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Recovery Planning

Deloitte Service offerings

Middle East

Background

In the aftermath of the Global Financial Crisis, Recovery Planning was introduced by various regulators to strengthen the crisis preparedness of financial institutions. An effective Recovery Plan aims to minimize the need for bail-out of financial institutions due to market stress conditions.

Various regulators have introduced requirements for Recovery Planning, starting from the UK to the US along with other countries in Europe and Asia. Regulators within the GCC have also adopted requirements for Recovery Planning including Qatar, Bahrain, and KSA. The Central Bank of United Arab Emirates (CBUAE) is currently in the process of drafting Recovery Plan regulations to guide Banks and Insurance Companies towards the implementation of Recovery Planning in the UAE.



Salient Features

The aim of Recovery Planning is to make financial institutions more crisis-resilient through a pre-emptive approach. The salient features of a Recovery Planning process are outlined below:

Why is Recovery Planning important?

Recovery Planning is a pro-active approach which enables financial institutions to have a plan of action in place to react to a range of severe and/or potentially plausible events which may impact their business. These events may be triggered by system-wide, idiosyncratic, or combined stress scenarios.

Who should be responsible for Recovery Planning?

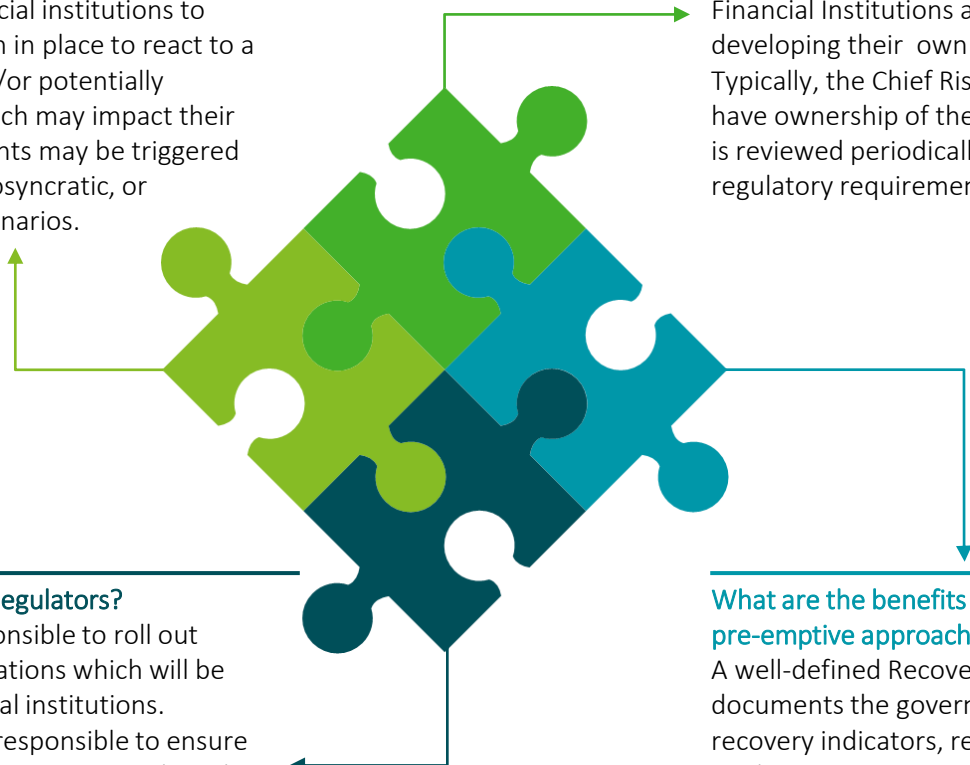
Financial Institutions are responsible for developing their own Recovery Plan. Typically, the Chief Risk Officer (CRO) shall have ownership of the plan, and ensure it is reviewed periodically and aligned to regulatory requirements.

What is the role of Regulators?

Regulators are responsible to roll out Recovery Plan regulations which will be applicable to financial institutions. Regulators are also responsible to ensure that all financial institutions comply with the regulations. Regulators also conduct periodic review of the Recovery Plans of financial institutions including assessment of stress scenarios, recovery indicators, and recovery options.

What are the benefits of having a pre-emptive approach?

