15 October 2013

Secretariat to the Financial Stability Board
C/O Eva Hüpkes
Bank for International Settlements
Centralbahnplatz 2
CH-4002 Basel
Switzerland

Response to the Financial Stability Board’s (FSB) Consultation on the Application of the Key Attributes of Effective Resolution Regimes (KAs) to Non-Bank Financial Institutions

Dear Eva,

We are grateful for the opportunity to comment on the FSB’s consultation paper on effective resolution regimes for non-bank financial institutions. We have given the paper serious consideration, in particular focusing in the following pages on the resolution of insurance undertakings.

We would of course be happy to engage with you and your colleagues further if that were to be of assistance. We recognise that the subject of resolution regimes for insurers is, and will remain for some time, an area for debate. In particular, we note that there is a difference between equipping the relevant authorities with powers to implement a resolution and (we hope the rarity of) their use. Our view is that having a broad range of resolution powers, as set out in your proposal, is appropriate. Generally speaking any additional cost associated with expanding the range of powers available can be contained provided there is clarity about the circumstances in which they will be triggered. But there might be substantial cost associated with their use. All this calls for a clear framework that communicates to stakeholders the powers potentially available, triggers for their invocation and clear safeguards on their use.

In addition, we note that there is a risk that regulatory action in this area overly restricts the ability of the insurance industry to provide the sources of investment and growth that the wider economy requires. Hence we would encourage ongoing consideration of the benefits and the costs of resolution preparation. In particular, we would encourage recognition that the costs borne by insurers and reinsurers should be proportionate to the risks that they pose and factoring in the different priorities that the insurance business model requires. There should be no automatic read-across of the framework for banks to insurers.

Please feel free to contact us should you wish to discuss any aspect of our comments.

Yours sincerely,

David Strachan, Partner
EMEA Centre for Regulatory Strategy

Peter Carter, Director
Corporate Finance – Restructuring Services
Overall comments:

- Deloitte LLP welcomes these proposals through which the FSB seeks to tailor the application of its Key Attributes of Effective Resolution Regimes to non-bank financial institutions, including insurers.

- We recognise the desire to improve the existing resolution regime for insurers as well as the need for a framework that takes account of the specifics of the insurance industry and is consistent across jurisdictions. Nonetheless we note that there has not been a demonstrable failure of the powers currently available, in the circumstances tested within the UK to date.

- We note that increased clarity with respect to resolution frameworks is necessary for all stakeholders to understand the risks they face in offering, distributing, reinsuring and/or purchasing insurance products, and to make informed decisions.

- The powers proposed in the draft annex are extensive, and we recognise that they would be beneficial in many insurance insolvency scenarios, but they are also invasive and potentially costly. In order to increase the level of clarity over their use we feel there is a role for increased safeguards.

- In particular, we highlight the proposals to facilitate continued under-writing at the potential cost of pre-insolvency creditors. We recognise the potential benefit of continuity in certain circumstances, particularly when it facilitates the renewal of existing contracts. However, we do have concerns regarding the application of this power and further clarity as to the circumstances where it is anticipated to be employed, and the safeguards in place over it, would be beneficial.

**FSB consultative question**

22. Are the general resolution powers specified in KA 3.2, as elaborated in this draft guidance, together with the insurance-specific powers of portfolio transfer and run-off, as specified in KA 3.7, sufficient for the effective resolution of all insurers that might be systemically important or critical in failure, irrespective of size and the kind of insurance activities (traditional and ‘non-traditional, non-insurance’ (NTNI)) that they carry out? What additional powers (if any) might be required?

**Deloitte LLP’s Response**

- The current proposal offers an extensive toolkit to insurance supervisors, going well beyond powers typically available at present. Such powers should be used only when strictly necessary and this should be clearly recognised.
- We are not aware of any powers that are likely to be required, in addition to those presented within the draft annex.

