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Perbadanan Insurans Deposit Malaysia

Protecting Your Insurance And Deposits In Malaysia

NRS | NATIONAL RESOLUTION SYMPOSIUM 2024

23 - 24 September 2024

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INSURANCE MASTERCLASS:
Planning for resolution

Moderator:
WAN AHMAD IKRAM WAN AHMAD LOTFI
Executive Vice President, Perbadanan Insurans Deposit Malaysia

Panelist:
SEONGHUN KIM
Senior Manager, Department of Resolution, Korea Deposit Insurance Corporation

Panelist:
LEE KOK WAH
Former Chief Financial Officer, FWD Insurance Berhad

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Resolution of Insolvent Insurers and Case Study

KIM, Seonghun, CFA

Senior Manager, Department of Resolution

Korea Deposit Insurance Corporation

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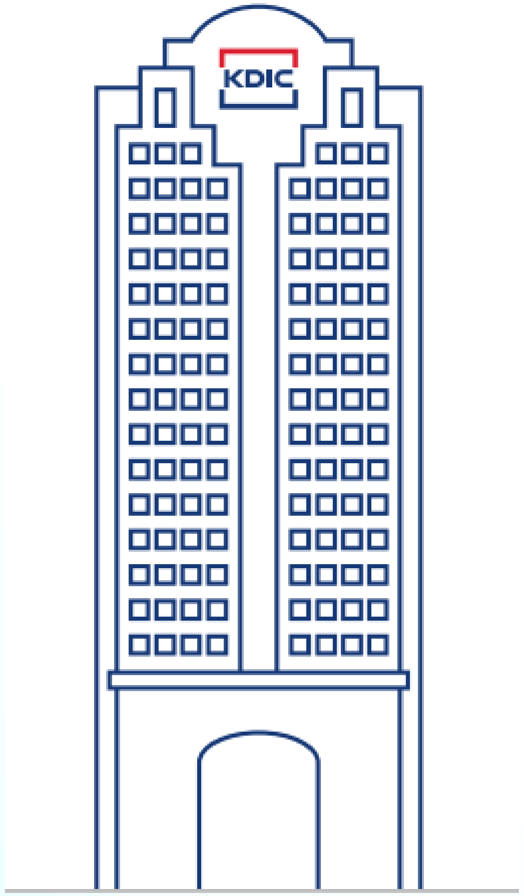