A well-defined Recovery Plan which documents the governance, scenarios, recovery indicators, recovery options, implementation steps and timeframe of the recovery options, impact of each recovery option on Capital, Liquidity, as well as other key regulatory ratios, allows financial institutions to respond quickly during stress scenarios and restore financial position and overall viability.



Recovery Plan Framework

The key objectives of a Recovery Plan framework is to ensure financial institutions have a clear governance, detailed plans and adequate resources in place to overcome financial stress and restore business viability.

Key components of a typical Recovery Plan are outlined in the figure below:

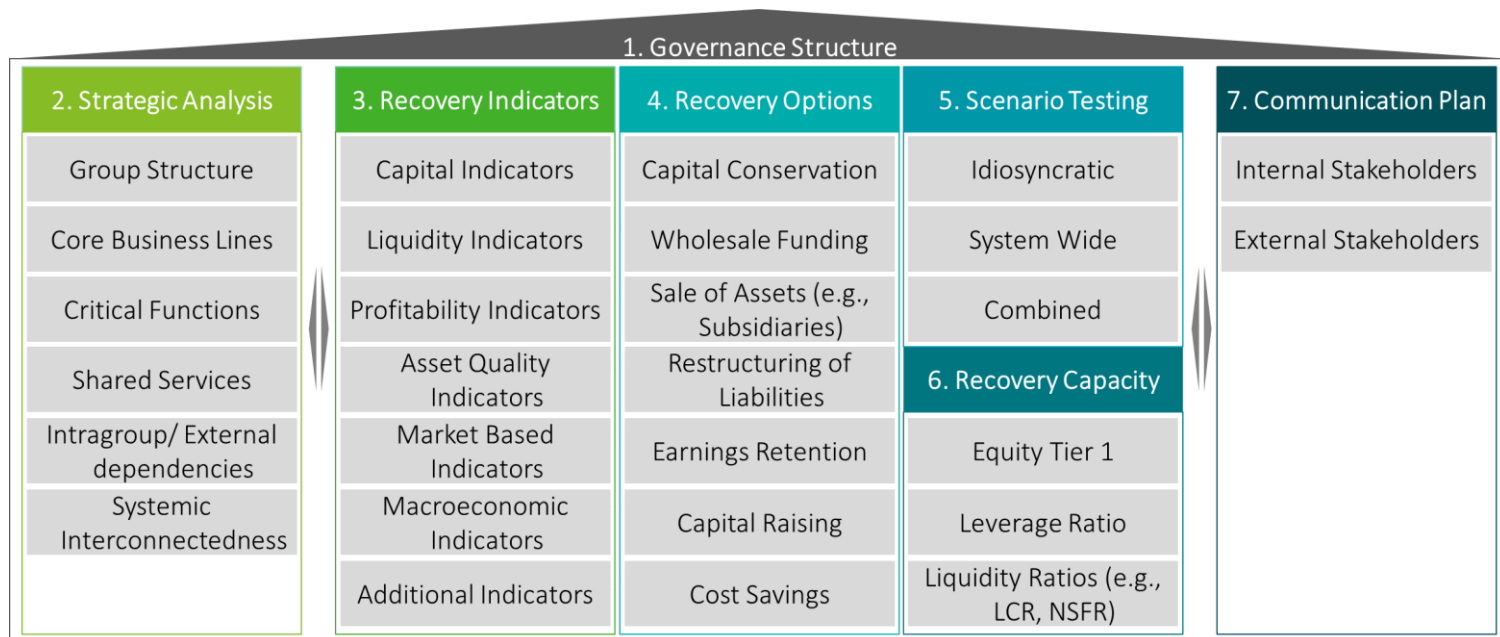


Figure 1 – Typical Recovery Plan Framework

Let us look at each of the seven key components in a bit more detail:

