

4 January 2016

Mark Carney  
Chairman  
Financial Stability Board

**Re: AIA Comments on the FSB's Consultative Document on *Developing Effective Resolution Strategies and Plans for Systemically Important Insurers***

Dear Chairman Carney:

AIA Group Limited appreciates the opportunity to provide comments on the consultation paper released 3 November 2015 by the FSB entitled "Developing Effective Resolution Strategies and Plans for Systemically Important Insurers" (the "Consultation Paper").

**While AIA is not considered a G-SII, AIA sees it as critically important as the only listed insurance group headquartered in Hong Kong that has substantial operations in a large number (16) of Asia Pacific jurisdictions that the recommendations adopted under the Consultation Paper are attuned to established practical need and specifically that they take full account of the potential for adverse consequences on insurance groups operating in Asia Pacific.**

Below, please find our comments on the proposals:

- **Objectives of resolution strategies**

**AIA Group strongly supports the development and promotion of effective and proportionate regulatory and supervisory measures designed to create greater financial stability. Initiatives which reduce systemic risk and encourage transparency will benefit the global financial system.**

Insurers – although their core businesses are at the low risk end of the spectrum compared with banks – stand to benefit from the greater stability and support for economic growth which should result. Insurers play an important role as an investor in the financial markets and as a risk absorber for society. However, radical reform always carries a risk of disproportionate and unintended consequences, and **AIA sees it as very important to the stability of the economies in Asia that the measures including any laws for recovery and resolution introduced as a consequence of this consultation are proportionate and matched to need rather than theory.**

- **Determination of a preferred strategy**

The preferred strategy must not be overly bank-centric and in this respect, careful consideration and tailoring should be made for the insurance sector. While the insurance industry does provide important services to its policyholders and the broader economy, substitutability within the sector and the availability of existing

appropriate resolution measures ensures continuity of cover of existing policyholders. Insurers do not typically provide critical short-term functions to the financial system or wider economy in the same way as banks (unless the insurer owns a bank or is part of a banking group).

**There is no evidence that traditional tools (such as run off and the transfer of business) would not be sufficient for resolution. New resolution powers (such as setting up a bridge insurer or bail-in), while we do support as additional available tools for resolution authorities, should only be used in our view as a last stop measure so long as the exercise of these powers is not disproportionate and after traditional tools have been considered and deemed not to be sufficient.**

Some of the proposed measures for restructuring liabilities go beyond what is permissible under insurance supervisory law. There may not be adequate protection such as review by the courts or independent valuations. **Therefore, when implementing any preferred strategy, it is critically important that there be safeguards to ensure ultimate equity of treatment when a resolution authority exercises its resolution power.**

- **Strategic analysis underlying the development of the resolution strategy**

We agree that the resolution strategy needs to be tailored to specific risks to which each individual insurer may be exposed.

As indicated above, life insurance products are highly substitutable. In most cases, the likely tool would be run-off or transfer of business. It would only be as a last stop to use expanded powers such as a bridge insurer or bail-in.

In addition, we agree that the definition of “critical function” is improved. It is unlikely given this definition for a traditional life insurer to trigger a failure of a critical function provided to a third party that would have a material impact on the financial system.

On cross-border cooperation, we agree that benefit can be derived from such cooperation among resolution authorities. Given that it is hard to imagine a scenario where national supervising authorities would not be compelled to consider local interests as paramount in any resolution process, our view is that greater coordination would be of greater value in areas like solvency and accounting standards, as well as in permitting the free flow of funds without adverse tax consequences, as these would help prevent the need for any resolution. **In this respect, it is important to recognise that given there are local interests that cannot be ignored, a resolution authority which is also a group supervisor of an insurance group operating in a number of jurisdictions may well face a conflict between the interests of the policyholders of the local entity it supervises and those of other entities within the group. We believe therefore that resolution should be based on a local entity approach to solvency rather than a consolidated basis.**



THE REAL LIFE  
COMPANY

- **Making the resolution strategy operational**

**Our view is that requirements to improve resolvability should be subject to rigorous analysis and justification** in which the costs and undesired outcomes are carefully considered, including the impact on other jurisdictions.

The financial institution must be given time to consider changes proposed by the resolution authority under any resolution plans and there should be an appeals mechanism, possibly including the courts, to ensure that these resolution plans are equitable.

In regards to information systems and data requirements, our view is that the **legal framework should prohibit any disclosure of non-public company information** unless the proposed recipient agrees, and the relevant authority also agrees to keep the information confidential and protect it from disclosure except where required by a court of competent jurisdiction or by law.

Regardless, a resolution regime cannot be viewed in isolation from the existing regulatory regime or powers. **The ongoing focus on ensuring solvency and responsible behavior ought to remain the central tenet.**

We look forward to the consultation conclusions and participating in any further consultations or discussions. Should you require any further information, please do not hesitate to contact the undersigned at 852 2832 6162.

Yours faithfully,  
For and on behalf of  
AIA Group Limited

---

Mitchell David New  
Group General Counsel