1. Resolution Methods
2. Resolution Cases
3. Current Progress
4. Future Challenges

I. Resolution Methods

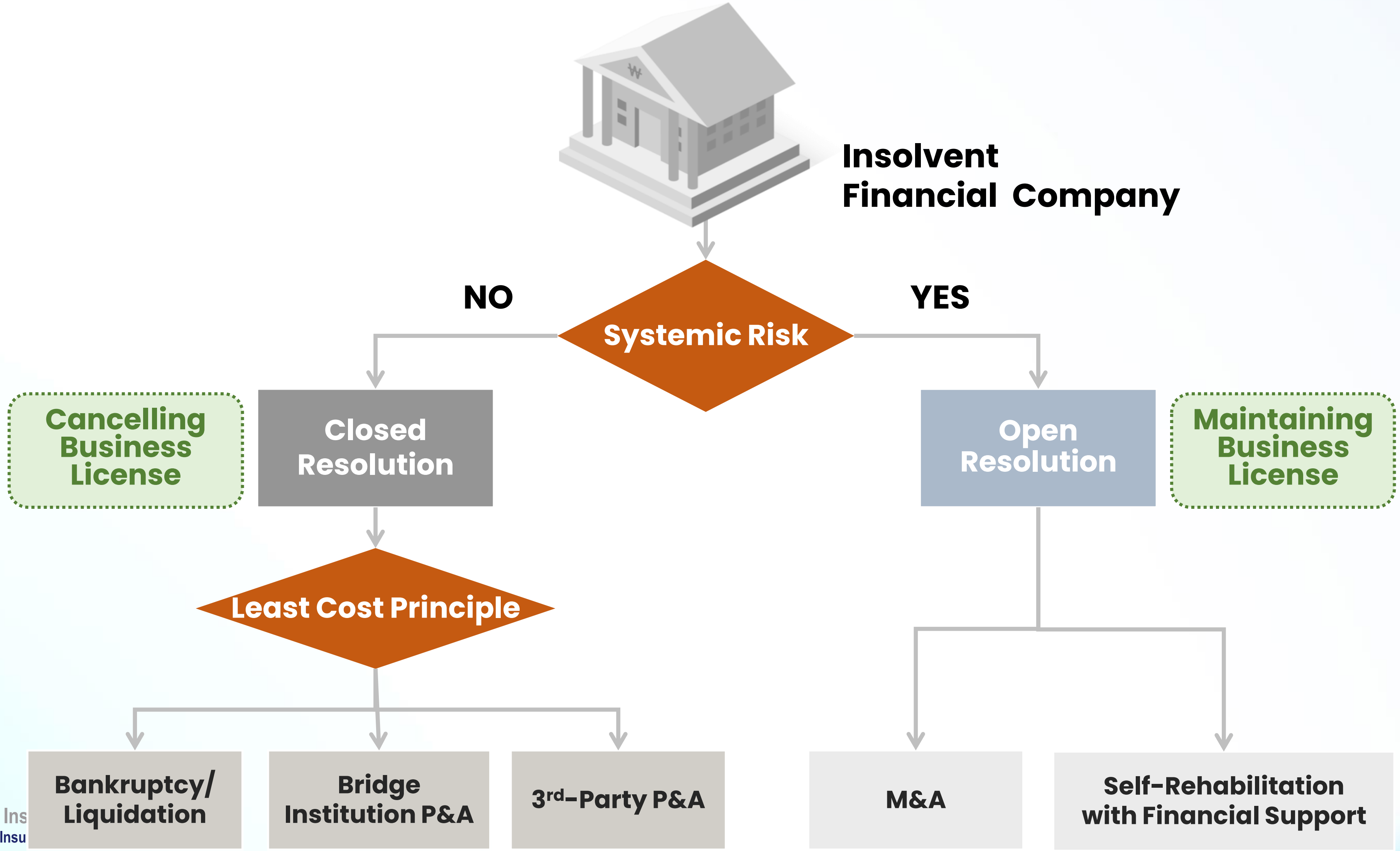
1. Insurer Failures in Korea

◆ Policyholders were fully protected, considering the social security nature and economic losses of insurance contracts

- KDIC has resolved 20 insurers since its inception
  - ✓ Injected amount by KDIC: total of USD 17.6 bil.
  - ✓ Resolution Methods
    - ➢ Portfolio Transfer (11), M&A (7), Financial Assistance (2)

	Total	1998	1999	2000	2001	2002	2004	2012
Portfolio Transfer	11	Life (4)	Life (1)		Life (2)	Life (1) Non-life (1)	Life (1)	Non-life (1)
M&A	7			Life (5)	Non-life (2)			
Financial Assistance	2		Life (1) Non-life (1)					

2. Decision Tree for Resolution



II. Resolution Cases

1. P&A: Green Non-Life Insurance

◆ What happened to Green Non-Life Insurance?

- **Company Overview**
  - ✓ Established in 1947
  - ✓ Asset size: 1.5 trillion won (1% of the non-life insurance market as of 2012)
  - ✓ 757 Employees, 69 Offices/Branches, 761 Agents, 2193 Insurance planners
- **Causes of Failure**
  - ✓ High loss ratio of insurance contracts
  - ✓ Large stock valuation losses sparked by Global Financial Crisis in 2007-2008

➡ Designated as an **insolvent financial institution** in 2012 by FSC

1. P&A: Green Non-Life Insurance

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◆ Main resolution procedures

- **2012. 5.16.** — Designated as insolvent Financial Company by FSC
- **2012. 7.18.** — Management Suspension Order and Appointment of Administrator by FSC
- **2012. 8.23.** — Bid for acquisition of Green Non-Life Insurance by KDIC
- **2012. 11.19.** — Jabez Partners selected as a preferred bidder
- **2013. 2.13.** — Deposit Insurance Committee's determination of financial support for the P&A

1. P&A: Green Non-Life Insurance

◆ Main resolution procedures (continued)

2013. 5.3.
- P&A selected as resolution option
- Issuance of Business Suspension Order (6 months) by FSC

2013. 5.8.
- KDIC's Execution of financial support for P&A transaction

2013. 8.30.
- KDIC paid ex-post settlement amount to MG Non-Life Insurance

2013. 10.2.
- FSC's decided on the Revocation of the License and the result of the P&A is officially reported

2013. 11.1.
- Bankruptcy Court declared the bankruptcy of Green Non-Life Insurance

1. P&A: Green Non-Life Insurance

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◆ Backgrounds for implementing M&A and P&A

- **Rationale for simultaneous implementation**
  - ✓ To provide a wide range of options to potential buyers
  - ✓ Effort to minimize the amount of financial injection from KDIC
- **M&A method was assumed**
  - ✓ to offer better chance of employment succession and protection of creditors
  - ✓ to provide much simpler process to potential buyers
  - ✓ Based on the judgment that Green Non-Life Insurance's financial condition was not severely damaged

➡ Nevertheless, **all 3 bidders chose P&A method in the preliminary bid**

1. P&A: Green Non-Life Insurance

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◆ Comparison of Resolution Tools for Insurance

	Sales of shares (M&A)	Transfer of insurance policies (P&A) by establishing a new insurance firm
Legal Characteristics	Contract (Transfer of Shares)	Administrative Measure (Determination of P&A) & Private Contract (Transfer of Shares)
What is Transferred?	All assets and liabilities	Part of assets and liabilities (excluding subordinated debts and others)
Legal Effect	Comprehensive transfer of all rights and responsibilities of the financial institution	Comprehensive transfer of all rights and responsibilities related to transferred assets and liabilities
Contingent Liabilities	Yes (Contingent liabilities may occur after assumption)	No (Contingent liabilities are not assumed)
Succession of Employment	Yes (There are legal responsibilities to retain employments)	Yes/No (There are no legal responsibilities to retain employments)
Acquisition Premium	Yes	Yes
Minimization of Resolution Costs	Yes (Net Asset Deficiencies - Acquisition Premium)	Yes (Net Asset Deficiencies - Subordinated Debts - Acquisition Premium)
Notable Cases	Daehan, Kookjae Fire Insurance	Daishin, Hanil Life Insurance

III. Current Progress

III. Current Progress

◆ What happened to MG Non-Life Insurance Company?

- FSC designated it as an insolvent financial institution in April 2022
- **Largest shareholder** filed an **injunction & lawsuit**
  - ✓ In order to cancel the regulator's insolvency determination
- 3 rounds of **public sales** have failed (January, August 2023 & March 2024)
- **Financial status remains unstable**
  - ✓ High loss ratio is continued
  - ✓ Market condition is worsening due to high interest rate
- KDIC is proceeding with a private contract procedure in accordance with laws

III. Current Progress

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◆ Key Issues to be Considered

- Bankruptcy/Liquidation is given the last priority among the resolution methods.