Governance Structure	<ul style="list-style-type: none"> Provides oversight and outlines the process, including responsible stakeholders for the development, maintenance, review, approval and activation of Recovery Plans.
Strategic Analysis	<ul style="list-style-type: none"> Involves the identification of core/critical business activities and shared components to be considered during the Recovery Plan implementation.
Recovery Indicators	<ul style="list-style-type: none"> Quantitative and qualitative metrics that ensures potential risks are monitored on an ongoing basis to help indicate when a Recovery Plan should be activated. Recovery indicators should provide early warning of an impending stress condition.
Recovery Options	<ul style="list-style-type: none"> List of plausible options to enable a financial institution mitigate stress scenarios effectively. Options should be assessed on the basis of impact and practicability.
Scenario Testing	<ul style="list-style-type: none"> Design of comprehensive stress scenarios including quantitative, qualitative, idiosyncratic, system-wide, and combined scenarios to test the practicability and reliability of the recovery options and the effectiveness of the recovery indicators as warning signals.
Recovery Capacity	<ul style="list-style-type: none"> This is the total benefit to be derived from the implementation of recovery options. The recovery capacity need to be monitored on an ongoing basis, as this determines the recovery impact on capital/liquidity/other key metrics which a financial institution will derive from activating the Recovery Plan.
Communication Plan	<ul style="list-style-type: none"> The communication plan ensures that all the relevant stakeholders are promptly and adequately informed on the implementation, activation and ongoing monitoring of the Recovery Plan.

Key Considerations

Key considerations for the implementation of Recovery Plans are highlighted below:

	Recovery Indicators	<ul style="list-style-type: none"> Indicators should be calibrated and in line with the bank’s strategy and business environment. Recovery indicators should be integrated within the existing risk management processes, including ICAAP, ILAAP, risk appetite etc.
	Recovery Options	<ul style="list-style-type: none"> Recovery options should be designed considering the key objective of restoring overall business viability. Operational requirements for implementation of recovery options should be assessed. Impact of recovery options should be assessed across a range of capital and liquidity metrics.
	Stress Scenario	<ul style="list-style-type: none"> Stress scenarios should be designed in line with the nature, size, and complexity of the business. Stress scenarios should be adequately detailed and assessed on an ongoing basis.
	Governance & Communication	<ul style="list-style-type: none"> Roles and responsibilities should be clearly outlined with ownership and board oversight. A detailed communication plan should define the communication protocols for internal and external stakeholders along with timeframes and the required reports.
	Recovery Capacity	<ul style="list-style-type: none"> Recovery capacity should be assessed and understood by the Board of Directors Impact of recovery options should be considered in assessing recovery capacity.

Integration with Existing Risk Management Processes

It is imperative that the Recovery Plan is integrated within the existing Risk Management Framework to achieve synergy and leverage the results of Recovery Plan as inputs for designing or updating of the risk appetite, ICAAP, ILAAP, stress testing and capital, and liquidity contingency plans.

Outlined below is an illustration of the relationship between the Recovery Plan and key risk management processes.

