Response to the Consultative Document of the FSB, 'Recovery and Resolution Planning for Systemically Important Insurers: Guidance on Identification of Critical Functions and Critical Shared Services' (16 October 2014)

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Dear Sir/Madam,

The proposed Guidance on the identification of critical functions and critical shared services is in the right direction although some further fine-tuning and clarification will be required. In this respect, I will limit myself to some brief observations focusing in particular on the following questions:

1. Are the definitions of "critical functions" and "critical shared services" appropriate for the insurance sector?
2. Should critical functions be identified based on whether the disruption of the activity would adversely impact the stability of the financial systemic or the functioning of the real economy, or both?
3. Is the methodology for identifying critical functions laid out in the paper appropriate for the insurance sector? If not what aspects are missing or need to be changed?

- Response to questions one (1) and (2):

Overall, the proposed definitions of "critical functions" and "critical shared services" are appropriate for the insurance sector. However, a question that needs to be asked is whether -in relation to the SRR of G-SIIs- policyholder protection demands that at least in certain limited circumstances the continuity of critical insurance functions matters in its own right that is independently of any demonstrable systemic risk implications <u>at the time of assessing the criticality of the function for the purposes of developing resolution strategies</u>. Take the example of payments which are necessary for the policyholder in order to meet day-to-day living expenses. It seems counter-intuitive to hold that -in the context of a G-SII recovery and resolution- this policyholder is entitled to protection when it can be established that a sudden failure to provide the payment function has a material impact on the financial system and the real economy but he is not entitled to protection when it is not possible to establish this at the time of assessing whether an insurance function is critical or not. This position also seems to downplay the impact of the availability (or otherwise) of Insurance Guarantee Schemes on public confidence and by implication on the stability of the financial system. Given the remoteness of the causal link between the sudden disruption of the insurance function (especially when it does not affect a large group of policyholders) and the impact on the real economy (especially when not coupled with a demonstrable adverse impact on financial stability), a more realistic option would be to assess the 'criticality' of this function in terms of its adverse impact on public confidence (which it may or may not turn out to have a systemic effect latter). This will provide a more concrete basis for the assessment of criticality without at the same time encouraging market participants to assume that the function will be maintained under all circumstances and that they will be immune from losses if the firm providing the function fails.

The disruption of a critical function will typically affect both the financial system and the real economy. However, where it is difficult to demonstrate this at the time of assessing the criticality of the insurance function in question, suffice is to establish that this will adversely affect either of the two. Failing this and for reasons explained above, the competent authorities must at least be able to establish that a disruption is liable to undermine public confidence in order to treat an insurance function as 'critical' for the purposes of recovery and resolution planning. In short, as a default position, the competent authorities should be allowed to err on the cautious side when this is justified in the circumstances taking into account *inter alia* the profile of the group of policyholders that will be immediately affected by the disruption of the function in question and the nature of the interest insured.

- Response to question three (3):

Overall, the methodology of identifying critical functions is appropriate for the insurance sector and highlights the bearing of market competition in rendering the continuous provision of an insurance function as 'critical'. I am of the view that, similarly to competition, the capacity of policyholders to self-insure and the affordability of a substitute insurance product also bear on judgments about whether an insurance function is 'critical' or not in the circumstances of each particular case. This is not sufficiently teased out in the methodology and I would welcome further clarity and refinement.

Sincerely yours,

Andromachi Georgosouli