Bankruptcy /Liquidation →
1. Policyholders' loss
2. Gap in risk protection
3. Increase of system risk

- The present value calculated by applying actuarial assumptions (Lapse, Risk rate) to insurance liabilities needs to be reflected in the sale price.

Insurance Company		Bank
Long-term debt	↔	Short-term debt
Market valuation		Cost evaluation

IV. Future Challenges

IV. Future Challenges

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◆ Heavy Reliance on Government Support

Moral hazard among policyholders and carriers → Financial burden to KDIC

◆ Adoption of IFRS 17 and K-ICS* Rules

* Korea's Insurance Capital Standard

Changes in actuarial assumptions → Unexpected burden of capital raising

◆ Introducing Loss-sharing Resolution Regime

Introduction of Bail-in Scheme → Market unrest over bearing losses

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Planning For Resolution

Lee Kok Wah

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Successful integration is built on

Detailed planning

Proactive management

The Foundation of Resolution (M&A) – Due Diligence

Information gathering (review of financial statements, legal documents, and operational data)

- Constraints by time and resources
- Time sensitive data

Assessment of risks and opportunities

More information allows for detailed planning, accurate modeling and financial projection

Seamless Transition – Integration Planning

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Aligning operating models and systems

- Pro and cons of different operating models
- Knowledge on legacy systems may be limited

Cultural alignment and synergy realization

Steps for a smooth post-merger integration – know the dependencies, establish governance over decisions and authorities, financial plans and commitments

Navigating Legalities – Regulatory Compliance & Contracts

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Transfer or novation of licenses/contracts – avoid disruption of any technical services to the business

Compliance with relevant laws and policies (anti-money laundering (AML) policies, anti-bribery and corruption due diligence)

Cross-border exercise further complicates

Keeping Stakeholders Informed – Communication Strategy

Effective communication with employees, customers, and investors

- Employees would be worried about their employment
- Customers would be concerned whether their policy benefits would be honored

Managing expectations and reducing uncertainties

Mitigating Uncertainties – Risk Management & Cultural Integration

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Addressing and aligning cultural differences – employees may not fit into the new environment

Identification of potential risks – attrition of employees and business partners, service disruption or errors arising from new systems, incomplete or uncleaned data from legacy systems

Development of strategies to mitigate risks

Orchestrating Success – Project Management

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Establishing a clear project management structure

Defining roles, responsibilities, and key milestones

Realistic timeline and plan for the unexpected

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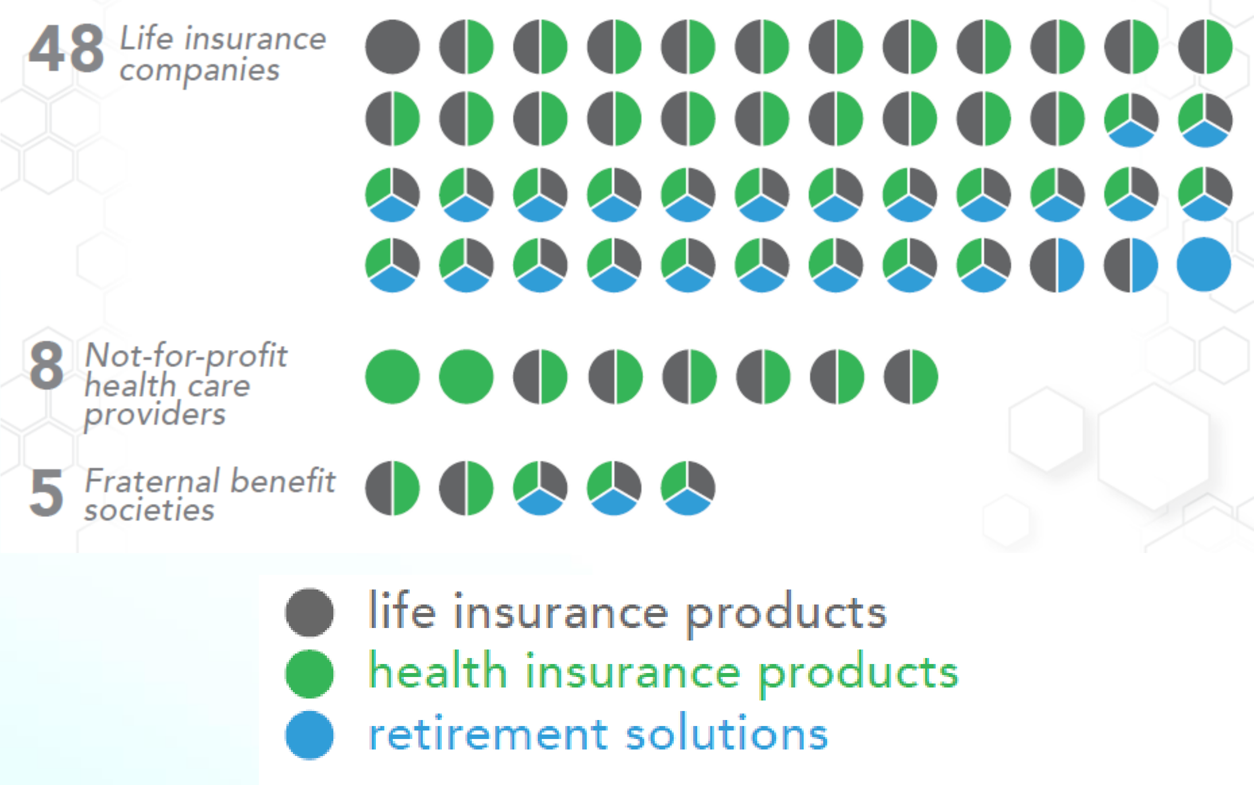
Resolution Planning for Life Insurers in Canada