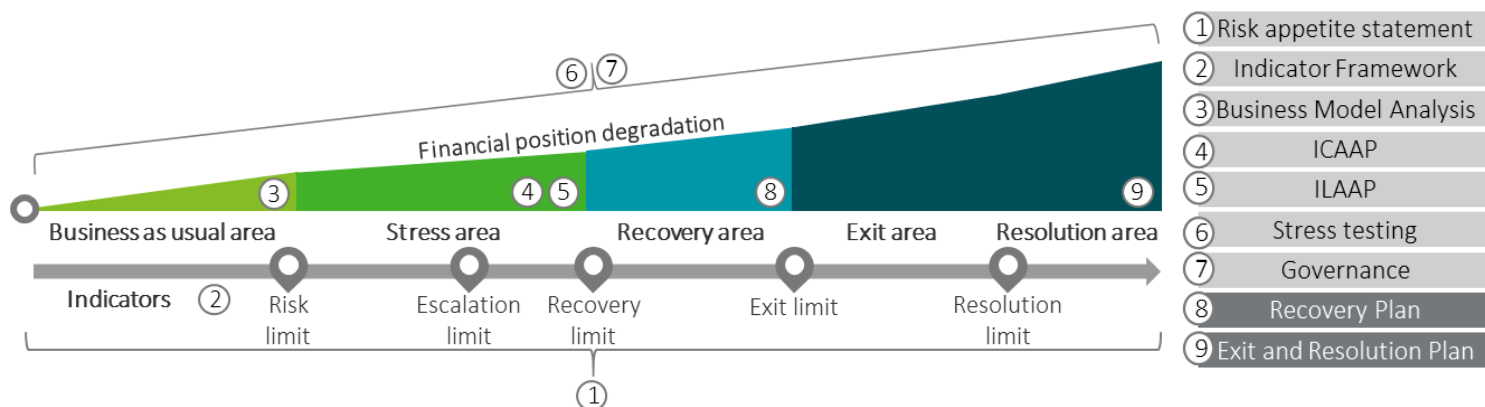
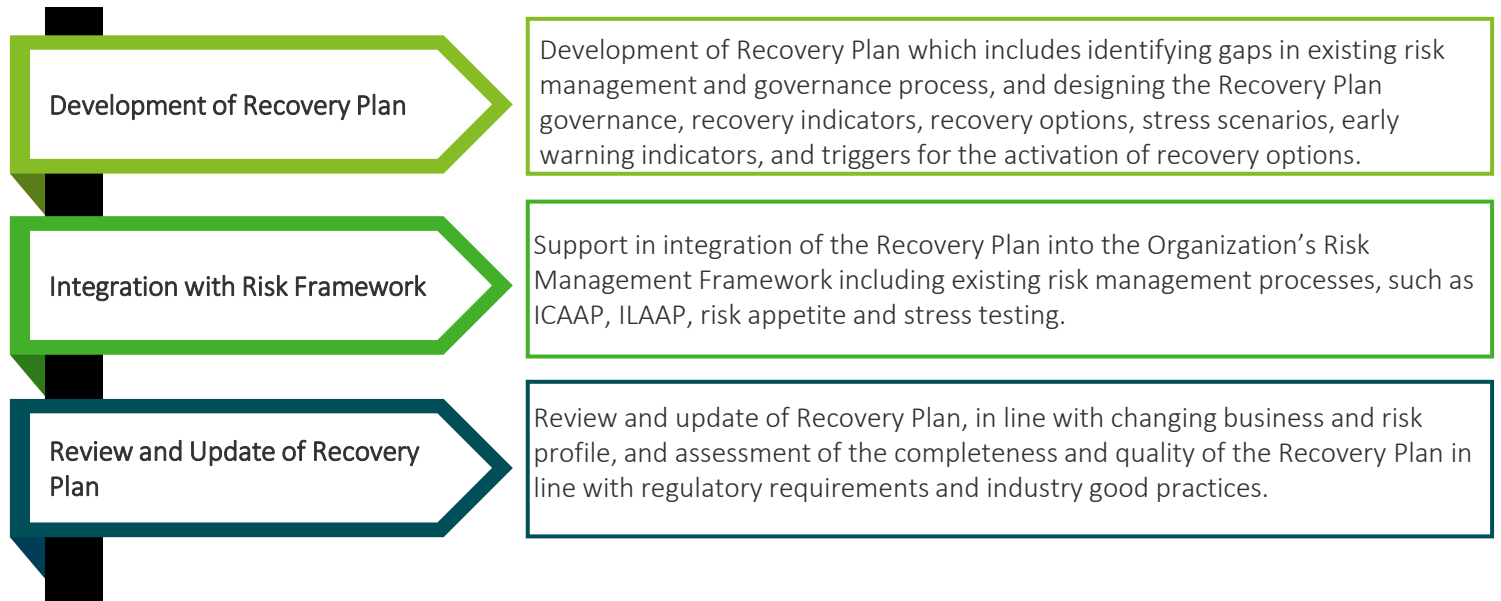


Figure 2 – Interlinkages between Recovery Plan and Overall Risk Management Processes

The Recovery Plan should also be embedded into the bank’s operational activities, such as business planning, environmental scanning, strategy setting, product development, and asset/liability management. This will ensure that the business planning and strategic decision making is robust and covers all the operational aspects of the business. Ultimately, a robust Recovery Plan, tailored to business strategy and objectives, is likely be more effective in mitigating risk emanating from plausible severe stress scenarios.

Our Solution

Deloitte has significant experience globally and locally, having supported multiple financial institutions in the end-to-end development of Recovery Plan frameworks, models, and documentations including providing technical and regulatory insights. Outlined below are some key areas where Deloitte can provide support:



Our Differentiators

We have assisted multiple financial institutions within the GCC and globally, in the development and implementation of Recovery Plans.

Deloitte has a team of financial risk and regulatory experts from the Middle East and across the globe, with extensive experience in the development and implementation of Recovery Plans.



Through our experience in Recovery Planning in local and global markets, we have developed tools and accelerators in different areas which can be leveraged for efficient delivery.

Given our unparalleled expertise and experience in the area of Recovery Planning both globally and locally, we are committed to support in this process end-to-end.

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