

September 2, 2011

Secretariat to the Financial Stability Board
c/o Bank for International Settlements
Centralbahnplatz 2
CH-4002 Basel
Switzerland

DELIVERED VIA E-MAIL: fsb@bis.org

Dear FSB Officials:

On behalf of the International Network of Insurance Associations (INIA), the undersigned life and health and property and casualty insurance and reinsurance associations submit their comments on the FSB consultation paper "*Effective Resolution of Systemically Important Financial Institutions*".

Scope of application

INIA supports the general direction of the initiative of the Financial Stability Board ("FSB"), to respond to the serious global events that arose during 2008, and which substantially adversely impacted certain entities in the financial services industry. We see the initiative as creating a template that would facilitate the orderly resolution of institutions considered systemically important. This being said, INIA wishes to express its concerns about the fact that the FSB has not clearly distinguished between different sectors of the financial industry, and in particular between the banking and insurance sectors, despite the fact that important differences exist in terms of e.g. systemic risk and resolvability.

INIA welcomes the statement in Annex 1 that "Not all resolution powers set out in the Key Attributes are suitable for all sectors and all circumstances". However, there seems to be a contradiction between this statement and the fact that in very few instances throughout the document is the recognition that the framework and tools set out for effective resolution of financial groups will properly account for the differences between the banking and insurance business models.

Against this background, INIA urges the FSB to clarify the scope of application of its document making it clear that the recommendations have been developed for the banking sector and apply to this sector only.

Insurance business model

Resolution frameworks should be adapted to reflect the specificities of each sector. In this context, it should be kept in mind that there is no track record of a wind-up scenario in the insurance sector where severe “systemic disruption” or “vital economic functions” were put at stake¹, which were mentioned in the document as the main arguments to build up the present resolution regime for SIFIs.

A number of specificities of the insurance sector highlight the very different regulatory concerns between the insurance and banking sectors, especially resolvability and potential systemic risk.

- **Asset and Liability Management**

The Insurance business is conducted by matching safe and stable assets against expected future payments to policyholders and other claimants. Insurers generally do not face the same risk of liquidity shortages or to a consequent short term asset sell-off to the same extent as banks, considering the mismatch as between bank assets and bank deposits.

- **Insurance regulation**

Insurance regulation requires insurers to hold substantial amounts of capital in excess of technical provisions and other liabilities through risk based capital systems. Insurance entities that begin any downward spiral are quickly detectable before they come anywhere near insolvency levels. There are regulatory intervention points that have proven effective to stem that spiral and restore companies to an upward track.

- **Claim payments are not accelerated in insurance resolution**

Insurance products can be written for both short terms and long terms. However, even under short-term insurance contracts, benefits are generally paid over periods of time that can extend well beyond a single reporting period or several reporting periods. Thus, access to liquidity can be obtained in a more orderly fashion than with a bank that sustains a “run” scenario.

¹ The insurance sector was on the periphery of the 2008 crisis. It should be noted that the crisis of AIG was raised by the Financial Products Division which was a non-insurance entity outside the scope of insurance regulation. The AIG insurance business units remained viable.

The importance of resolution mechanisms is comparably much lower for insurance companies than for banks, due to the underlying differences in the business models of these sectors. Unlike banks, there is no need for a failing insurer to be resolved over a weekend, because there is no need to settle claims immediately. Moreover, insurance resolution works as an orderly wind-up procedure, with no risk of systemic contagion to the broader economy.

Bail-in within resolution

In its consultation document the FSB seeks stakeholder views on the possibility of including ‘bail-in’ features in a proposal for a resolution framework for financial institutions. INIA would like to highlight a number of important questions which may limit the attractiveness of bail-in debt instruments to investors, especially for insurers. Our main concerns relate to the risk pricing of these instruments, which can be severely aggravated by the uncertainty which can surround a statutory conversion. In any case, INIA feels that creditors’ participation should only be considered on a contractual basis, with no retroactive implications and only after reasonable measures to allocate additional equity or to de-risk the operations of the institution are exhausted or failed.

Concluding remarks on next steps

It seems to be the FSB’s intention to expand its framework on resolution to the insurance sector at a later stage, as mentioned in Annex 1². In this process, due consideration should be given to the following points:

- Any proposals should give due consideration to the insurance business model and to the orderly winding-up procedures already existing in insurance regulation.
- The work of the FSB on such a framework for the insurance sector should, if proven suitable, only come at a later stage, given that the discussions at the IAIS level on both the methodology to identify insurance undertakings as systemically relevant and the legal consequences of a SIFI-designation are still at an early stage; and
- Any extension of the FSB’s resolution framework to the insurance sector should take into account work underway at the IAIS and coordinate with governments on the criteria and timing of SIFI designation by the individual countries.

² FSB Consultative Paper: *Effective Resolution of Systemically Important Financial Institutions*, Annex 1, page 23.

The INIA members would like to thank the FSB for the opportunity to raise the insurance sector's concerns. An effective dialogue with the FSB as well as a response to the points raised in this letter would be highly appreciated.

Sincerely,

American Council of Life Insurers (ACLI)
Association of Bermuda Insurers and Reinsurers (ABIR)
Association of British Insurers (ABI)
Brazilian Insurance Confederation (CNseg)
Canadian Life and Health Insurance Association (CLHIA)
Dublin International Insurance & Management Association (DIMA)
European Insurance and Reinsurance Federation (CEA)
Federación Interamericana de Empresas de Seguros (FIDES)
French Federation of Insurance Companies (FFSA)
General Insurance Association of Japan (GIAJ)
German Insurance Association (GDV)
Group of North American Insurance Enterprises (GNAIE)
Insurance Bureau of Canada (IBC)
Insurance Council of Australia (ICA)
Irish Insurance Federation (IIF)
Life Insurance Association of Japan (LIAJ)
Property Casualty Insurers Association of America (PCI)