Paul Petrelli

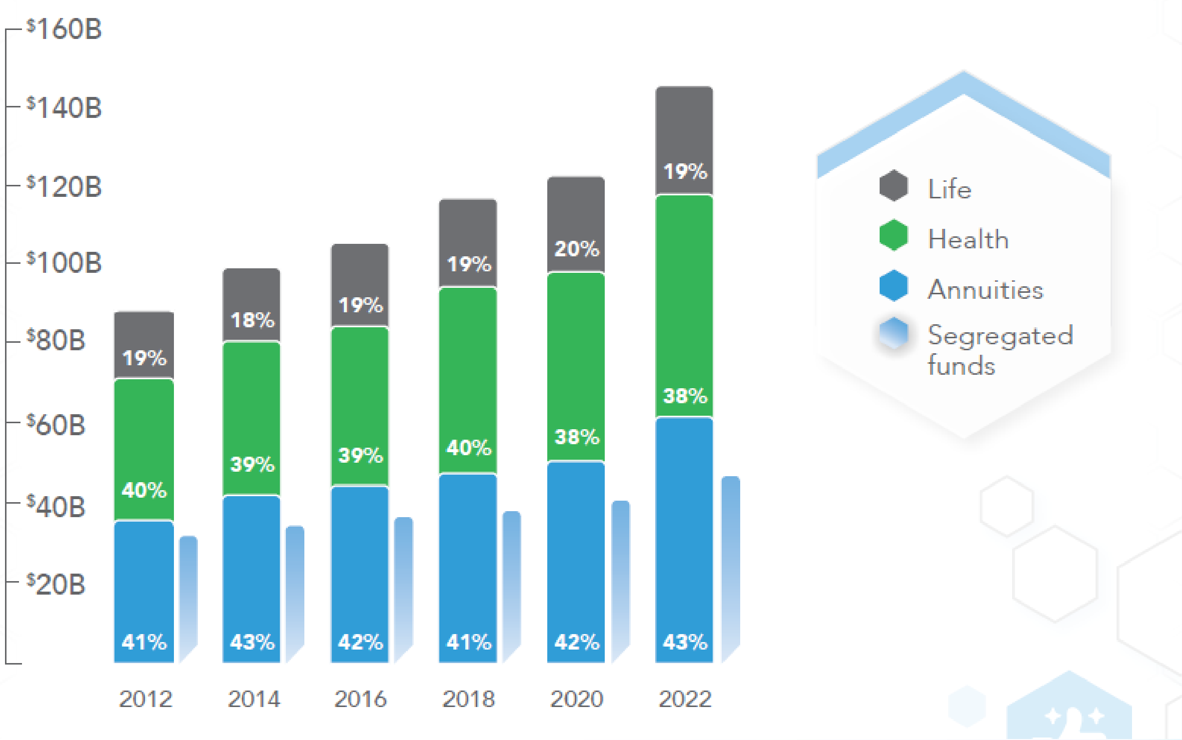
President & CEO

Assuris

Canadian Life Insurance Market



CAD$145 Billion in premium revenues in 2022



Source: Canadian Life & Health Insurance Association *Canadian Life & Health Insurance Fact Book* 2023 Edition

Canadian Life Insurance Market Segments

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Canadian Life Insurance Industry

IAIGs*	Bank Subsidiary	Small-Medium Sized	Other
3 companies (~75% of market)	3 companies (~5% of market)	24 companies (~19% of market)	31 companies (~1% of market)

* Internationally Active Insurance Groups

Internationally Active Insurance Groups

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Canada is the home jurisdiction for three Life Insurance IAIGs

Manulife

	FY2023 (CAD$)
Market Cap:	65.5 billion
AUA:	1.4 trillion
Revenue:	45.5 billion
Operations in:	
Bermuda	Japan
Cambodia	Macau
Canada	Malaysia
China	Myanmar
European Union	Philippines
Hong Kong	Singapore
Indonesia	USA
	Vietnam

canada life™

	FY2023 (CAD$)
Market Cap:	41 billion*
AUA:	568 billion
Revenue:	32 billion
Operations in:	
Bermuda	
Canada	
Ireland	
Germany	
UK	
USA	

* Market cap of parent GWO

Sun Life

	FY2023 (CAD$)
Market Cap:	42.5 billion
AUA:	1.4 trillion
Revenue:	47.5 billion
Operations in:	
Bermuda	Malaysia
Canada	Philippines
China	Singapore
European Union	UK
Hong Kong	USA
Indonesia	Vietnam

Canadian Resolution Framework

Solvency focus

OSFI BSIF

AUTORITÉ DES MARCHÉS FINANCIERS

Prudential Supervisors

Guide to Intervention

MOU info sharing

Canada-wide private funding model

Assuris

PACICC

Insurance Guarantee Schemes

Participating Agreements

Membership condition of licensing

Consumer protection focus

Provincial and Territorial Regulators

Control Order triggers resolution

Court-Appointed Liquidator

- Loan Agreement funds resolution
- Largest priority creditor
- Appointed inspector to assist and advise
- Template liquidation agreements

- Orderly, transparent and equitable process
- Policyholder priority facilitates the transfer of the business
- Best transaction sells liabilities for least amount of assets

