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Svein Andresen
Secretary General
Financial Stability Board
c/o Bank for International Settlements
Centralbahnplatz 2
4002 Basel

Your reference

Our reference

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Dear Secretary General Andresen:

Thank you for the opportunity to comment on your consultative document entitled "Recovery and Resolution Planning for Systemically Relevant Insurers: Guidance on Identification of Critical Functions and Critical Shared Services." Our comments below will focus primarily on question 3: is the methodology for identifying critical functions appropriate for the insurance sector?

Zurich Insurance Group is a leading multi-line insurer that serves its customers in global and local markets. With more than 55,000 employees, it provides a wide range of general insurance and life insurance products and services. Zurich's customers include individuals, small businesses, and mid-sized and large companies, including multinational corporations, in more than 170 countries. The Group is headquartered in Zurich, Switzerland, where it was founded in 1872.

In recognition of Zurich's traditional insurance business model, the Group has been omitted from the FSB's list of global systemically relevant insurers (G-SII's) in both 2013 and 2014. However, despite not being a designated G-SII, Zurich has worked closely with its group supervisor FINMA to undertake recovery and resolution planning, including an initial assessment of the critical functions framework outlined in the FSB consultative document.

Zurich has also welcomed the International Association of Insurance Supervisors' (IAIS) focus on group supervision and the development of an international capital standard (ICS) for internationally active insurance groups (IAIGs). It is our belief that a properly constructed ICS – namely, one that captures the group's material risks, is predicated on a consolidated balance sheet and is fully reflective of the characteristics of the insurance business model – would allow the supervisory community to gain meaningful financial comparisons of IAIGs across jurisdictions, as well as provide enhanced transparency for all stakeholders. In addition, we believe effective group supervision is critical to the efficient functioning of global insurance markets and the avoidance of regulatory fragmentation, which is why we volunteered to be part of the ComFrame field-testing process.

Both initiatives are grounded in a deep appreciation for the complexities of insurance regulation, and reflect the realities of the long-standing supervisory regimes as well as the nascent regimes taking shape in many emerging markets. Yet both also illustrate the growing importance of the insurance sector to global trade and economic growth, and the need for consistent regulation of global insurers.

Building on this pro-active track record, Zurich has initiated work with FINMA to assess how best to apply the draft critical functions framework to its own global operations. We have gone through a rigorous analysis reflecting the steps highlighted in FSB's consultation, and concluded that Zurich has no critical functions or shared services.

With the benefit of this experience, we strongly believe that the approach is inappropriate for application to the insurance sector primarily for two reasons:

1. The substitutability of insurance is significantly underestimated. Insurance is a highly competitive intermediated market with a variety of products tailored to meet policyholder needs and few barriers to switching providers. As a result, policyholders typically have multiple choices of insurance carriers, mitigating the potential negative impact of any particular insurer's departure from the market.

2. The basic premise of the inquiry suggests that the severe financial distress of a traditional insurer could result in an immediate negative impact to policyholders and the real economy. This premise is simply not accurate for general insurance products or most life products, as contractual obligations remain in place through a run-off or portfolio transfer, and the policyholders typically remain fully insured until the term of their contract expires. This differs significantly from a bank run, where depositors demanding their assets back can cause immediate liquidity pressures and threaten vital services for a large number of the population and the real economy. This scenario, as has been widely acknowledged, is simply not applicable to insurers.

These findings are consistent with Zurich's beliefs that traditional insurance services do not pose systemic risk, and that the orderly resolution of individual insurers does not pose unduly harsh impacts on the real economy or individual policyholders. As such, we believe the methodology suggested by the FSB consultative document applies a set of highly bank-centric concepts to a very different business model, and therefore is inappropriate for application to insurers. In addition, we are concerned that introducing the critical function concept to insurers will complicate application of the G-SII methodology and become an ill-defined new determining factor for systemic relevance. Instead, we urge the FSB to focus on supporting the IAIS efforts to develop a meaningful set of ICS measures and strengthen group supervision.

We thank you again for your solicitation of feedback, and welcome further discussions.

Best regards

Francis Bouchard
Group Head of Government & Industry Affairs