



December 12, 2014

Submitted to FSB via email

To: Financial Stability Board (“FSB”)

Re: FSB Consultative Document – Recovery and Resolution Planning for Systemically Important Insurers: Guidance on Identification of Critical Functions and Critical Shared Services (“Draft Guidance”)

The Canadian Life and Health Insurance Association Inc. (“CLHIA”) is a voluntary trade association whose member companies account for 99 percent of Canada’s life and health insurance business. Our industry provides a wide range of financial security products such as life insurance, annuities and supplementary health insurance to about 26 million Canadians.

The CLHIA is an Observer of the International Association of Insurance Supervisors (“IAIS”) and is an on-going active participant in the Global Federation of Insurance Associations (“GFIA”) including being a signatory to GFIA’s submission on this Draft Guidance.

The CLHIA welcomes the opportunity to provide input to the FSB on this Draft Guidance, which addresses the identification of critical functions/critical shared services in resolution and recovery plans of systemically important insurers.

The CLHIA appreciates the FSB’s recognition of the unique features of the business model and activities of insurers as compared to banks’ in developing its policies to reduce the risks of moral hazard and the potential for systemic disruption associated with systemically important financial institutions. We agree that insurers pose substantially less risk than other financial institutions, and, accordingly the impact of this Draft Guidance to insurers should be substantially less than similar guidance applicable to other financial institutions.

Our overarching comment on this Draft Guidance is the uncertainty it creates over potentially broader than appropriate scope of application.

The Draft Guidance indicates it “focuses primarily” on Global Systemically Important Insurers (GSIIIs). The FSB should make it clearer that potential application beyond GSIIIs, if any, is limited to any formally designated Domestic Systemically Important Insurers (“DSIIIs”). Secondly, the Draft Guidance states that “many aspects will also be relevant for those identified by any national authority as systemically important (if any)”. The “many aspects” attribute relating to DSIIIs along with the extensive detail in sections 2.2 and 3 on the determination of critical functions inappropriately creates an expectation that its application may be extended beyond GSIIIs to DSIIIs to a significant degree. We don’t think that is appropriate. In our opinion the application of the Draft Guidance should be limited to those

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activities of insurers that have the potential to contribute, on a global scale, to systemic risks to the real economy and financial markets.

However, the Draft Guidance stipulates it applies to functions deemed to be “systemically significant or critical if they fail”, thus opening up the possibility of inappropriate application to a substantial number of functions which impose little, if any, potential to cause systemic disruptions. In addition, section 2.1 in the Draft Guidance lists potential “material impacts” caused by a “sudden failure”. As the application of this section involves considerable judgment, we believe the prescriptiveness of this section, and in general the Draft Guidance, inappropriately encourages a cautious mindset of “functions are critical unless concluded to be otherwise” instead of “functions should be concluded to be critical” in order to meet the national regulators’ expectations to “comply” with the Guidance. Such caution could result in the unintended consequence of suboptimal business practices. On the other hand, we cannot see many insurance functions “suddenly failing”; hence a better phrase may be “substantial failure”.

In summary, we trust the FSB will recognize the unique qualities of insurers, especially those operating in competitive marketplaces (low “substitutability” risk), leads to the conclusion that the application of this Guidance will be significantly limited for insurers, especially for DSIs. Accordingly we recommend the Guidance explicitly include such a principle and secondly the level of prescriptiveness in the Draft Guidance should be scaled down to reflect this principle.

Yours sincerely



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