Intervention Stages

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OSFI BSIF — AUTORITÉ DES MARCHÉS FINANCIERS: Lead authority

Assuris: Lead authority

Business As Usual	Stress	Recovery	Resolution
Capital ratio above operating target	Capital ratio below operating target	Capital ratio below supervisory target	Capital ratio below minimum target
Entity-financed business	Entity-financed stress protocols	Entity-financed recovery	Assuris-financed resolution
Insurance Companies Act legislation	Insurance Companies Act legislation	Insurance Companies Act legislation	Winding-Up & Restructuring Act legislation

Assuris works in partnership with the prudential supervisors in the intervention process seeking to both minimize long-term costs and preserve consumer perceptions of industry strength

Assuris Mandate

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De facto Authority

- Lead authority in resolution
- Work closely with prudential supervisors who trigger resolution
- Work closely with court-appointed liquidators who are accountable to court under WURA
- Work closely with international resolution counterparts

Resolution Expert

- Experience with past failures
- Current work with restructuring professionals
- Advice to prudential supervisors in the early stages of intervention
- Significant role in court-based insolvency process
- Role in developing international best practices for insurance

Funding Powers

- Influence resolution strategy through contract with liquidator to fund policyholder protection
- Guarantee minimum level of policyholder benefits and provide liquidity, guarantees and indemnities to support transfer
- Can support pre-insolvent financial commitments
- Owns CompCorp Life, a bridge insurer or asset / liability management vehicle

Independent

- Independent in the public interest with strict conflict of interest rules
- Protection, funding and resolution implementation decisions do not need member approval
- Performs independent failure and resolution risk analysis based on confidential member information

Consumer Awareness

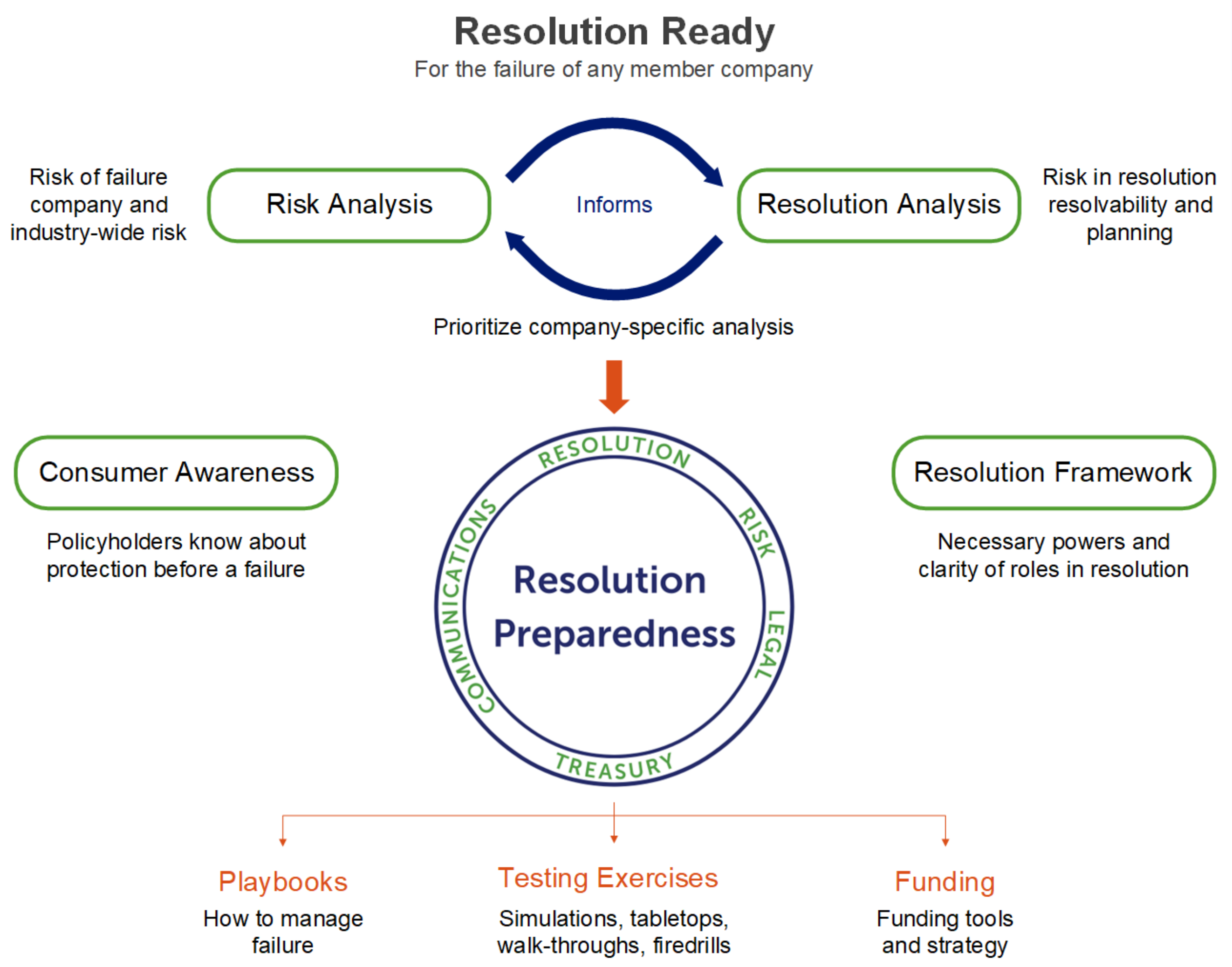
- Raise awareness of Assuris protection in peace time and during a resolution
- Educate financial advisors to communicate Assuris protection at the point of sale
- Work with member companies to ensure policyholders receive Assuris information
- Maintain social media tools to activate increased information during a resolution
- Crisis Communications