**FSB consultative question**

23. Should the draft guidance distinguish between traditional insurers and those that carry out NTNI activities? If yes, please explain where such a distinction would be appropriate (for example, in relation to powers, resolution planning and resolvability assessments) and the implications of that distinction.

**Deloitte LLP’s Response**

- We do not see a need for insurers engaged with non-traditional, non-insurance activities (NTNIA) to be subject to a clearly distinct set of requirements relative to traditional insurers, when it comes to resolution planning.
- Indeed we recognise that the distinction between traditional insurance and NTNIA is likely to be, at least partly, subjective.
- While a sizeable traditional insurance failure should not result in a global systemic risk, it could well result in significant adverse policyholder impact,
and hence threaten the objectives stated in section 1.1 of the consultation. Removing powers from regulatory authorities in relation to the effective resolution of all insurers is therefore potentially unhelpful.

- However, we fully expect that the degree to which an insurer carries out NTNIA will be a focal point for its regulatory scrutiny, from a purely systemic perspective. This scrutiny will include any additional capital requirements, the level and nature of the insurer’s Recovery and Resolution Plan (RRP) as well as in the authorities’ assessment of any recovery actions.

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<tr>
<th>FSB consultative question</th>
<th>24. Are the additional statutory objectives for the resolution of an insurer (section 1) appropriate? What additional objectives (if any) should be included?</th>
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</table>
| Deloitte LLP’s Response   | • We welcome the inclusion of protection of insurance policyholders as a statutory objective for the resolution of an insurer.  
• We do not consider it necessary to include any further objectives within the proposed annex. We would, however, view it as worthwhile to clarify that the proposed objective of protection of insurance policyholders extends beyond direct financial loss to providing an appropriate level of continuity of cover, albeit recognising that this can be achieved in different ways. |

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<tr>
<th>FSB consultative question</th>
<th>25. Is the scope of application to insurers appropriately defined (section 2), having regard to the recognition set out in the preamble to the draft guidance that procedures under ordinary insolvency law may be suitable in many insurance failures and resolution tools are likely to be required less frequently for insurers than for other kinds of financial institution (such as banks)?</th>
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| Deloitte LLP’s Response   | • We recognise that the paper is primarily targeted at Global Systemically Important Insurers (G-SIs) (as outlined in section 2) but note that the majority of its contents could reasonably be extended to Domestic-Systemically Important Insurers (D-SIs) and other significant insurance firms. This is implied within the wording of this and later sections.  
• We are supportive of this extension, since some insurance failures could cause significant cost, principally on a domestic level, because of their real economic impact. If this is the intention of the FSB then this should be made clear to ensure consistent cross-country application.  
• Many firms that could be classified as a D-SI will have substantial overseas business, in addition to significant presence in their domestic markets. This is particularly, but not exclusively, the case across the EU where firms find it relatively easy to enter other EU markets through the freedom of establishment and services routes. The failure of such insurers, while not globally systemic, could still have significant costs. The ability of regulators to more readily resolve these firms would therefore have substantial potential benefits.  
• If there is not a relatively consistent international application of these powers and requirements both across all types of sizes of insurers and across countries, there exists a risk of regulatory arbitrage which, given the context,
would no doubt make orderly resolution harder rather than easier.

