that the speed at which stress events emerge differ depending on the risk and its particular circumstances, and it is therefore difficult to adequately calibrate a trigger framework.
Paragraph 62	<p>As mentioned in paragraph 4, we understand that the proportionality principle applies to the whole application paper. However, the way the term "comprehensive" is used in this paragraph seems to eliminate the application of the proportionality principle. Therefore, paragraph 62 should be amended as follows:</p> <p>Current draft: This menu of options should be comprehensive, with a focus on options.</p> <p>Proposed change: This menu should be particularly focused on options.</p>
Paragraph 63	As mentioned in the third bullet of paragraph 24, an insurer may consider detailing fewer recovery options and stress scenarios in the plan. Therefore, limitations on the stress scenario should not be eliminated altogether.



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	<p>As mentioned in paragraph 4, we understand that the proportionality principle applies to the whole application paper. However, the way the term "should" is used in this paragraph seems to eliminate the application of the proportionality principle. Therefore, paragraph 63 should be amended as follows: Current draft: This menu of recovery options should be developed. Proposed change: This menu of recovery options may be developed.</p>
Paragraph 64	<p>We would like confirmation that the items listed in this paragraph are examples, and that the intention is not to check that the plan includes all items.</p>
Paragraph 65	<p>As mentioned in paragraph 4, we understand that the proportionality principle applies to the whole application paper. However, the way the term "should" is used in this paragraph seems to eliminate the application of the proportionality principle. Therefore, paragraph 65 should be amended as follows: Current draft: This menu of recovery options should include a detailed description for each recovery option identified. Proposed change: The menu of recovery options may include a detailed description for each recovery option identified, if necessary.</p>
Paragraph 67	<p>Whilst we do not necessarily oppose the prior assessments as described in this paragraph, the limitations of such assessments should be recognized. It should also be noted that the practical burden of such assessments is not insignificant.</p>
Paragraph 73	<p>The details and frequency of updates provided to the relevant supervisor(s) should be set at a level which is not too much of a burden on insurers.</p> <p>As mentioned in paragraph 4, we understand that the proportionality principle applies to the whole application paper. However, the way the term "any" is used in this paragraph seems to eliminate the application of the proportionality principle. Therefore, paragraph 73 should be amended as follows: Current draft: any host supervisors Proposed change: major host supervisors</p>
Paragraph 76	<p>While we agree that these could be best practices, the messages and frequency of updates should be decided at the management level.</p>
Paragraph 77	<p>Stress scenarios during recovery are likely to be different from stress scenarios during times of business as usual. While stress scenarios may differ among insurers, a relevant standard (an example of a scenario) should be added.</p>
Paragraph 81	<p>As mentioned in paragraph 4, we understand that the proportionality principle applies to the whole application paper. However, the way the term "any" is used in this paragraph seems to eliminate the application of the proportionality principle. Therefore, paragraph 81 should be amended as follows: Current draft: any other relevant entities Proposed change: other relevant material entities</p>
Paragraph 83	<p>As mentioned in paragraph 4, we understand that the proportionality principle applies to the whole application paper. However, the way the term "should" is used in this paragraph seems to eliminate the application of the proportionality principle. Therefore, paragraph 83 should be amended as follows: Current draft: The insurer should set out Proposed change: The insurer may set out</p>
Paragraph 87	<p>With regard to insurers with very high levels of capital, only extreme or highly unlikely stress scenarios, such as the worsening of all market indicators or successive natural catastrophes, threaten the soundness and viability of such insurers. Supervisors should form a view regarding recovery plans that takes into consideration the limited feasibility of recovery options following such extreme scenarios.</p>
Paragraph 90	<p>It is unnecessary to revise recovery plans unless a major change occurs concerning the business environment or the risk profile of the insurer and the implementation of the recovery plan is affected. It is sufficient to regularly verify that no material change took place in the business environment.</p>
Paragraph 91	<p>It is essential that host supervisors maintain robust coordination with the group-wide supervisor and, when necessary, communicate solidly with the insurer. In particular, it is essential that requirements by the relevant supervisors, ie, the host supervisor and the group-wide supervisor, do not contradict each other, and therefore make it impossible in effect for the insurer to meet both requirements. In addition, due consideration should also be given to ensuring that the</p>



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	burden on insurers to meet both requirements is not excessive, and that the business activities and the soundness of the insurer in other jurisdictions (jurisdictions other than the jurisdictions of the relevant supervisors) are not adversely affected.
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