

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

GFIA and its member associations appreciate the opportunity to comment on the Financial Stability Board (FSB) papers on practices for funding in resolution and on internal financial and operational interconnectedness designed to facilitate effective resolution planning for insurers.

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

Having said this, GFIA is of the opinion that any resolution regime should be precisely designed to 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 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 the banking regime. The risk profile of an insurance company evolves more slowly than that of a bank. It should also be noted that insurance companies are less vulnerable to macroeconomic shocks (eg, liquidity constraints) than banks, given the longer duration of their liabilities and their asset-liability matching practices tailored to long-term liabilities. Any insurance resolution framework needs to take full account of the unique nature of the insurance business model in its design.

In this context, GFIA welcomes the fact that section 2.2 of the paper recognises the need to duly take account of the substitutability of 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 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 cases 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 its policyholders. Moreover, policyholders of cross-border entities should have the same level of protection as in the home jurisdiction. Any other approach would inhibit the 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.