| FSB consultative question | 26. Does the draft guidance (section 4) adequately address the specific considerations in the application to insurers of the resolution powers set out in KA 3.2? What additional considerations regarding the application of other powers set out in KA 3.2 should be addressed in this guidance? |
| Deloitte LLP’s Response | Resolution trigger: |
|                      | • The proposed triggers for resolution are different to the UK insolvency triggers, and are likely to be different in turn to those applied in other major economies. There is also the potential for them to be viewed as internally inconsistent, particularly the distinction between viability of a firm and the probability applied to amounts that policyholders will receive. This is particularly the case in situations where there is a substantial amount owed to other unsecured / subordinated creditors. |
|                      | • Investors and creditors need to understand clearly the situation they face. This will be assisted by there being: |
|                      | o a clear trigger; |
|                      | o an approach that highlights how and when resolution could be used in advance of insolvency (if at all); |
|                      | o a common platform for resolution – is it appropriate for each country to have a different trigger that could result in, say, the regulator of a branch being able to take action before the parent entity’s regulator is able to do so? |
|                      | • The indicative triggers provided are subject to significant interpretation and open up the possibility that they could be applied inconsistently internationally (e.g. different interpretations of what constitutes unacceptably low probability). It would therefore be helpful to have further guidance from the FSB on the extent of discretion envisaged and the meaning of key terms for interpretation. |
|                      | • The extent of interpretation is particularly acute where the failure is not caused by a shortage of liquidity, as is generally the case in bank insolvency. This means there is a much extended time horizon over which the probability of payment in full to policyholders and the viability of the business need to be considered. |
|                      | • Clarity could be enhanced by establishing a degree of confidence against which the likelihood of policyholder payment in full and the future viability of the firm are assessed. Such confidence levels are regularly used by insurers in assessing their capital sufficiency, and while still subjective, would provide greater clarity. |
|                      | • It is also possible that some of these criteria may be triggered but not others. It would be helpful to provide clarity as to whether all of triggers (i) to (iv) and (v) need to be met or simply one of (i) to (iv) and separately (v). |
|                      | **Continued underwriting:** |
|                      | • You have opted to include a power for an insolvent entity to continue... |
underwriting. In relation to this:
  o has this power been included to allow for the renewal of existing policies only or does it have a wider objective?
  o is it intended that underwriting of genuinely new business could / would be carried out?
  o is it appropriate for the costs of new underwriting, potentially on the basis of the same pricing models that resulted in under-reserving (and hence assuming they generated unprofitable business), to be borne by the pre-insolvency creditors?
  o is this essentially a backstop power that would only be used in extreme circumstances?

  • In our view this power represents a very significant departure from the existing regulatory position. For example, it appears to go significantly beyond the Solvency II proposals and would not comply with current UK regulatory standards and expectations. We find it difficult to justify the imposition of further costs on creditors of an insolvent business by a decision to continue to under-write new business post insolvency where those creditors bear the risk. The underlying theme of much of your paper is to provide consistency with existing insolvency frameworks. We see this as being inconsistent with such frameworks.
  • Nevertheless we recognise that having a power available and using it are not the same thing. Should this power be retained then we would expect to see some mechanism employed as a safeguard at the time of the action, for example Court approval.
  • Additionally if new underwriting is to take place the benchmark could be that the underwriting should only take place where it will be profitable to a very high confidence level. However, we do envisage difficulties in how supervisory authorities would set and monitor that confidence level.
  • It would therefore be helpful for the FSB to clarify what is meant by the supervisory authority having the power to continue to write new business. Failure to do so effectively could put reinsurers and other unsecured creditors at risk of allowing the under-writing of ongoing loss-making direct business by the insurer in resolution.

Valuation:

  • A key difference between the failure of an insurer and a bank is that, in general, the valuation of a bank’s core deposit liability base is more readily and easily established. Uncertainty on the asset side is the main concern.
  • In addition to challenges regarding the valuation of assets, the liabilities faced by an insurer are subject to very significant uncertainty. The ultimate losses will generally develop over an extended period and, depending on the nature of the policy, may see types of claim emerge that were not anticipated at all, or in any volume, at the time the policy was written.
  • Nevertheless, we consider that greater reflection of the valuation challenges may be required in practice, for example providing "true up" mechanisms in the restructuring proposals and by providing clarity over the potential
compensation available. For this reason we welcome the power to adjust the extent of bail-in suffered by creditors.

