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Svein Andresen
Secretary General
Financial Stability Board (FSB)
Centralbahnplatz 2
CH-4002 Basel
Switzerland

Re: Developing Effective Resolution Strategies and Plans for Systemically Important Insurers

Dear Mr. Andresen,

Allianz highly welcomes the opportunity to respond to the Financial Stability Board's Consultative Document on "Developing Effective Resolution Strategies and Plans for Systemically Important Insurers" which was released on 3 November 2015 (the "Consultation Paper"). Allianz has actively contributed to the joint reply of the Institute of International Finance and the Geneva Association and to the reply of Insurance Europe, respectively, which it supports and to which reference is hereby made. In addition, we would like to make the following observations:

Key observations

1. General approach and scope of the Consultation Paper

We appreciate the approach of the Consultation Paper to delegate responsibilities to local regulators which hold the pen on resolution and are best positioned to consider specific information related to the local market and regulatory framework.

2. Critical Functions Concept still requires further clarification

We acknowledge that the FSB has endeavoured to limit the width of the Critical Function's definition to potentially capture fewer functions. However, it is still unclear what (i) amounts to a Critical Function (systemic risk or mere policy holder protection concept?), (ii) what consequences follow therefrom (forced recovery or orderly run-off?) and therefore (iii) whether new book (maintenance of offering of certain insurance products under any circumstances) and/or old book (protection of policyholders) are targeted. This is particularly important as, once a Critical Function has been designated, it may have far reaching consequences for the business/legal structure of an insurer from an operational continuity standpoint (cf. below).

We therefore kindly ask to further clarify the very purpose of the Critical Functions concept. If it is primarily about consumer protection (e.g. the protection of life insurance policyholders in the run-off of a life insurers back book), the policy choices made under prudential regulation should generally be respected (e.g. by setting, as under Solvency II, the level of protection offered to policyholders to no more than 1 failure in 200 during the year and deciding to which extent policyholder liabilities are bailed-in / covered by an Insurance Guarantee Scheme). There is no zero-failure regime at an acceptable cost to policyholders.

3. Operational continuity considerations may not lead to forced structural changes of insurers complying with all regulatory requirements

The Consultation Paper indicates that operational continuity should be ensured for Critical Functions (for a certain period of time?) and discusses various options for (intra-group) critical shared service providers to safeguard operational continuity (ranging from mere information requests and analyses of service level agreements to forced legal structure changes in form of ring-fencing and pre-funding requirements).

It is hardly possible to comment on such wide range of options as insurance undertakings cannot assess what regulators may ultimately require. Policy choices made under existing regulation (e.g. that supervisors are generally not empowered to ask for structural changes as long as an insurer meets regulatory capital and good governance requirements) should be respected as insurers do not fail over a weekend. Further, any resolution strategy must be established within the parameters set by insurance supervisory and insolvency law. In particular, requests for restructuring of insurance groups not in a crisis situation, but in anticipation thereof, have to be made on a solid legal basis and be proportionate in the light of the intended purpose.

4. Resolution in insurance is a stock-take exercise on regulatory powers

The Consultation Paper discusses various stabilization and restructuring tools at the disposal of regulators (sale or transfer, stay and suspension powers, restructuring of insurance liabilities, participation of Insurance Guarantee Schemes in the restructuring). We support such regulatory stock-take of resolution powers which should be conducted in each jurisdiction. In particular, stay and suspension powers and restructurings of policyholder liabilities **ordered by regulators** are a highly effective tools to recover a distressed insurance undertaking.

Additional remarks to questions raised by FSB

1. Do you agree that authorities should identify institution-specific resolution objectives as proposed in Section I.? Are there any considerations relevant to that identification, additional to those discussed in this document, that should be covered in the Guidance?

No further comment.

2. Are the considerations for determining "points of entry into resolution" as discussed in Section I.1 appropriate and relevant for the insurance sector?

The group structure of the firm and the way that its activities are organised will inevitably determine the point of entry in resolution. In insurance groups the point of entry will generally be at operating entity level given that (i) each operating entity is supervised locally by a regulator focused on local customers, (ii) resolution measures are taken at operating entity level in accordance with local supervisory or insolvency law and (iii) if necessary, local Insurance Guarantee Schemes are triggered.

3. Do you agree with the considerations in Section II and underlying analysis in Section III for determining a preferred resolution strategy? Are there other relevant factors that should be taken into account?

No further comment.

4. Are the resolution tools that are described in Section II.2 appropriate for use in a resolution of an insurer? Should other tools be considered?

The Consultation Paper rather loosely refers to a restructuring of liabilities. We believe that restructuring policyholder liabilities can be a powerful tool in recovering a distressed insurance undertaking. However, besides regulator-ordered restructurings of policyholder liabilities, other bail-in instruments are not appropriate due to the specific structure of insurance balance sheets (90% of liabilities are policyholder reserves, third party debt is at a very low level and the rest is equity).

5. Is the proposed framework for developing effective resolution strategies and plans for systemically important insurers flexible enough to take due account of the different types of business undertaken by systemically important insurers?

No further comment.

6. Is the proposed approach for identifying (i) Critical Functions (Section III.2) and critical shared services (Section III.3) appropriate and relevant for supporting the development of effective resolution strategies and plans for systemically important insurers? If not, what aspects, if any, are missing or need to be changed?

No further comment.

7. Are there arrangements, in addition to those set out in Section IV of the draft Guidance, that may be needed to ensure that a resolution strategy for an insurer can be implemented and that should be covered by this guidance?

It should be highlighted that regulators are bound by the rule of law. As a result, their powers cannot by operation of cooperation agreements be extended beyond the boundaries set by applicable supervisory law.

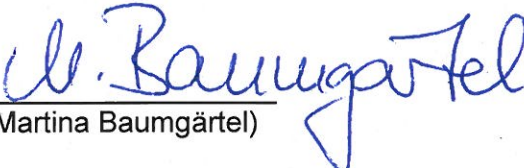
8. Are there any other issues in relation to resolution strategies and tools or the resolution of insurers generally that it would be helpful for the FSB to clarify in further guidance?

No further comment.

We hope that our comments will be helpful in further evolving the thinking on Resolution Strategies for Insurers and are looking forward to engage in further discussions.

Please do not hesitate to contact me in case of any questions.

Kind regards


(Martina Baumgärtel)