FSB FINANCIAL STABILITY BOARD

Scope of Insurers Subject to the Recovery and Resolution Planning Requirements in the FSB Key Attributes: Consultation report

Response to Consultation

Global Federation of Insurance Associations (GFIA)

In general

1. **Are the Draft Guidance and comments on the Draft Guidance clear? Where would commenters seek further discussion?**

The Global Federation of Insurance Associations (GFIA) welcomes the FSB's ongoing interest in the insurance sector and in particular the FSB's work on the scope of insurers subject to recovery and resolution planning (RRP).

We have reviewed the high-level criteria proposed by the FSB to identify insurers which should be subject to recovery and resolution planning. We assess these are being appropriate and broadly consistent with the IAIS's criteria, subject to the comments and clarifications included below.

In our view, international standards for the insurance sector, including the scope of the RRP, should be considered and developed by the IAIS, which possesses the deepest expertise in the insurance sector, is the standard-setting body with over 200 member jurisdictions, and has already established standards in this area through the ICP and ComFrame.

Ultimately, we believe that RRP requirements should be considered by each country's authorities in light of their respective national circumstances. In this context, GFIA encourages authorities to apply the proposed criteria in a balanced and forward-looking manner. Recognising that certain features may increase complexity while simultaneously enhancing resilience is essential to achieving a proportionate and effective RRP framework. A nuanced application of the criteria will help safeguard financial stability without discouraging diversification, innovation or efficient risk management within the insurance sector.

Below, we have outlined some aspects of the insurance sector which we believe should be considered when developing standards on recovery and resolution for insurers. We would further like to share our recent paper, Insurance: a unique sector, which outlines in more details the specificities of the insurance sector which should be borne in mind when developing standards and regulation for the insurance sector. This report can be found on our website (GFIA report: "Insurance: a unique sector").

Our key considerations are:

• It is important to ensure that recovery and resolution planning requirements reflect that the insurance sector is not systemically risky in the same way as other financial sectors, such as banking. Thus, a proportionate and tailored regime is needed to address the risks posed by insurer failure, and the proposals made here are a useful contribution towards this.

• Consistent with the approach taken in the IAIS Insurance Core Principles and ComFrame, GFIA considers it critical to distinguish between the scope of insurers subject to recovery planning versus those subject to resolution planning. Recovery planning is a preventive supervisory tool that may be appropriate for a broader range of insurers as part of good governance. However, resolution planning is a resource-intensive measure intended solely for those few institutions whose failure would cause systemic disruption. Aligning the scope of these two distinct tools ignores the principle of proportionality.

• We strongly support the application of the principle of proportionality when determining the scope of RRP requirements. No single criterion should automatically trigger inclusion. Instead, authorities should conduct a holistic assessment, weighing both risk-increasing and risk-mitigating aspects of each criterion. In particular:

- Criteria should not be applied additively without recognising offsetting effects.

- Diversification benefits should be explicitly acknowledged in the assessment framework.

- The focus should remain on the potential impact of failure, rather than on firm characteristics in isolation.

• We emphasise that complexity is not inherently synonymous with higher systemic risk. While complex organisational structures, diversified business lines or cross-border operations may increase operational and resolution planning challenges, they can also significantly reduce risk concentrations and enhance resilience, For example:

- Diversification across products, geographies and risk pools can lower exposure to idiosyncratic shocks and reduce the likelihood of correlated losses.

- Cross-border activities often reflect geographically diversified portfolios, which can stabilise cash flows and capital positions across economic cycles.

- Group structures with multiple legal entities may allow for internal risk absorption and the orderly isolation of stress, rather than its amplification.

• Accordingly, complexity arising from diversification should be clearly distinguished from complexity that obscures risk, hinders transparency or impedes resolvability. A nuanced assessment is essential to avoid penalising sound business models and group structures.

• We note the inclusion of "interconnectedness" and "reinsurance exposure" as assessment criteria. It is important to distinguish between "toxic" interconnectedness (e.g., opaque cross-holdings) and functional risk dispersion. Reinsurance is the insurance sector's primary mechanism for dispersing risk globally, rather than concentrating it. Criteria that penalise insurers for high levels of reinsurance would perversely discourage risk transfer and incentivise the retention of dangerous levels of concentrated risk.

• Regarding the "Nature" and "Complexity" criteria, it is essential to distinguish between speculative risk-taking and prudent Asset-Liability Management (ALM). The use of derivatives for hedging purposes—specifically to match assets with long-term liabilities—is a risk-reduction activity. The criteria should explicitly exclude standard hedging and ALM activities from being classified as indicators of a "risky nature" or systemic complexity.

• We express concern regarding the proposal to expand the definition of a critical function to include activities that have a material impact on the "financial system or the real economy". While the insurance business model is inherently tied to the real economy, such a connection does not imply that the failure of an individual insurer would generally have a significant impact on the broader economy. Moving to an "OR" conjunction risks capturing regional or niche insurers that are vital to their specific customers but not relevant to global financial stability and the functioning of real economy. To remain consistent with the FSB's mandate of financial stability, the definition should retain the requirement that a function must impact the financial system and real economy to be deemed critical in a resolution context. Moreover, if the objective is to "align the definition of critical function with other important materials" and achieve greater precision, it would be preferable to refer to a "significant impact" as used in ICP 12.4.4.

• It is important to emphasise that while critical functions must absolutely be treated appropriately in recovery and resolution situations, their scope needs to be carefully defined to avoid including large areas of insurers' operations that are not truly critical or significant to the wider economy. In general, insurer's services which should be deemed critical are very limited.

Paragraph 3: Assessment criteria

2. **How well-suited are the criteria in the Draft Guidance (nature, scale, complexity, substitutability, cross-border activities, interconnectedness) to determining which insurers should be subject to RRP requirements?**

3. **What other criteria, if any, should be in the Draft Guidance for determining which insurers should be subject to RRP requirements? Discuss why any additional criteria should be added and the advantages and disadvantages of doing so.**

4. **What other indicators could be provided as examples of ways that authorities could assess the criteria in the Draft Guidance?**

5. **How could the comments to the Draft Guidance better explain the difference between any of the six criteria?**

6. **How could the comments on the Draft Guidance be made clearer to explain how the six criteria should be applied, while still allowing authorities the flexibility to consider**

the criteria in a manner that aligns with the specific characteristics of their jurisdictions?

Paragraph 4: Specific circumstances that should necessitate RRP requirements

7. **Should RRP requirements apply in the two sets of circumstances identified in paragraph 4 of the Draft Guidance, notwithstanding any other facts or circumstances?**

8. **What other circumstances should call for the application of RRP requirements to an insurer, notwithstanding any other facts or circumstances?**

9. **What are possible quantitative or qualitative thresholds concerning the six criteria or some combination of the six criteria that should necessitate RRP requirements, notwithstanding any other facts or circumstances? For example, should the Draft Guidance call for RRP requirements whenever the cross-border activities of an insurer exceed a certain threshold?**

Proposed revision to FSB guidance on critical functions

10. **What are the advantages and disadvantages of revising the FSB's guidance on the definition of a critical function for insurers by changing the phrase "the sudden failure to provide the function would be likely to have a material impact on the financial system *and* the real economy" to "the sudden failure to provide the function would be likely to have a material impact on the financial system *or* the real economy"?**