Assuris is Experienced in Resolution

- **1990** — Assuris is founded by the Canadian life and health insurance industry
- **1992** — Les Coopérants
- **1993** — Sovereign Life
- **1994** — Confederation Life
- **2012** — Union of Canada

In all four cases, policyholders were transferred to a solvent company where their benefits continued to be honoured

Assuris Business Model: Resolution Ready



Assuris Resolution Objectives

Assuris acts independently in the public interest and sets its resolution objectives as follows:

- Protect policyholders and support the continuation of benefits
- Minimize the cost of failure to the industry
- Contribute to public confidence and financial stability

We balance the objectives in proposing the resolution strategy based on the specifics of the resolution to best meet the needs of our stakeholders.

Life Insurance Resolution Strategies

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Recapitalize

To facilitate restructuring (non-tested approach)

- Pre-insolvent resolution strategy
- Assuris could provide funds through a loan agreement or by obtaining financial interests in the company
- Assuris must be repaid ahead of other creditors, there must be a change in control of the failed insurer, and this must be the most cost-effective solution
- Very rare circumstances in which this option would be viable

Transfer

To a solvent company (traditional approach)

- Minimizes cost by realizing the embedded value in the business
- Transferred as a whole or in separate blocks via assumption reinsurance transaction
- Assuris funding can be used in a variety of ways, for example: (i) provide a cash top up to the balance sheet; (ii) exchange risky assets for safer assets and then workout the risky assets; (iii) provide a financial guarantee or backstop for risky liabilities to limit losses for acquiring insurer

Run-off

To resolve unsaleable business (back-up plan)

- Next available option when unable to restructure or transfer the business in a timely manner
- Run-off in bridge insurer (CompCorp Life) or in liquidation under WURA
- Can be used to preserve the value of an undesirable business over several years until market conditions improve and a buyer can be found

Assuris Resolution Planning Priorities

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High priority for resolution planning

Failure Risk

High Failure Risk + Low Resolution Risk	**High Failure Risk + High Resolution Risk**
Low priority	High priority
Low Failure Risk + Low Resolution Risk	**Low Failure Risk + High Resolution Risk**
Not a priority	High Priority

Resolution Risk

Resolution Planning is the process of developing comprehensive strategies and action plans for effectively transferring all or parts of a business to another market participant or running off its operations in the event of a failure, assuming recovery actions are not feasible or have proven ineffective.

Assuris Resolution Measure

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Assuris calculates a resolution measure to identify resolution risk.

For every member company, Assuris calculates a **Resolution measure** using available regulatory information. A ratio below 100% indicates policyholders are at risk of loss if their member company fails.

$$\text{Resolution measure \%} = \frac{\text{Realizable Assets in Canada}}{\text{Exit Value of Canadian Policyholder Liabilities}}$$

Benefits

- A quantifiable view on resolution risk for all member companies with an easy-to-calculate standard measure
- Insight into a company's weak in-Canada solvency position despite adequate or strong regulatory capital
- A unique perspective in Assuris discussions with the prudential supervisor on company risks and regulatory information

Resolution Measure Illustration

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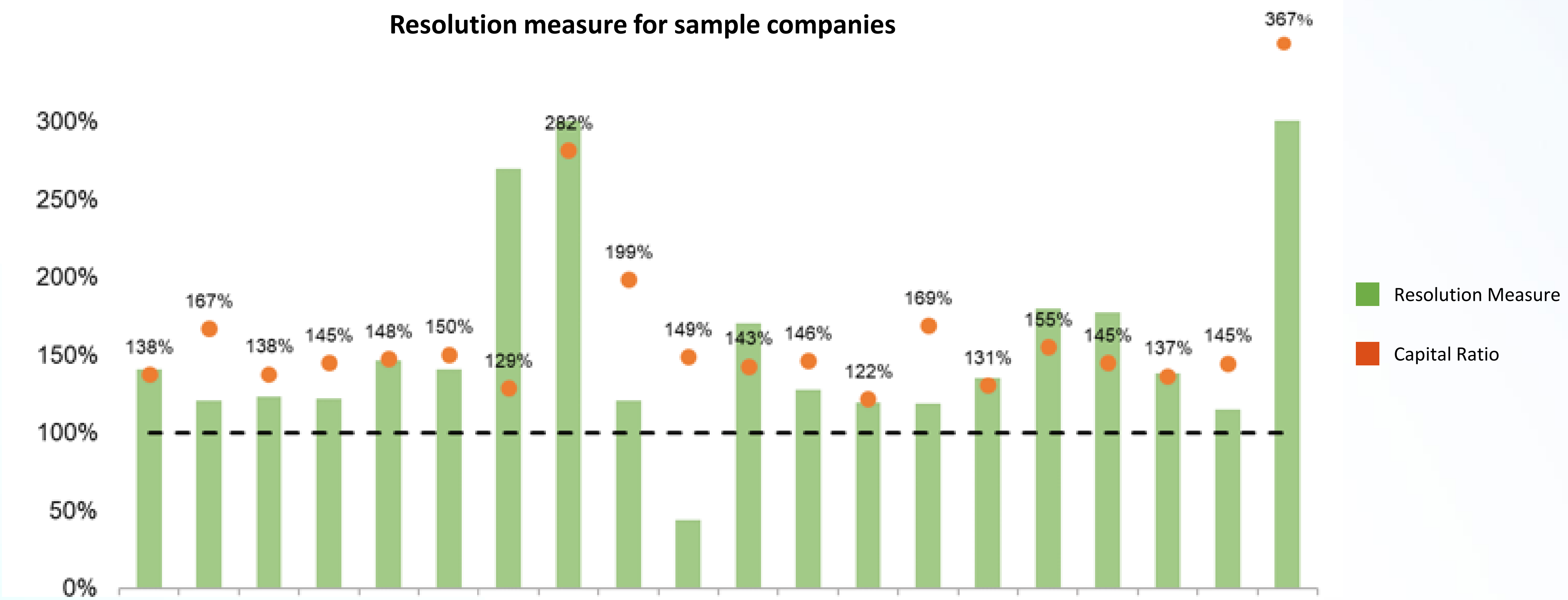