- Because of the uncertainty as to liability values we do not consider that it will always be appropriate for a single estimated monetary payment to be used as compensation. This is particularly the case for life cover given the challenges the policyholder may face in purchasing equivalent protection and the potential tax implications of that payment being made. It may therefore be necessary for compensation to be paid over the life of the policy, not as an estimate early in the resolution.

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<th>FSB consultative question</th>
<th>Pari passu principle:</th>
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| 27. Does the draft guidance deal appropriately with the application of powers to write down and restructure liabilities of insurers (paragraphs 4.4 to 4.6)? What additional considerations regarding the application of ‘bail-in’ to insurers (if any) should be addressed in the draft guidance? | - The Key Attributes for G-SIFIs specify that bail-in be available and that losses should be borne by shareholders and creditors in a manner consistent with the creditor waterfall.  
- We are supportive of this approach and agree that utilising the pari passu principle wherever possible is very important since it underpins policyholder expectations. |

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<th>Deloitte LLP’s Response</th>
<th>Valuation issues:</th>
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| - We have described above the challenge for valuation of insurance liabilities. The ability to do so rapidly is crucial. We recognise that this is a challenge facing bank resolution and one which we are not aware has been satisfactorily answered. Arguably for insurers aspects of the problem may be greater than that faced by the banks (particularly for long-tail business).  
Bail-in requires a rapid assessment of liability and asset values and while valuations can be applied these may be markedly out if there is future adverse loss development, particularly if the liabilities have an extended tail. The implication of this uncertainty is that the valuation of the bail-in may have to be very conservative to provide not only for volatility in the book but also to provide surplus capital on top.  
As a consequence we firmly agree with your proposal to provide a mechanism to return any upside to affected creditors. We would expect this to be done on the basis of the extent of the loss they have suffered and their position in the creditor hierarchy, i.e. in a manner consistent with pari passu treatment. | - The proposals deal with the reduction in the value of insurance and reinsurance claims but do not deal with non-(re)insurance liabilities, other than through the linkage into bail-in. Pension fund liabilities for instance may need to be reduced to facilitate a re-capitalisation. Hence the FSB may wish to provide clarification that national governments are expected to implement |
mechanisms that would also see reductions in other creditor claims – as set out in the main KA paper.

**Conflicts of allowing divergence from the pari passu principle and policyholder losses:**

- As noted above, we welcome the commitment to seeking to operate within the pari passu regime wherever possible.
- Nonetheless we recognise that there may be circumstances where it is not possible to do so completely and the powers you have included appear to provide regulators with the tools that they are likely to require, subject to the confirmation that powers will be available to write down other creditors.
- However, we note that the power of the national regulator to distinguish between the reduction of different types of insurance liabilities (e.g. certain annuities or guarantees or options) may lead to potential policyholder subordination for certain products based on the preferences of the national regulator over the product lines that are written down in resolution.
  - National regulators could, for example, implicitly favour policyholders in their country by writing down the value of liabilities of policies that are more prevalent in other countries.
  - Equally national regulators may have other reasons for such write downs being targeted at particular products with the result that the risk of the product does not accord with of the risk the policyholder anticipated on acquisition.
- We recognise that there is no easy solution to this but would expect any such restructuring to require some form of Court approval and be commenced with the intention that as far as possible the pari passu principle should be observed, and with any write down being broadly consistent across policyholders.
- As discussed, we particularly welcome the recognition that structures may be used to allow for the subsequent “write-up” of liabilities. To the extent that such an approach is employed we suggest that, as far as possible, it first be used to equalise policyholder treatment with any further increments being made on a broadly pari passu basis.
- Within the annex there is no reference to national priority regimes, albeit we note that there is a commitment to remove such regimes in the main KA document. One mechanism regularly employed (outside the EU) for such a preference is the use of collateralisation for overseas branches. To what extent is it anticipated that such collateral arrangements, particularly for reinsurance creditors, could be affected by the write down in liabilities? In addition, the liquidity impact of collateral margins increasing as the financial condition of the insurer deteriorates needs to be considered.

