GLOBAL FEDERATION OF INSURANCE ASSOCIATIONS

29 March 2013

To: Ms. Elizaveta Danilova
Head of Macroprudential
Analysis Division, Financial Stability Department, Bank of Russia

Mr. Maxim Morozov
Head of International Cooperation Unit
Financial Stability Department
Bank of Russia

Dear Ms. Danilova, Dear Mr. Morozov,

First of all, let me thank you once again for your time and availability on the occasion of our recent meeting in Moscow and for providing us with a good insight into the objectives of the Russian Presidency of the G20 in the systemic risk area.

The insurance sector's main concern in the systemic risk debate is the adoption of a regulatory approach which excessively mirrors what was developed in the banking area, in spite of the important differences between the two sectors. Specifically, while there is an intrinsic systemic risk involved in banking (due to the high level of interconnectedness within the sector and to the maturity mismatch in banks' balance sheets), this is not the case in insurance where only certain activities, in certain circumstances, can give rise to systemic risk concerns.

Against this background, the GFIA has consistently argued – in line with comments made by the IAIS in its "Insurance and Financial Stability" report in November 2011 – that it is only certain specific non-traditional non-insurance-related (NTNI) activities that should be looked at, and for which appropriate measures should be designed. The GFIA welcomes the decision by the IAIS to follow this general approach. We are concerned, however, that the definition of NTNI may end up being too broad, resulting in measures being applied to activities which are not systemically risky.

On the measures, the GFIA upholds that these should be applied in a graduated manner. The first step, after the identification of activities potentially raising systemic risk concerns, should be to analyse whether the potential for systemic risk is captured by existing risk management tools and supervisory practice. If deemed necessary, additional measures should be implemented in a graduated approach; such measures should be proportionate to the potential of the activity to generate systemic risk. The more radical steps, such as separation of activities or Higher-Loss Absorbency (HLA), should only be considered as a last resort.

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We have recently conveyed these concerns in the area of systemic risk in insurance in a letter to Paul Sharma, Chairman of the IAIS Financial Stability Committee. This letter was drafted as a follow-up to the IAIS consultation on measures, to which the GFIA also contributed. Both documents are included as an annex to this letter, for your information.

GFIA is convinced that developing an approach which meets the specificities of insurance is not only in the interest of the sector and regulators, but also of our policyholders and consumers. GFIA is therefore committed to an on-going dialogue with the IAIS, which hopefully will result in solutions which contribute to enhancing financial stability, are workable in practice, and do not result in distortions of competition within the financial sector.

We remain at your disposal for any question or comment you may have.

Yours sincerely

Frank Swedlove
Chair, Global Federation of Insurance Associations

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