GLOBAL FEDERATION OF INSURANCE ASSOCIATIONS

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GFIA comments on FSB practices papers on resolution funding for insurers and internal interconnectedness in resolution planning for insurers

GFIA and its member associations much appreciate the opportunity to comment on the paper.

GFIA notes that not only are insurance failures very rare, but the circumstances where such rare failures could or would have any material impact on critical functions of financial stability are extremely limited. Considerations of any recommendations for new requirements should take this into account, should be tailored for insurers (and not mirror banking regimes) and also ensure a proportionate approach is applied.

Having said this, GFIA is of the opinion that any resolution regime should be designed to precisely pursue the following objectives: ensuring the continuity of critical functions resulting from the activity of one entity; avoiding or mitigating negative effects on financial stability, and protecting the rights of policyholders, underwriters, members, participating members, and beneficiaries of insurance coverage.

GFIA agrees that, in the context of resolution planning, it is important that group-wide supervisors and/or resolution authorities leading the development of resolution plans are aware of financial and operational interconnections within a group. GFIA would stress that, to avoid unnecessary duplication and overlap, host supervisors and/or resolution authorities should not require separate resolution plans where a group resolution plan exists that covers material entities within the group. Host supervisors and/or resolution authorities having their own plans would be inconsistent with the objective of group planning and supervisory coordination and cooperation set out in the IAIS ComFrame12.3a.2 and would introduce added cost and complexity. The papers clearly demonstrate that these interconnections can be very complex and planning at solo level would only add unnecessary complexities.

The industry supports the application of proportionality based on the size and complexity of a group. The proportionality principle should ensure that firms are not required to devote significant resources to developing resolution plans when the value of doing so is rather limited; in fact, this could actually be counter-productive, as it could act as a distraction from more effective preventive measures.

It is important for the FSB to note that fit-for-purpose insurance resolution regimes should not mirror banking regime. Risk profile of an insurance company evolves more slowly than for banks. It should also be noted that insurance companies are less vulnerable to macroeconomic shocks (e.g., liquidity constraints) compared to banks, given the longer duration of liabilities and asset-liability matching practices tailored for long-term liabilities. Any insurance resolution framework needs to duly take account of the unique nature of the insurance business model in its design.

In this context, GFIA welcomes that section 2.2 of the paper recognises the need to duly take account of substitutability of the operational services in the assessment of criticality. Insurance products are generally highly substitutable. Traditional life insurers, for example, typically cannot be associated to critical functions

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because the products they issue – life insurance, annuities, retirement plans, and disability insurance – are offered by multiple insurance companies and in some cases other industry competitors as well and so are highly substitutable. For these reasons, among others, the failure of an insurer having a systemic impact is exceedingly rare. In contrast to bank failures, the nature of insurance failures allows portfolio transfer and run-off over a long period of time, which means that a very different set of tools and level of intervention is usually required.

GFIA takes the view that, in case where it is found that operational interconnectedness inhibits effective resolution and authorities require the insurer to remove related impediments as discussed under section 2.2., it is important to ensure that this is not done at the expense of the group's cross-border entities and ultimately their policyholders. Moreover, policyholders of cross-border entities should have the same level of protection as is the case in the home jurisdiction. Any other approach would inhibit equal treatment of policyholders and also diminish the level of confidence in cross-border insurers, ultimately turning into a competitive disadvantage for insurers conducting cross-border business.

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About GFIA

The Global Federation of Insurance Associations (GFIA), established in October 2012, represents through its 43 member associations and 1 observer associations the interests of insurers and reinsurers in 66 countries. These companies account for 89% of total insurance premiums worldwide, amounting to more than $4 trillion. GFIA is incorporated in Switzerland and its secretariat is based in Brussels.