GLOBAL FEDERATION OF INSURANCE ASSOCIATIONS

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GFIA response to FSB Consultation on Liquidity Preparedness for Margin and Collateral Calls

General comments

GFIA welcomes the opportunity to respond to the FSB's consultation on Liquidity Preparedness for Margin and Collateral Calls.

GFIA supports the FSB's work included in the consultation paper and recognises the recommendations proposed in the report as best practice for liquidity risk management relating to derivatives.

In this context, GFIA would like to raise a couple of points for the FSB attention.

- As a general point, GFIA would like to highlight its recent report *Insurance: a unique sector*, which highlights the differences between insurers and other nonbanking financial institution (NBFI) sectors. This includes important differences, such as the fact that insurers are already very well regulated, and explains why regulation and standards that are intended for the insurance sector should consider its unique characteristics. More information can be found in the report which can be accessed via the GFIA website, GFIA - Publications - Global Federation of Insurance Associations (gfiainsurance.org).

  While the consultation paper does make efforts to highlight the diversity of the NBFI sector, notably in section 2.4, care must be taken by the relevant authorities in each jurisdiction to reflect the insurance business model in their interpretation of the FSB recommendations.

- As noted by the FSB, liquidity risk management standards, including those related to margining and collateral, are included in the IAIS Insurance Core Principle 16. This includes requirements on liquidity risk management and governance and liquidity stress testing. As such, GFIA considers the standards in ICP 16 to already cover the FSB policy recommendations.

  As always, care should be taken to avoid creating unnecessary regulatory requirements when these are considered at a jurisdictional level.

- Liquidity is a very important for insurance companies. Margining and collateral requirements are only one aspect of the wider liquidity management for insurers. However, given the specific features of the insurance business model, it is a risk which is well managed and many jurisdictions already have existing rules and/or regulations in place on liquidity risk for insurance companies.

- GFIA supports the idea that greater transparency from market participants would contribute to improve participants' liquidity preparedness. For example, more transparency around the way Central Counterparty Clearing Houses' (CCPs) collateral requirements are modelled and calculated would allow insurers to anticipate any unexpected surge in collateral needs, helping firms to better identify and contribute to mitigate potential systemic impacts.

- NBFIs play a key role in promoting growth in their respective economies. The need to hold significant amounts of cash for example to cover margin calls during periods of stress, prevents investment in productive assets. GFIA would encourage technical discussion with industry to assess the feasibility of expanding the type of assets accepted as collateral from cash-only to some types of non-cash. A wider range of accepted collateral would also contribute to strengthen firms' liquidity positions, diminishing systemic risk.

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About GFIA

The Global Federation of Insurance Associations (GFIA), established in October 2012, represents through its 42 member associations and 2 observer associations the interests of insurers and reinsurers in 69 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.