Safeguarding Your Future: The Role of Assuris' Resolution Preparedness Centre of Excellence in Protecting Policyholders

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As the aftermath of recent financial institution failures reverberates globally, concerns have developed among Canadians about the stability of their financial institutions. Friends and family members have been asking questions like, "Should I be worried about my money?" and "Could a Canadian financial institution fail too?" These concerns are understandable, but thanks to the robust prudential supervision and policyholder protection mechanisms in place, most Canadians rarely think about life and health insurer failures.

Assuris is a private-sector life and health insurance policyholder protection solution backed by the Canadian life and health insurance industry. Assuris plays a crucial role in ensuring financial stability and protecting Canadian policyholders, even in potential crises.

To be prepared, Assuris is developing a Resolution Preparedness Centre of Excellence (COE) to:

- Develop a risk-based approach to resolution preparedness allowing us to prioritize our work and efforts to target the most relevant resolution risks in the Canadian life and health insurance industry.
- Put ourselves to the test in how we can handle the failure of a member company, both internally and with external stakeholders (i.e., regulators and expert advisors).
- Bring being "resolution ready" to the forefront as the driver of everything we do.

The Resolution Preparedness COE improves Assuris' ability to meet its mission to protect policyholders if their life and health insurance company fails, and to safeguard the strong reputation of our industry.

Drawing Parallels: Financial Crises and Natural Disasters

Financial crises and natural disasters may seem worlds apart, but they share a significant commonality – a far-reaching impact on people's lives. Just as we prepare for natural disasters, Assuris prepares for the possibility of life and health insurer failures. Similar to a natural disaster recovery plan, Assuris' Resolution Preparedness COE focuses on:

1. Understanding and managing the risks involved.
2. Developing our resolution playbooks outlining our comprehensive crisis response plans.
3. Testing these resolution playbooks through simulations and tabletop exercises.
4. Staying vigilant and striving for improvement.

1. Understanding and Managing the Risks

Identifying all potential risks is essential in the event of a life and health insurer failure. These risks encompass not only those leading to losses but also those leading to potential gains or opportunities.

Only when risks are understood can they be managed.

Inherent risks commonly faced by all organizations include operational, financial, and strategic risks. For Assuris, our risks to preparedness includes funding, protection, risk analysis, resolution analysis, our legal powers, and reputational risks.

- **Funding** - Ensuring that Assuris can obtain the necessary funds to resolve a member company's failure adequately.
- **Protection** - Establishing protection levels and mechanisms that are sufficient to safeguard most Canadian policyholders.
- **Risk Analysis** - Anticipate potential solvency risks that could lead to a member company's failure. Our industry risk analysis allows us to understand any macroeconomic trends affecting member companies more systemically and be better prepared.
- **Resolution** - Analysing the resolvability issues of a member company contributes to an orderly resolution.
- **Legal Powers** - Ensuring that Assuris has the necessary powers, as defined in its By-Laws, to achieve its stated objectives.
- **Reputation**- Safeguarding the reputation of the Canadian life and health insurance industry as a safe and reliable way to support the financial well-being of Canadians.

By developing our understanding of the risks that impact Assuris' resolution preparedness, we can develop the plans to manage these risks.

2. "Plan beats no plan."

At Assuris, we understand that plans may not always unfold exactly as intended, but the process of creating these plans provides invaluable insights. As we develop our crisis plans, which we refer to as 'resolution playbooks,' we examine the heart of the issues we might face and question ourselves on the possible challenges.

> **"Plan beats no plan."** - *Timothy F. Geithner, U.S. Treasury Secretary during the 2008 financial crisis and a good edict to follow when preparing for any crisis.*

Collaborating closely with our internal teams and external partners, the Resolution Preparedness COE analyzes the key risks facing Assuris to manage the failure of a member company. The Resolution Preparedness COE ensures the development of the comprehensive resolution playbooks to address these risks. These playbooks serve as guidelines, navigating us through potential pitfalls in the event of a member company's failure.

With a forward-looking mindset, we continually scrutinize and address potential gaps in our playbooks. Embracing the concept of 'evergreen preparedness,' we acknowledge that no plan is static. Instead, our crisis strategies evolve and adapt to the ever-changing financial environment.

3. Exercising the plan: ensuring resilience through resolution testing exercises

Having robust resolution playbooks in place is a significant step toward resolution preparedness. However, the true effectiveness of these playbooks can only be gauged through regular testing and exercise. Assuris' Resolution Preparedness COE develops the resolution testing exercises with internal and external stakeholders to maintain the readiness of our response mechanisms.

