



Institute
and Faculty
of Actuaries

Recovery and Resolution Planning for Systemically Important Insurers – Guidance on Identification of Critical Functions and Critical Shared Services

Consultation response to the Financial Stability Board

15 December 2014

About the Institute and Faculty of Actuaries

The Institute and Faculty of Actuaries is the chartered professional body for actuaries in the United Kingdom. A rigorous examination system is supported by a programme of continuous professional development and a professional code of conduct supports high standards, reflecting the significant role of the Profession in society.

Actuaries' training is founded on mathematical and statistical techniques used in insurance, pension fund management and investment and then builds the management skills associated with the application of these techniques. The training includes the derivation and application of 'mortality tables' used to assess probabilities of death or survival. It also includes the financial mathematics of interest and risk associated with different investment vehicles – from simple deposits through to complex stock market derivatives.

Actuaries provide commercial, financial and prudential advice on the management of a business' assets and liabilities, especially where long term management and planning are critical to the success of any business venture. A majority of actuaries work for insurance companies or pension funds – either as their direct employees or in firms which undertake work on a consultancy basis – but they also advise individuals and offer comment on social and public interest issues. Members of the profession have a statutory role in the supervision of pension funds and life insurance companies as well as a statutory role to provide actuarial opinions for managing agents at Lloyd's.



Secretariat to the Financial Stability
Board
Bank for International Settlements
Centralbahnplatz 2
CH-4002 Basel
Switzerland

15 December 2014

Dear Sirs

**IFoA response to FSB Recovery and Resolution Planning for Systemically Important Insurers –
Guidance on Identification of Critical Functions and Critical Shared Services**

1. The Institute and Faculty of Actuaries (IFoA) welcomes the opportunity to comment on the Financial Stability Board's (FSB) Consultative Document on the Identification of Critical Functions and Critical Shared Services for Systemically Important Insurers. This response has been prepared by the IFoA's Recovery and Resolution Working Party, whose members have expertise in resolution issues in the insurance industry.
2. The IFoA supports the general content of the document and in particular we believe the definitions given provide a useful distinction between critical functions and critical shared services. We would suggest referring more explicitly to the relationship between insurance coverage and financial stability.
3. The IFoA believes that the appropriate regulatory authorities should carry out an assessment of critical functions for individual insurers, looking in particular at firms' degree of systemic risk, either globally or domestically, as the consultation document suggests (see foot of page 2 and section 3). . As outlined in Step 2 on page 7, it will be for the regulator to take a view on what is a "reasonable" impact which can be tolerated (which will often be driven by the impact of systemic rather than idiosyncratic events).
4. We would be grateful for more detail on the transparency of the assessment process (this has also been an issue with GSII designations). It is important that regulators are able to explain how they have assessed the impact of particular failure scenarios on financial stability, and therefore how they have concluded that a particular function is a critical function. Section 3 appears to be a reasonably good starting point in terms of factors that might be considered by a regulator, but we believe it is important for firms to have insight into how the regulator has arrived at its conclusions. This will allow them to take steps to limit the potential impact that failure of critical functions or critical shared services could have on financial stability.
5. While the Guidance is aimed at regulatory authorities, we believe that there is limited scope for companies themselves to assess which parts of the organisation are critical in the context of running off that company. It is likely that these functions would be identified, by elimination, as those that remain after listing those functions which are not deemed as critical. One reason why the scope for such an assessment is limited is that the FSB's definition of a

“critical function” includes aspects of the business that are “vital for financial stability and the real economy...” (p4), something which would not be easy for an individual firm to assess.

6. Should you wish to discuss any of the points raised please contact Matthew Levine, Policy Manager (matthew.levine@actuaries.org.uk / 0207 632 1489).

Yours faithfully



Nick Dexter
Chair, Recovery and Resolution Working Party
Institute and Faculty of Actuaries