| FSB consultative question | 28. Is it necessary or desirable for resolution authorities to have the power to temporarily restrict or suspend the exercise of rights by policyholders to withdraw from or change their insurance contracts in order to achieve an effective resolution (paragraph 4.9?) |

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| Deloitte LLP’s Response | • In principle, Deloitte LLP sees the benefit of providing this power to the Resolution Authority in order to achieve effective resolution. However, as per the point in question 27, we see a case for the FSB providing more guidance over the safeguards relating to its application and the mechanism that needs to be in place to resolve disputes.  
• In particular this guidance should account for the impact of such measures on policyholders ahead of other unsecured or subordinated creditors and the general powers of the company to impose reductions in value (for example through market value adjustments) for policyholders seeking to withdraw in such circumstances, as was the case with Equitable Life.  
• Alternatively, and going forward, should it be a requirement on firms to ensure that any consequences of giving authorities such power is written into policyholder contracts so that they are aware of the risks of this taking effect? |
| --- | --- |
| FSB consultative question | 29. Are there any additional considerations or safeguards that are relevant to the treatment of reinsurers of a failing insurer or reinsurer, in particular to:  
(i) the power to transfer reinsurance cover associated with a portfolio transfer (paragraphs 4.7 and 4.8); and  
(ii) the power to stay rights of reinsurers to terminate cover (paragraph 4.10)? |
| Deloitte LLP’s Response | 29(i): the power to transfer reinsurance cover associated with a portfolio transfer  
• Having an internationally consistent ability to transfer business would be extremely helpful. This is an area where standards differ markedly internationally, both in terms of the ability to genuinely transfer books of liabilities and the ability to transfer reinsurance assets. We recognise that significant progress has been made across the EU, but the transfer of reinsurance assets remains inconsistent.  
• The transfer of liabilities and accompanying reinsurance cover will depend upon the ability to fund it (such that the capital position of the recipient is not diluted, and the existing policyholder position worsened, by the incoming liabilities). This includes making up any capital shortfall. Being able to simultaneously transfer other assets, including financial assets, alongside the liabilities and reinsurance would simplify such transactions by avoiding the need for other, concurrent, processes.  
• Any such process should also have regard to the full range of interested parties. The current proposals do not provide protection that would consider the implications for existing policyholders of the recipient entity from the incoming risks in particular.  
• In order to provide a proper safeguard, some form of expert’s report, perhaps similar in fashion to the UK Part VII transfer arrangements under the Financial Services and Markets Act 2000, should be considered. These require an Independent Expert’s report on the implications of the proposed transfer which can be considered by the Court. But we acknowledge that to do so might give rise to a potential delay in the process.  
• Such protection could also be achieved through an alternative means. A |
variable transfer deed could be employed such that the transferred liabilities / capital injection in support of the transfer could be varied dependent upon an Independent Expert’s review post-transfer. This would allow time for a more considered approach to valuation of the transfer.

- We also consider that, in addition to the use of transfers as a resolution tool, some form of portfolio transfer tool, including reinsurance asset transfers, should also be available for solvent companies to support recovery actions.

29 (ii) the power to stay rights of reinsurers to terminate cover?

- First, we believe that insurance companies should consider the terms of their reinsurance contracts, including the ability of their reinsurer to terminate cover during resolution, as part of their RRP – if one is prepared.
- We do see the benefit of having this power and have first-hand experience of reinsurers terminating their cover following an insurer’s insolvency. Clearly having such cover remain in place would support a potential transfer.
- However, we would want to ensure that this process is subject to proper safeguards and should only be available in extreme situations.
- One possible safeguard would be to require Court approval for any change to the contractual terms between the insurer and reinsurer. If such a process is thought likely to be time-consuming and hence impede resolution a temporary stay on cancellation rights could be allowed for ahead of such a Court hearing to determine the final position.

