

## **American Property Casualty Insurance Association (APCIA) Comments**

### **FSB Practices Paper**

#### **Internal Interconnectedness in Resolution Planning for Insurers**

APCIA agrees with the overall premise of the paper, i.e., that “mapping and assessing financial and operational internal interconnectedness are of critical importance for resolution planning for insurance companies.” APCIA also strongly agrees with the paper’s assertion that “the proportionality principle (size and complexity of the group) should be considered in any resolution planning that is undertaken.

Consistent with comments APCIA and its predecessor associations have made on previous FSB documents, APCIA continues to be troubled that the FSB focuses on “critical functions,” which it defines, in part, as functions provided by an insurer “the sudden failure of which would be likely to have a material impact on the financial system and the real economy (by giving rise to systemic disruption or by undermining general confidence in the provision of insurance.” The references in this definition to impacts on “the financial system” and the “real economy,” would suggest that critical functions could only be found to exist in insurers that the FSB or a host regulator has designated as systemically important. Indeed, we have previously supported this definition for just that reason. Yet the paper’s application and scope are not limited to insurers that have been designated as systemically important. This raises the specter that regulatory requirements, including elements of resolution planning, that are appropriate for systemically important firms may be inappropriately applied to firms that are not systemically important. FSB documents on resolution issues have consistently blurred the line between firms that are and are not systemically important. APCIA believes that FSB’s work on this subject should be limited to systemically important firms and its papers and guidance documents should be clear on this point.

APCIA is in full agreement with the second prong of the “critical functions” definition, which is that functions are critical only when they “cannot be substituted within a reasonable period of time and at a reasonable cost.” We have appreciated past FSB comments that there is sufficient substitutability for the majority of property-casualty insurance products. This high degree of substitutability for insurers’ products further reinforces the point that few, if any, insurers provide “critical functions.”

APCIA also calls attention to the comments on page 11 that “certain forms of reinsurance contracts may lead to contagion if the risk-assuming entity is underestimating the risks.” While it is certainly desirable for risk assuming entities to avoid underestimating risks, the failure to do so will not necessarily lead to broad contagion unless the firm possess characteristics that make it systemically important. APCIA also believes that reinsurance can and does play a useful role in mitigating risk and, in some firms, the potential for contagion. This does mean that regulators should be blind to any shortcomings in an insurer’s reinsurance program, but they should also acknowledge that reinsurance can often play a critical role in avoiding the need for insurance resolutions or in mitigating the financial impact of those that occur.