

January 31<sup>st</sup> 2014

## **Insurance Europe comments on FSB Increasing the Intensity and Effectiveness of Supervision: Guidance on Supervisory Interaction with Financial Institutions on Risk Culture**

Insurance Europe is the European Insurance and Reinsurance Federation. Our members are the national insurance associations in 34 countries representing undertakings which account for around 95% of total European premium income.

Insurance Europe welcomes the opportunity to comment on the consultative document "Increasing the Intensity and Effectiveness of Supervision: Guidance on Supervisory Interaction with Financial Institutions on Risk Culture". Effective supervision is one of the three pillars besides higher loss absorbency and effective resolution proposed by FSB to handle systemically important financial institutions (SIFIs). Insurance Europe has consistently emphasised the importance to both SIFIs and other insurance undertakings of maintaining a healthy risk culture, strong governance and prudent internal control mechanisms. Insurance Europe is generally supportive of the principles outlined in the document and believes the FSB has captured well the key elements of an effective risk culture.

In particular, Insurance Europe appreciates the inclusion of the following statement in the paper: "*The challenge for supervisors is to strike the right balance between taking a more intensive, proactive approach and not to unduly influencing strategic decisions of financial institutions management* (page 4, 2<sup>nd</sup> paragraph). Achieving this balance is fundamental to the success of this FSB guidance paper and we would therefore welcome this important point being given greater emphasis at the beginning of the guidance rather than hidden in the middle of the document as is currently the case.

The introduction of the document refers to the application of the guidance to supervisory assessments of financial institutions particularly for SIFIs but leaves its application to other financial institutions open. If the guidance is to be more broadly applied it is important that materiality and proportionality considerations apply. In this respect, we would welcome the inclusion of reference in the introduction to the need for supervisors to apply the principle of proportionality and consider the materiality of particular activities or/and entities to a group as a whole when assessing whether a financial institutions risk culture meets the standards proposed in the guidance. In the same way flexibility will need to be allowed with respect to how some of the principles can be met. For example, rather than a chief risk officer explicitly being responsible for carrying out a particular task, it should be acceptable for other individuals to carry out the same role as long as the overall objective is still met.

Flexibility is essential in order for undertakings to be able to organise themselves as they see fit taking into account their business model, risk profile and in line with the nature scale and complexity of its operations. In addition, risk management is an area of evolving thinking and thus it is important that the guidance remains suitably principles based to allow undertakings to adapt their practises in line with emerging best risk management practices. Following on from this, and in response to the question asked in the public consultation, we would not support further examples to be included in the guidance to illustrate good practices of risk culture as we believe these examples will only serve to make the guidance more prescriptive and limit undertakings ability to adapt to future best practices.

The introduction recognises that differences in national and corporate cultures are likely to have an effect and drive differences in local risk cultures. Accordingly, it is important that the guidance recognises and allows for acceptable differences in risk cultures across borders and continents as underpinned by differences in national corporate law. In this respect it is important that the principles remain high level



and truly outcomes focused thus allowing for acceptable differences in local corporate cultures to continue without firms falling short of the FSB guidance.

Insurance Europe agrees that the tone from the top is of outmost important to implement a healthy communication and risk culture to ensure that risks are managed at every single level of the undertaking. Likewise, it is important that the right tone is taken by Supervisors when communicating findings and necessary supervisory actions to ensure that inconsistencies or flaws are remedied. Communication between supervisors and undertakings should create space for dialogue and discussions. Proper communication, dialogue and discussion between supervisors and undertakings are key factors for supervisors to gain an in-depth understanding of each undertaking's core business and give appropriate feedback of facts, findings and areas in which supervisory actions are necessary.

Insurance Europe agrees that the right combination of staff at the supervisors with a high level of knowledge and seniority is important to be able to challenge the undertakings board and senior management. However, ensuring seniority at the supervisor can be quite a challenge, since in the majority of the EU supervisory authorities are a public undertaking under public rules which have limited resources. Hence, it may prove very challenging to guarantee that staff with the level of seniority the guidance seems to aim at is available on a national level.

Insurance Europe appreciates the opportunity to provide comments for this consultation and looks forward to continue the dialogue with FSB.