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### FSB consultative question

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<th>30. What additional factors or considerations (if any) are relevant to the resolvability of insurers or insurers that carry out particular kinds of business (section 8)?</th>
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**Deloitte LLP’s Response**

- One resolvability issue where the insurance industry can substantially differ from banking is the outcome of a No Creditor Worse Off (NCWO) analysis.
- In particular, within insurance there may not be the value damage that is generally seen within the banking sector, where recoveries for subordinated and / or unsecured creditors are likely to be low.
- The nature of the insurance market generally lends itself to extraction of value from the run-off of business and recoveries can be high (for example, Anglo American Insurance had a creditor dividend in excess of 100%). Recoveries to creditors of 50-75% are not uncommon.
- The consequence of this is that a NCWO approach is likely to be much more volatile in an insolvent insurer and hence short-term action that reduces the recovery of value for creditors is more likely to result in a compensation claim in the medium term.

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### FSB consultative question

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<th>31. What additional matters (if any) should be covered by recovery plans or resolution plans for insurers or insurers that carry out particular kinds of business (section 9)?</th>
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**Deloitte LLP’s Response**

Overall comments on an insurer’s RRP:

- Insurers can benefit from further clarity on the content and targeting of a
The work required to underpin a firm’s RRP should be proportionate to its size, potential impact of failure, and reflect the likelihood of that firm being hit by a “fast-burn” type insolvency. For example if contractual positions are identified that may escalate a liquidity crisis the level of planning should be increased as a consequence. Equally where an insurer provides simple, traditional insurance products with relatively limited liquidity risks and debt funding, then an expectation of more gradual decline should allow a lighter touch to RRP preparation.

In our view, the RRP should be a document reviewable by one person over the course of the day. Its length and level of comprehensiveness should reflect this timetable.

It is therefore necessary for the RRP to be short and focused on the implementation (and effect of) recovery actions as well as resolution strategies for the areas of the business that have given rise to the insurer’s failure.

The resolution plan, in particular, should contain concise summaries of activities and explanations of why the issues addressed by them are relevant in resolution. It should ensure that (and explain how) the up-to-date position can quickly be ascertained during a resolution, rather than providing all the necessary detail.

The focus should therefore be on avoiding data overload.

This would then allow the RRP to focus predominantly on those actions likely to be immediately necessary (for example maintaining payments to annuitants and protecting assets) while recognising that there will be more time to deal with other matters relevant to the long-term resolution of the business.

The RRP should be underpinned by an analysis of the firm’s key areas of activity and focal points brought from its Systemic Risk Management Plan (SRMP).

The RRP should also include focus on the operational requirements of the business and the ability to rapidly ascertain the financial position at the point of resolution, and support the analysis necessary to consider alternative creditor write down / transfer approaches.

The RRP should be seen as a component of a strong governance regime, rather than a separate regulatory requirement – this will only be achieved if it becomes a relevant, manageable and ‘living’ document.

