



Template for comments from observers on branches

Observers that were in attendance at the last meeting of the Insurance Groups and Cross-Sectoral Issues meeting held in Basel on 19th / 20th November were requested by the chair, Ms. Petra Faber-Graw, to provide details on how branches have access to capital and the benefits that branches bring to the organisation to which they belong.

When responding, observers that are representing organisations that are members of industry associations are requested to make their submissions either under their own identity or through that of the association but not both as this introduces increased compilation and analysis.

Please provide your comments using the following comments template and return to kwan.jung@bis.org and cc shinya.kobayashi@fsa.go.jp, lance.leatherbarrow@bis.org **by 14th December 2012.**

We thank you for your assistance in this regard.

Organisation/Association	Comment
GFIA	<p>GFIA welcomes the work done by the IAIS through the <i>Issues Paper on Supervision of Cross-Border Operations through Branches</i> and appreciates the efforts of the IAIS to ensure a well-regulated and healthy business environment for internationally active insurance companies.</p> <p>GFIA also welcomes the ability to comment on the progress of the issues paper, but would remind the IAIS to honor its commitment of involving all observers, not just limiting the consultation to those observers who were physically present at a particular meeting, as this can introduce a geographic bias in the input received. Further to this it is imperative to allow a long enough consultation period to afford a reasonable response time to observers who need to have material translated. Also, at this early stage of drafting, it is important that the IAIS continue to receive comments on the entire paper as Observers and Members are seeing substantial portions of it for the first time.</p>

Organisation/Association	Comment
	<p>Through its <i>Survey on Cross-Border Operations through Branches</i> the IAIS has identified a number of potential challenges facing supervisors when dealing with foreign branches both in normal times and in times of stress. Though GFIA appreciates that this list stems from issues raised by particular supervisors in the survey, it urges the IAIS to consider seeking a more empirical basis to work from.</p> <p>It is also important that the results of the survey are accurately reported on. When the issues paper says “some supervisors feel that there are difficulties in supervising foreign branches”, it should be highlighted that this is the voice of a very small set of respondents, referring to very concrete and specific problems. It would be a mistake to take these difficulties and abstract them, giving a more problematic overall view of branches than is appropriate.</p> <p>The IAIS issues paper bases its conclusions on responses from 33 jurisdictions, of which the vast majority can be said to be reasonably well-developed economies. In this regard it is worth considering the conclusions from Fiechter et al (2011), a staff study by the International Monetary Fund, which examined the branch/subsidiary issue in the banking sector, which states:</p> <p style="text-align: center;"><i>... countries with underdeveloped financial systems and weak economies may prefer global banks to enter via branches that can facilitate credit services based on the parent’s strength.</i></p> <p>The IAIS represents insurance regulators and supervisors from more than 200 jurisdictions. Therefore, in exploring supervisory approaches and identifying potential areas of concern we believe the study would benefit from taking responses from a more broadly representational cross section of its membership. As demonstrated through the quote above the supervisory perspective on branches differed in the banking sector between developed and developing economies and the same may well be true for the insurance sector. Any recommendations based on the survey results will affect all IAIS members so it is important that as broad a range of views as possible is considered at the outset.</p> <p>GFIA appreciates that the focus of the paper is on branch operations, however, in drawing any conclusions it is important that branches are considered alongside its alternatives, which are i) doing business through subsidiaries, or ii) doing cross-border business without having a legal presence in the country. Each of these business models has its benefits and potential challenges. Indeed the academic studies of the branch/subsidiary issue in the banking sector indicate that from a supervisory perspective, each legal form has some advantages. The Fiechter et al (2011) study emphasises that neither form is clearly</p>

Organisation/Association	Comment
	<p>preferable:</p> <p><i>A key observation of the paper is that neither the branch nor the subsidiary structure is obviously preferable in all cases from the financial stability perspective.</i></p> <p>The IAIS Secretariat has provided us with this opportunity to highlight some of the benefits of operating through branches so with that in mind we would like to make the following observations. In the case of covering highly volatile risks like natural catastrophes it is essential that insurers have the highest possible ability to spread their risk as widely as possible. Through operating off the parents balance sheet and pooling a diverse range of risks, branches help to bring greater stability to local markets than can be offered through an independent insurer operating off a locally held capital base. This is especially true for reinsurers.</p> <p>Overall, branches allow insurers to offer a more attractive range of services, at lower cost than is generally possible from comparable local independent operations. In this way a company benefits from a more efficient use of its resources, and access to a wider and larger customer base than available to it in its home market. The branches benefit from the broad expertise and financial strength of the home company. However, in making these comments we are mindful of the fact that some of the additional costs attached to subsidiary operations contribute to the governance of the subsidiaries which also provides policyholder benefits. Therefore, we appreciate the need for supervisors to consider both the challenges as well as the benefits of operating through branches when drawing any conclusions on the branch form of operation. However, as noted in this submission and further highlighted in the attached mark-up of the issues paper we believe the current draft issues paper does not give enough consideration to benefits of the branch form of operation.</p> <p>Through the development of a comprehensive set of Insurance Core Principles the IAIS has provided supervisors with a consistent global basis for their work and at the same time helped to promote confidence in the supervision carried out by others. That said we are increasingly seeing a trend towards host supervisors requiring capital to be held locally and additional regulatory requirements irrespective of whether robust comprehensive prudential supervision of an insurer including its global operations is already conducted elsewhere. As an industry that operates most efficiently with open borders, maximum risk diversification and global pooling of risk and capital, we are concerned by these developments and would not like to see recommendations stemming from the IAIS issues paper on branches further reinforcing this trend without a clear justification for doing so.</p> <p>Therefore, in response to the specific difficulties raised by supervisors, GFIA urges the IAIS to consider these issues in a</p>

Organisation/Association	Comment
	<p>targeted way, based on real-world data. That way it is possible to formulate a more balanced issues paper that reflects the generally well-regulated nature of the branches model. The paper is currently unbalanced as many of the problems attributed to branches are equally problematic in subsidiaries and possibly even more problematic in cross-border scenarios. In some of these situations branches may well be the most appropriate model of doing business.</p> <p>Summarising, GFIA reiterates its support for the IAIS's work in developing common international supervisory practices which can be applied to developed and developing countries alike. This issues paper could be a valuable tool in appraising the international state of supervision of the branches business model, but it critically fails to put its findings into context. Branches exist as one of a finite set of options for insurers. The reasons for establishing a branch instead of a subsidiary are complex and varied and in many instances determined by opportunities available in a local market for takeover/merger at a particular point of time or historical reasons more than regulatory considerations. As it stands the issues paper focuses unevenly on only the disadvantages of branches, without comparison to subsidiaries or cross-border models, and generalises the answers of a very small subset of respondents. We stand ready to engage with the IAIS to further explore the issues raised in this submission to ensure a balanced presentation of approaches and systems is provided to enable the further evolution of this IAIS work stream.</p>