

GFIA comments on FSB Guidance on Supervisory Interaction with Financial Institutions on Risk Culture

The Global Federation of Insurance Associations (GFIA) through its 37 member associations represents insurers that account for around 87% or more than \$4.0 trillion in total insurance premiums worldwide. GFIA appreciates the opportunity to comment on the FSB's Guidance on Supervisory Interaction with Financial Institutions on Risk Culture, as our experience shows that the best regulatory and supervisory policies result from transparent processes and dialogue among all interested parties. Over-all we think the Guidance is well-crafted and we support the high level outcomes-based approach taken in this document. We do have a few specific comments as outlined below:

Supervisory Balance Is a Key Concept

One important sentence in the Guidance sets out a fundamental issue that should be more prominently featured, perhaps at the beginning of the document and at several other points. The sentence, found on page 4 in the first full paragraph, reads: "The challenge for supervisors is to strike the right balance between taking a more intensive, proactive approach and not unduly influencing strategic decisions of financial institution's management." Finding this balance will best serve the market and the public. Without such balance, which necessarily reflects proportionality based on the particular entity in question, the line between the supervisor and the supervised insurer could become blurred, to the detriment of both and ultimately to the public.

The Guidance Should Not Become More Granular or Prescriptive

We note that among the questions for commenters is whether additional examples should be provided. We believe that they are not necessary because their inclusion might have the effect of "freezing" governance practices at today's standards, rather than allowing for their evolution in the future.

The current Guidance document provides a total of 33 examples for the four indicators of a strong risk culture. For the most part, these examples are outcomes based and we believe are appropriate to ensure that the Guidance remains relevant as risk-culture practices evolve. Therefore, we are concerned that the Public Consultation Questions suggest that the FSB should add a degree of granularity that is inconsistent with the mandate to develop outcomes-based supervision.

Risk culture and enterprise risk management are parts of a developing field that is influenced by a number of internal factors, such as company practices and culture and external factors, such as economic events and the regulatory environment in which the company is operating. We are concerned that adding additional examples, particularly "specific practices" or further elaboration on "risk culture" will ultimately reduce the flexibility with which the guidance can be followed, thus risk the Guidance becoming less useful, and possibly even outdated.

Best practices for risk culture are highly specific to each company and will vary depending on the nature, scale and complexity of the risk exposure. Risk culture is also influenced by jurisdictional requirements and corporate governance laws. This is another reason why we believe it is important that the indicators remain outcomes-focused and refrain from including specific example of a “best practice”. What is a best practice for one company may not be a best practice for another company and yet the same level of policyholder protection can still be achieved.

Strict Confidentiality Should Be Assured

The Guidance assumes full cooperation from the highest level of financial institutions. In order to encourage and achieve that result, it will be critical to assure adequate confidentiality protection for the communications. We respectfully ask that a reference to the need for strict confidentiality be added.

Regulatory Costs Should Be Weighed Against the Benefits of Supervision

The Guidance should include the notion that the costs of the supervision should provide significant benefits in terms of better regulation. And, the Guidance should also include the concept that the effect of applying its concepts should not be to reduce the availability or affordability of insurance offered by well-regulated companies.

Conclusion

We wish to again express our appreciation for the ability to comment on the Guidance. We also wish to state that we are always available and would be pleased to follow up on this and any other matter affecting insurance companies.

About the GFIA

Through its 37 member associations, the Global Federation of Insurance Associations (GFIA) represents the interests of insurers and reinsurers in 56 countries. These companies account for around 87% of total insurance premiums worldwide. The GFIA is incorporated in Switzerland and its secretariat is based in Brussels.