- **Preventing Complacency and Stagnation**
  No matter how well-designed the resolution playbooks are, they risk becoming stagnant and obsolete without regular exercise. We ensure that our plans are up to date by conducting resolution testing exercises that incorporate the latest regulatory requirements, industry best practices, and lessons learned from real-world incidents.

- **Strengthening Crisis Response Capabilities**
  Exercising resolution playbooks is like training for a marathon. It strengthens our resolution muscles, enabling us to respond effectively and swiftly when faced with the failure of a member company. These exercises help refine communication protocols, decision-making processes, and coordination between relevant stakeholders.

- **Identifying Gaps and Weaknesses**
  Resolution testing exercises provide a unique opportunity to identify gaps and weaknesses in the resolution playbooks. By simulating realistic scenarios, we can assess how well the plans align with the actual challenges they might encounter. This process allows us to fine-tune our strategies and enhance our ability to navigate critical situations.

- **Developing Targeted Resolution Scenarios**
  The resolution exercises involve developing targeted resolution scenarios that closely mimic potential real-world crises. These exercises range from comprehensive simulations and tabletops to walkthroughs and workshops to introduce new developments to an audience *(see Table 1 for the types of exercises and their pros and cons).*

  These scenarios can also range from different types of financial distress, market disruptions, operational failures, or even a combination of these factors. The diversity of scenarios also ensures that resolution playbooks are comprehensive and adaptable to various situations.

  Our deep knowledge of the industry and our member companies allows us to develop plausible failure scenarios and think critically about the potential risks on the horizon.

- **Continuous Improvement and Development**
  Resolution testing exercises are not just assessments but opportunities for continuous improvement. Through post-exercise retrospectives, we can identify areas for further development and enhancement. Feedback from these exercises helps refine the resolution playbooks, making them more effective in protecting policyholders and contributing to the stability of the life and health insurance industry in Canada.

Table 1 - types of resolution testing exercises:

	Description	Pros	Cons
Simulations	• Operations based exercise that mobilize all necessary personnel and logistics that would be called on in a crisis.	• Will prepare relevant team members with the operations knowledge needed for a real crisis. • Most closely aligned with a real life resolution scenario.	• Extremely resource heavy. • The significant resources involved may affect the testing frequency.
Tabletops	• Discussion based exercise designed to familiarize team members with crisis management plans.	• Discussion can identify areas that are not understood. • Less time consuming and less effort to design and run than a simulation.	• Higher frequency of use may lead to testing fatigue. • Discussions may be less helpful than the act of doing an operations based activity.
Firedrills	• Surprise, time limited exercises to test specific elements of a crisis response plan. Can be discussion or operations based.	• Challenges participants to make decisions and gather information spontaneously and quickly. • Less time consuming than a tabletop.	• Time limits may not be representative of real life. • Limited use in the beginning of resolution testing as internal staff will require training.
Workshops	• Workshops follow another testing activity and provide a process for developing actions for issues identified in a testing activity.	• Gives participants the opportunity to provide feedback. • Used as part of the Report & Feedback phase.	• Targeted actions may not be tracked and forgotten.
Walkthroughs	• Training exercises to familiarize participants with resolution playbooks and the resolution process.	• Relaxed setting to walk participants through policies and procedures. • Helpful for the initial stages of resolution testing.	• Does not test resolution readiness but is part of resolution preparedness development.

4. Keeping vigilant: the continuous pursuit of resolution readiness

Resolution preparedness is not a one-time effort; it requires a continuous commitment to staying vigilant, critically evaluating existing playbooks, and constantly seeking opportunities for improvement. Assuris has embraced a proactive mindset to uphold the highest standards of resolution readiness. This involves embracing our own growth, collaborating, and sharing information with our partners, and remaining adaptable.

At the core of this work is partnership with our member companies, their prudential supervisors, and expert advisors. Collaborative efforts allow for a broader perspective on potential risks and challenges, enabling more effective resolution preparedness and, ultimately, better protection for Canadian policyholders.

Conclusion

For Assuris, resolution preparedness is a priority. Assuris' Resolution Preparedness COE, fueled by collaboration and driven by a shared purpose ensures that we provide the best policyholder protection for Canadians. Together with our partners and stakeholders, Assuris continues to preserve Canadians' trust and confidence in their life and health insurers.

Monica Deschamps CPA, CA., is the Assistant Vice President of the Resolution Preparedness Centre of Excellence (COE) at Assuris. She is responsible for leading the development of Assuris' resolution playbooks and testing exercises to ensure that Assuris is resolution ready. Monica is also actively involved in understanding the impacts of new accounting & financial reporting changes to member companies, including IFRS 17 and the new standards on sustainability disclosures.