KDIC's Resolution Preparedness and Crisis Management

Normal-time Risk Monitoring and Analysis

- Risk level of each insurer is assessed using various statistical models (current risk level evaluation using CAEL, future risk level forecasting, stress-testing, etc.)
- The results are also used to determine the level of premium for each insurer
- Risk assessments are carried out on a quarterly basis

Failure Playbook and Checklists (KDIC's Crisis Response Manual)

- Defines the level of crisis into four (4) stages depending on its severity
  - ✓ Attention (Level 0), Alert (Level 1), Escalation (Level 2), Full-blown Crisis (Level 3)
- Contains action plans for all different level of crisis
  - ✓ Operation of special task forces (personnel, reporting process, etc.)
  - ✓ Cooperation with relative authorities and agencies
  - ✓ Communication and stabilisation of financial market
  - ✓ Intensified risk monitoring and on-site/off-site examination of insurers with high risk level
  - ✓ Preparation of resolution (determination of resolution method)
  - ✓ Funding
- Contains action plans for all different scenarios of crisis
  - ✓ Multiple failures in insurance sector or in multiple financial sectors
  - ✓ Failures originating from different factors (prolonged economic recession, household credit risks, stock prices, house prices, interest rate risks, exchange rate risks, domestic/foreign systemically important financial institution failures, wars, foreign economy risks, diseases and natural disasters, etc.)

Failure Simulations to Test Preparedness

- Government led crisis simulation exercise carried out once every year
  - ✓ A few days exercise (24 hours rolling)
  - ✓ Participated by all major public institutions and all their employees
  - ✓ Many event scenarios/situations are given to participants throughout the exercise
  - ✓ Participants are to solve given problems and report back

- KDIC's internal crisis simulation exercise carried out once every year
  - ✓ Crisis response and problem solving exercises
  - ✓ Employee training
  - ✓ Crisis Response Manual update

< Other references >

FSB's Resolution Steering Group (ReSG) and Bank Cross-border Crisis Management Group (Bank CBCM)

- KDIC is a member of ReSG and Bank CBCM and participates in regular meetings

Recovery and Resolution Planning (RRP) for banks

- RRP legislated in 2021 (「Act On The Structural Improvement Of The Financial Industry」)
- KDIC prepares resolution plans for selected Systemically Important Financial Institutions (SIFIs) as the resolution authority
  - ✓ Financial Services Commission (FSC) selects SIFIs every year
  - ✓ Five (5) financial groups and five (5) banks are selected as SIFIs
- No insurers are selected as a SIFI (Insurer-specific resolution plans are not prepared)
  - ✓ But some insurers are subsidiaries of SIFIs (Insurer's critical functions, core business lines, etc. are identified, but the resolution plan is focused on the SIFI not insurer - some stress scenarios do not involve insolvency of insurers)
  - ✓ KDIC maintains contact points of persons in charge in all major departments within these SIFIs including insurers

KDIC's Crisis Communication

Internal

- Formation and operation of special task forces including headquarters
- Division and appointment of roles
- Development of cooperation and reporting process
- All employees ready for call-in at all times

External

- Relevant authorities
  - ✓ [Overseeing body] Financial Services Commission (FSC) : Progress report to FSC, FSC to impose prompt corrective action and other measurements on financial institutions, resolution approval
  - ✓ Financial Supervisory Services (FSS) : Information sharing (financial statements, recovery plans, etc.), joint examinations, management of prompt corrective action stage leading to resolution
  - ✓ Bank of Korea (BoK) : Information sharing, lender of last resort
- Insolvent insurer
  - ✓ Maintenance of key personnel contact information
  - ✓ Public announcement through insurer's communication channels
  - ✓ Request information
- Policyholders and public
  - ✓ Announcements and guidance for public stabilization and to prevent bank/insurance-run
  - ✓ Use of digital channels (television, internet, social media)
  - ✓ In-person contact (dispatch of KDIC employees to insurers' major branches)
- Press
  - ✓ Provide accurate information to public
  - ✓ Stabilise (calm-down) the press and the public