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## FSB Consultation on Recovery and Resolution Planning for Systemically Important Insurers: Guidance on Identification of Critical Functions and Critical Shared Services Reply of Allianz Group

Dear Madam or Sir,

Allianz SE appreciates the opportunity given by the FSB to respond to its consultative document on "Recovery and Resolution Planning for Systemically Important Insurers: Guidance on Identification of Critical Functions and Critical Shared Services" (the "**Consultation Paper**"). It has contributed to the joint reply of the Geneva Association and the IIF and the replies of Insurance Europe and the German Insurance Association which we support and to which reference is hereby made. In addition Allianz SE would like to make the following observations:

### I. General Observations

Allianz acknowledges recovery and resolution planning as an element of contingency planning which should be fulfilled by all insurers and their supervisors to plan for extreme shocks to business, how to survive these events or, if that should not be feasible, how to allow for an orderly wind down of business. We agree that supervisors need to identify key activities and legal entities, on which resolution planning should focus.

Resolution Planning is, however, in the first place an element of prudent and not systemic risk regulation. It should be required for any insurer (subject to proportionality), not only for systemically important insurers or internationally active insurance groups. Our key concern about the approach taken in the Consultation Paper is that, with the examples of Critical Functions provided, it introduces under the heading of systemic risk objectives that are in essence **macro-prudential in nature** (insurance coverage as a precondition for individuals to go about their daily lives, protection of mandatory liability insurance cover, strengthening the real economy and protection of individuals' financial security). Relating to the economic function of insurance in general, such objectives are difficult to reconcile with the systemic risk methodology addressing the contagion/domino effects to the global financial system's stability caused by the failure of single designated companies.

As the examples of Critical Functions listed by the FSB target large scale traditional insurance activities (and not non-traditional and non-insurance activities (“**NTNI**”)), the approach taken by the FSB is not suitable to identify activities, which are Critical Functions in the sense that they are potentially systemically risky, i.e. that their disorderly failure could destabilize the global financial system. This understanding is in line with (a) the IAIS’s assessment that traditional insurance activities are not systemically risky and (b) the IAIS’s assessment methodology for the identification of G-SIIs, which focuses on NTNI activities.

Our below comments are therefore seeking to provide additional input on identifying those large scale insurance operations whose disorderly failure could undermine the confidence and legitimate expectations of a large number of policyholders in a domestic market.

## II Questions

### 1. Appropriateness of the definitions of “critical functions” and “critical shared services” for the insurance sector

The suggested examples of Critical Functions are extremely broad, potentially earmarking almost all insurance activities and products as “critical” (e.g. description of motor third party liability insurance cover as “critical” for individuals to travel to work). The Consultation Paper thus does not sufficiently distinguish between the criticality of single insurers and the insurance industry as a whole.

Rather than linking the definition of Critical Functions to financial stability (an approach which, if one follows the IAIS methodology, cannot identify any traditional insurance activities as critical) or the real economy (an approach which would be more suitable to identify the entire sector but not a single insurer as critical), one should focus on the substitutability of the function for the individual concerned (in the sense of “if insurer x doesn’t underwrite it, can the individual get the respective coverage elsewhere”) taking the following criteria into account:

- existing business (e.g. in health and annuities business where almost every policy becomes a claim) will most likely be more critical than new business;
- regarding new business “market share” is a decisive indicator for substitutability. However absence of insurance coverage does not necessarily lead to the interruption of economic activities, but may have a price impact on such activity, only.

Critical Shared Services should be understood firm-specific as services shared by identified Critical Functions within an insurance group or an external provider (e.g. IT services, cash management).

### 2. Should critical functions be identified based on whether the disruption of the activity would adversely impact the stability of the financial system or the functioning of the real economy, or both

Cf. above.

### 3. Appropriateness of the methodology for identifying criticality for the insurance sector

Cf. above.

### 4. Suitability of the proposed categories to cover all relevant and potentially critical functions

*Insurance coverage as a precondition for economic activity*

The criterion is problematic: Where criticality of functions is assessed by reference to the real economy, it should be taken into account that in a free market economy the framework of any economic activity is not static but subject to change (including the freedom to withdraw from certain market segments). Thus the macro-economic need for insurance coverage can only be an initial indicator for further analysis. Ending “too big to fail may not be perverted into “no one is allowed to change”.

*Investments in and lending to the real economy*

This aspect applies to the insurance industry as a whole but is not suitable for determining a Critical Function in respect of individual insurers.

*Acting as a counterparty in derivatives, repo and securities lending markets*

From a macro-economic perspective, insurers do not and should not play a significant role in ensuring the liquidity of any of the aforementioned markets.

*Pooling of risks*

This is the very essence of the economic function provided by insurers. However, it is difficult to reconcile how this aspect can be used to determine a Critical Function in respect of individual insurers.

**5. Appropriateness of the methodology used for the identification of critical shared services for the insurance sector**

Cf. above.

**6. Flexibility of the framework to cover the different types of business undertaken by G-SIIs?**

Cf. above. The objectives of the FSB are macro-prudential in nature and cannot be achieved through the (inevitably few designated actors targeted) G-SII methodology.

**7. Flexibility of the framework to take account of the external environment in which failure is occurring**

We believe that the framework (as outlined above) would be flexible enough to take account of the external environment.

**8. Other issues relating to the identification of critical functions and critical shared services**

Although the identification of critical functions is important, it must nevertheless be acknowledged that, regardless of how well-managed and regulated the insurance industry is, any individual insurer can and should be allowed to fail. While such a failure is unfortunate in many regards, the exit of weaker insurers through failure is a natural occurrence in market based economies. Such failures can also contribute to a strengthening of the industry as a whole and improve its ability to protect policyholders.

Please feel free to contact either Dr. Martina Baumgärtel, Head of Group Regulatory Affairs, Allianz SE (martina.baumgaertel@allianz.com) or Dr. David Bacher (david.bacher@allianz.com) or Dr. Henning Schult (henning.schult@allianz.com) if we can provide any assistance to you in the further evaluation of these very important issues.