Assuris concentrates on member companies with a resolution measure below the capital ratio, indicating a potential weakness that could trigger the need for resolution.

Assuris Resolution Planning Approach

1. Analyze available information and data on the member companies within recovery plans, life and capital returns, including stand-alone capital, financial statements and other financial reports.
2. Identify information and data gaps and collect this information directly from the member companies.
3. Analyze and score the resolvability risks for member companies.
4. Develop strategies and action plans that will ultimately inform the resolution plans of member companies.

Assuris engages with prudential supervisors and its member companies directly to ensure that resolution planning will meet the prudential supervisor’s needs and not cause undue regulatory burden for members.

Resolution Risks

Resolution risk analysis identifies factors and conditions affecting the implementation of resolution actions.

Resolvability Risk Analysis

Financial Resources

The risk of insufficient financial resources to continue the Canadian operations as a going concern without exposing taxpayers to loss.

Business Continuity

The risk that we are unable to transfer the Canadian operations as a going concern because of the complex financial and operational arrangements.

Cooperation and Coordination

The risk that engagement of multiple stakeholders is not well executed

Contagion

The risk to the broader financial system of a failure.

Resolution Risk Information

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Financial Resources

- List of key legal entities and foreign branches by jurisdiction along with their capital position
- Details on location of assets and potential risks to repatriate these assets
- Overview of key assumptions used to determine the fair values of assets and liabilities

Business Continuity

- Details on derivatives contracts, intercompany guarantees and reinsurances activities and potential risks of restructuring
- Details on the company's critical functions, shared services and key suppliers and their potential impacts on operational continuity

Contagion

- Details on critical functions related to the functioning of the financial sector and real economy
- Details on the direct exposures to the financial system from the interlinkages between institutions
- Details on the relative size of the traded financial assets and their liquidity profile

Cooperation and Coordination

- Details on the regulatory authorities in each jurisdiction where the company operates
- Details on the activities of supervisory colleges and/or crisis management groups involving IAIGs
- Identification of potential conflicts of interest for advisors participating in company-specific resolution engagements

Resolution Planning Process Steps

*Life insurance companies have a different business model than banks, and the **resolution planning process should reflect the different resolution needs**.*

Process Steps	Questions to Answer
Resolution Strategy	What is the preferred strategy, and what is involved in execution?
Resolution Planning	What information is needed to execute the resolution strategy?
Resolvability Assessment	What are the risks of executing the resolution strategy?
Resolution Risk Mitigation	What are the strategies to manage the risks in resolution?

Resolution Planning Lessons Learned (so far)

1. A resolution *planning* process is more effective than developing resolution *plans*. Plans stale date quickly and can be too ridged to deal with the specific (and unknowable) circumstances of a failure. An ongoing planning process provides more flexibility and keeps multi-stakeholder collaboration fresh.
2. Insurers are different from banks. Effective resolution strategy for life insurers generally involves break-up and transfer rather than recapitalization or preserving core business or functions. Importing banking concepts into insurance resolution planning can be misleading.
3. Insurance resolution lends itself to a multiple-point-of-entry approach over single-point-of-entry. This means that cooperation and coordination across multiple jurisdictions is critical for effective insurance resolution.
4. Role clarity, access to information, information sharing protocols, and cooperations and coordination across stakeholders (supervisors, resolution authorities, compensation associations and industry) is a major hurdle to overcome when establishing a resolution planning process.

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Australia's Resolution Planning

Petar Rajic

Senior Analyst, Resolution branch

Australian Prudential Regulation Authority

APRA is Australia's prudential supervisor, resolution authority and policyholder protection scheme administrator

Established 25 years ago as an independent statutory authority accountable to the Australian Parliament.

APRA is the supervisor and resolution authority for authorised deposit-taking institutions (such as banks, building societies and credit unions); general (property and casualty) insurers; life insurers; private health insurers; reinsurance companies, and superannuation (pension) funds.

"APRA's primary purpose is to ensure the safety and stability of the Australian financial system. This stability plays an essential role in supporting a thriving and dynamic economy which in turn benefits the Australian community."