We would be happy to engage in detailed dialogue with the FSB regarding the potential content of an RRP. In particular (and in addition to the points within the FSB’s paper) we would expect that such a document should clearly set out the key stakeholders for the business, their communication requirements and the responsibility / contact points for doing so, key operational requirements for a wind-down / transfer of business and the availability, structure and operations of the systems relevant to a resolution event.
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<th>FSB consultative question</th>
<th>Deloitte LLP’s Response</th>
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| 32. Are the proposed classes of information that insurers should be capable of producing (section 10) feasible? What additional classes of information (if any) should insurers be capable of producing for the purposes of planning, preparing for or carrying out resolution? | • We recognise the desire to provide a full suite of resolution information at the earliest opportunity. We would hope to see a move away from providing all data through RRPs to ensuring that the data provided in this way is not so over-burdensome that it becomes impossible to use effectively. We have seen this happen on some bank RRPs. This should be achieved by focusing on data requirements for the start of any resolution and those actions necessary to effectively manage the early stages of an insurer's failure – particularly around staff, systems, outsourcing arrangements and policyholder communications. In relation to the specific list of information included within section 10 of the Annex:  
  o We agree that underpinning the RRP should be a focus on the key effects of insolvency and that this can be identified through a strategic analysis of the type described in section 10.3.  
  o In relation to section 10.10 we note that the coverage provided by policyholder protection schemes should be a key requirement for firms. We would be surprised if this information had been reviewed in detail by many firms, unless for the purposes of an Insurance Business Transfer or similar. This may therefore require some investment by each firm but it will significantly aid understanding of potential resolution strategies.  
  o We recognise the importance of documenting the actuarial assumptions. The key issue for any insolvency practitioner or Resolution Authority in dealing with a rapid valuation will be ensuring their own experts can work with the firm’s experts to understand the position as fully as possible. This is therefore just one area where simply documenting the assumptions in the RRP will not be as beneficial as ensuring that the key team members and their working papers are available upon resolution.  
  o It appears that much of the information requested is to be developed during the recovery phase, rather than in the ordinary course. If this is not the case it should be noted that the following may only be possible, to any level of detail, once a firm’s financial position is weakening and the risks facing the business become clear. In particular:  
    o We believe that work can be undertaken to consider the information necessary to underpin the transfer of business to a third party purchaser on a theoretical basis. However, in the absence of an identified purchaser it would be very difficult, if not impossible, for detailed preparation to take place. The analysis as a whole would generally take into account the position of the receiving as well as the transferring party.  
    o In point 10.10 (viii) you suggest preparing an estimated outcome for each class of policyholder, and in (vii) you refer to the impact of recovery levels. In order for this analysis to be provided in any detail the |
potential level of risk, and location of the specific threat to the business, needs to be clearly identified. We do highlight the importance though of understanding the application of priority across creditor groups and the internal reinsurance, guarantee and other capital maintenance agreements in place across the firm.

- In relation to additional information, we would expect any failing insurer to properly prepare its communications strategy. While this level of detail would not be required for an RRP in the ordinary course the identity and interests of key policyholder groups should be reflected in it. In addition, the internal mechanisms for the Resolution Authority, guarantee scheme and IP to update the communications to policyholders should be spelt out in detail.
- We would also expect to see key systems and process implications arising from adapting the payments / liability to policyholders and in terminating and replacing cover to be identified. This will also need to include local regulatory requirements, for example the recovery and re-issue of insurance certificates.

FSB consultative question

33. Does this draft Annex meet the overall objective of providing sector-specific details for the implementation of the Key Attributes in relation to resolution regimes for insurers? Are there any other issues in relation to the resolution of insurers that it would be helpful for the FSB to clarify in this guidance?

Deloitte LLP’s Response

- The draft Annex is a significant advance in terms of providing sector-specific details for the implementation of the KAs in relation to resolution regimes for insurers.
- We do see a need for certain provisions, such as the circumstances under which a Resolution Authority is to exercise its various powers or the content of an RRP, to be clarified further.
- In addition to the issues discussed above, we have identified the following:

Policy protection schemes:

- We support the creation of a more consistent network of policyholder protection schemes funded by industry. This will provide an additional resource available to support the resolution of and minimise the adverse policyholder impact of failing insurers.
- Authorities should be able to rely on such schemes having a certain degree of flexibility.
- In particular, providing protection to policyholders below 100% of their claim introduces a significant operational challenge to the insurer which may need to change its systems to enable a reduction in payments. These challenges can result in substantial delays in pay-outs. It may be more supportive of the resolution regime meeting its policyholder protection objective if the authorities can use the Scheme to cover 100% of policies for a short period of time while such logistical problems are overcome.
- In addition, policyholder protection schemes should be able to assist in funding transfers of business or re-capitalisation efforts.
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