Position Paper

FSB Principles for an Effective Risk Appetite Framework

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Summary

Insurance Europe, the European Insurance and Reinsurance Federation, through its 34 member bodies – the national insurance associations – represents undertakings which account for around 95% of total European premium income. Insurance Europe appreciates the opportunity to respond to the Consultative Document on "Effective Risk Appetite Framework" published by the Financial Stability Board (FSB) on 17th July 2013.

Insurance Europe supports the objectives and appreciates the overall direction of the principles outlined in the consultative document. In the context of the discussions on systemically important financial institutions, and otherwise, Insurance Europe has consistently highlighted the importance of firms maintaining robust risk management, strong governance, sound internal control mechanisms and adequate risk disclosure practices. The implementation of an effective risk appetite framework (RAF) by both financial institutions and supervisors is essential to ensure the right foundation is provided to support this and that it is fully embedded in a firms risk culture.

This is something captured under Solvency II whereby insurers will be required to develop a systematic risk management framework capable of ensuring that risk considerations are appropriately understood, managed, controlled and integrated into decision making.

Enhanced supervision is one of the 'three pillars' alongside higher loss absorbency and effective resolution proposed by the FSB to deal with systemically important financial institutions (SIFIs). The FSB's work on RAF we understand is a key element of the work stream on enhanced supervision. This is appropriate and we agree that having an effective RAF in place will help ensure that firms are, and remain, financially robust and that potential negative externalities are identified and brought within a firm's risk tolerance. In the light of this, the establishment of an effective RAF should be considered as an effective and cost efficient alternative to other measures (such as additional capital) by policymakers when dealing with potential systemic risk concerns. We would; therefore, like to see greater recognition by the FSB and the relevant standard setters of how effective RAF's reduce the need for other measures to address supervisors systemic risk concerns.

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While fully supporting the overall direction of this document it is also important that it strikes the right balance between facilitating better cross-sectoral and cross border consistency in RAFs and remaining high level and principles based. It is vital that the principles do not undermine a firm's ability to decide how to organise itself in line with the nature, scale and complexity of its operations. In this respect, we believe that the document contains too strict a definition of the roles and responsibilities of the chief executive officer, chief risk officer and chief financial officer. Instead the focus should be on a firm being able to demonstrate that it has a clear allocation and an appropriate segregation of responsibilities.

Likewise, we support references in the paper to the need for systems and procedures to be implemented in a consistent manner on a firm-wide or group wide basis. Indeed we believe having systems and procedures in place that ensure a common understanding of risk across the group and which support coherent functioning and reporting of risk management and internal controls are essential to allow proper control at group level. However, in meeting this objective, it is important that consideration is given to the relationship between the parent and other entities in the group. Where the parent undertaking does not have control over a related undertaking it should be acceptable for a firm to demonstrate that it can use its influence to put in place an effective system of governance or that it will take appropriate action at the level of the group where appropriate.

Insurance Europe appreciates the opportunity to provide these comments and looks forward to further dialogue with the FSB.