- John Lonsdale, APRA Chair

Recovery, Exit, and Resolution Stress Continuum

BAU	Stress	Recovery	Voluntary exit	Resolution
Routine supervision	Heightened supervision	Entity-led recovery	Entity-led exit	APRA-led resolution
		CPS 190 – Recovery and Exit Planning Implement entities' plan		**CPS 900 – Resolution Planning** Implement APRA's plan

Resilience focus
To reduce the <u>likelihood</u> of an institution failing

APRA's role as **prudential supervisor**

Resolution focus
To reduce the <u>impact</u> of a failed institution

APRA's role as **resolution authority**

Prudential Standard CPS 900 Resolution Planning

CPS 900 – Resolution Planning

Effective date 1 January 2024

- Entities will be subjected to CPS 900 **after** notification from APRA
- Support the development and maintenance of a resolution plan
- Entities with overseas operations must support cross-border components
- Conduct a resolvability assessment to assess feasibility of resolution options
- Support APRA in determining critical functions
- Develop and implement a pre-positioning plan to remove barriers to resolution

- **CPS 900 requirements meet the relevant FSB Resolution Planning Standards (RPS)**

- Prudential Standard CPS 900 Resolution Planning
- Prudential Practice Guide CPG 900 Resolution Planning

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APRA’s powers against the FSB’s Key Attributes

FSB Jurisdiction	Existence of administrative resolution authority	Powers to undertake a transfer (including a portfolio transfer)	Powers to establish a temporary bridge institution	Powers to administer existing insurance contracts and fulfil obligations (including run-off)	Power to impose temporary stay on early termination rights	Powers to restructure, limit or write down insurance and reinsurance and other liabilities	Existence of privately financed policyholder protection schemes or resolution funds
Argentina							
Australia							
Brazil		(B)	(B)			(B)	
Canada							
China	14						
France						1	
Germany	12,13	2b			2a	2a	
Hong Kong							1
India							
Indonesia							
Italy	7, 13	15					

Scope of CPS 900

1. All Significant Financial Institutions (SFI)

APRA-regulated entities that are either:

a. Not a foreign insurer with total assets in excess of:

- AUD 10 billion for general insurance and life insurance
- AUD 3 billion for private health insurance

b. Determined as such by APRA, having regards to matters such as the complexity in its operations or its membership of a group

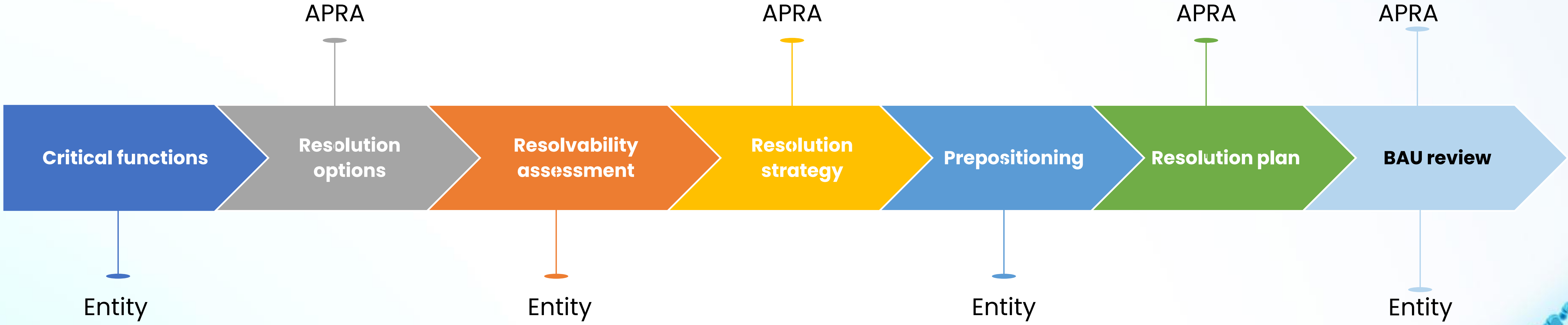
(As at 30 June 2023, APRA determined there were 11 insurers that were SFIs Significant financial institutions register | APRA)

2. Non-SFIs determined by APRA to provide critical functions

Defined as "any functions that an individual entity provides that are important to financial system stability or the availability of essential financial services to a particular industry or community."

Resolution planning process, steps, responsibilities

APRA Responsibility



Entity supports APRA

Progress on implementation

Resolution planning started as “pilots” pre-CPS 900

- Selection of ADIs and insurers
- Multi-year projects that are various level of progression

Considering entities for commencing post-pilot bespoke resolution planning.

Criteria to select entities include:

- SFI status and other elements of complexity
- Potential critical functions

Experience and insights from pilots

- An entity's Board must ensure the entity meets the requirements of CPS 900 i.e. that the entity is resolvable.
  - The Board oversees the steps in preparing for resolution, including the implementation of pre-positioning actions and maintenance of capabilities necessary for resolution.

- *During planning process*
  - Adequate resourcing for all stages of resolution planning
  - Knowledge of Group interconnectedness and possible critical functions, understanding of external providers and supply contracts
  - Regular contact with APRA throughout the planning process

- Resolution planning is a long process, allowing insurers to stand up appropriate internal resource and gather information required.

- Value of a solid recovery and exit plan to leverage in resolution planning
  - This allows APRA to identify resolution options earlier in the process

- Entity complexity increases the timeframe for resolution planning

Critical functions

- An APRA-regulated entity must support APRA in the determination of whether it provides any critical functions, if required by APRA.
- The early stages of bespoke resolution planning would typically involve APRA determining whether an entity provides critical functions.
- Identifying critical functions is a complex judgement, relying on a range of quantitative and qualitative information.
  - Indicators of critical functions are **Systemic impact; Industry or community impact; Substitutability**
- To inform its determination, APRA may require entities to complete a critical functions analysis against key criteria.
- Critical functions in insurance remains a focus of APRA's resolution team as CPS 900 rollout continues
  - Insurance by its nature is heterogeneous, and insured risks are often industry or region-specific.
  - Insurance critical functions can waver on substitutability. There are often substitutes in the market who have not managed to overcome dominant insurers but are ready to move at any time.

THANK YOU