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Geneva Association Information Newsletter

Expert Submission to the Financial Stability Oversight Council (FSOC) on Authority to Require Supervision and Regulation of Certain Nonbank Financial Companies

Geneva, 19 December 2011—Leading insurance think tank, The Geneva Association, has sent an expert submission to the Financial Stability Oversight Council (FSOC) of the United States on the Authority to Require Supervision and Regulation of Certain Nonbank Financial Companies.

The key text of the submission is as follows:

Ladies and Gentlemen,

The Geneva Association appreciates the opportunity to comment on the Financial Stability Oversight Council's (FSOC) Second Notice of Proposed Rule Making (NPR) and Proposed Interpretive Guidance (Proposed Rule) to implement Section 113 of the Dodd-Frank Wall Street Reform and Consumer Protection Act (Dodd-Frank Act) to authorize the Council to require a nonbank financial company to be supervised by the Federal Reserve System, and be subject to prudential standards in accordance with Title 1 of the Dodd Frank Act if the FSOC determines that material financial distress at the nonbank financial company, or the nature, scope, size, scale, concentration, interconnectedness, or the mix of activities of the nonbank financial company, could pose a threat to the financial stability of the United States.[1]

The Geneva Association—officially the "International Association for the Study of Insurance Economics"—was established in 1973. It is a not-for-profit association and it is the leading international insurance think tank for strategically important insurance and risk management issues. Through its research programmes, publications, and organisation of international meetings, it is the leading voice of the largest insurance and reinsurance groups worldwide in the dialogue with international institutions, including many U.S. companies and international companies with significant U.S. operations. The Geneva Association programmes include multiple forums on key risk topics, including old age security, health and demographics, risk management, and very importantly financial stability. Its members include up to 90 CEOs of these organisations.

The Geneva Association actively participates in the international dialogue on prudential regulation, and interfaces closely with the International Association of Insurance Supervisors (IAIS) as well as the Financial Stability Board (FSB) and other regional systemic risk bodies in an attempt to provide special insights on insurance matters and offer additional analytics that are aimed to increase the quality of future regulation. The Geneva Association has published a

[1] The FSOC issued an advance notice of proposed rule making on 6 October 2010, and a notice of proposed rulemaking on 26 January 2011. This NPR addressed the statutory factors set out under section 113.

continuous stream of analyses, including various widely received reports and special background papers, on how to deal with the financial crisis and its regulatory aftermath, lessons learned and actions to be considered. Please see our website www.genevaassociation.org for our publications and reports.

The members of The Geneva Association include internationally active insurance and reinsurance groups that participate in international markets. Rules established by the FSOC are aimed at financial institutions with significant presence in the U.S., the single largest market for many of the financial activities that will be affected by the Dodd-Frank Act. Accordingly, the rules set by the FSOC are relevant to the new global regulatory architecture, and should be compatible with frameworks being designed by other national jurisdictions and multinational and international organisations. To achieve the overall objective of the Dodd-Frank Act, which in our view is to provide a more resilient financial system, the new rules need to be developed in concert globally to avoid regulatory overlaps and arbitrage between systems in different jurisdictions to avoid duplication and eliminate gaps in regulation.

As a practical matter, measures that address the domestic stability risks posed by U.S. financial companies are linked inextricably with similar risks posed by companies in other jurisdictions. Regulatory measures to provide more resilient domestic financial systems must be coordinated among jurisdictions and international standard setters to be effective. Accordingly, we are submitting our comments in the interest of contributing to coordination and cooperation among different players to design and implement effective regulation, enable efficient markets, and eliminate gaps in regulation that have previously contributed to instability and the need for government intervention funded by taxpayers.

Executive Summary

General comments. There is widespread agreement between regulators, supervisors and insurance companies that traditional insurance activities are not systemically risky activities. Specific financial stability measures and their market impact need to be balanced against possible negative consequences for economic growth and global trade. The regulatory reforms underway should seek to: limit the risks to financial institutions, taxpayers and the real economy; preserve the private sector's ability to provide financial services at competitive market prices; and provide open frameworks that facilitate cross border harmonisation.

Coordination with international standard setters is needed. The FSOC should coordinate the development of the domestic designation process with international standard setters, including the Basel Committee on Banking Supervision and the IAIS. For nonbank financial companies, insurance in particular, the FSOC should proceed in the same manner as the G-20 and FSB have done for banking, i.e. devise a methodology designation process first on the global level, and then adopt a methodology and designation processes that are consistent with the global level approach. The Federal Insurance Office should play a key coordinating role between the FSOC and the international organisations for a consistent designation process.

The proposed designation process should focus on activities that could lead to systemic risk. The designation proposed by the FSOC has moved away from a "size alone" approach towards an analytical process that at least indirectly assesses activities that have led to systemic breakdowns in the banking sector. The Geneva Association, together with other insurance organisations, recommends an activity-based approach which first considers the activities that could lead to systemic consequences if conducted on a massive scale without adequate supervisory oversight. An institutions/size approach is vulnerable to missing the build-up of problems at mid-size players that could have the potential to create a systemic crisis but would not be spotted in time.

Quantitative thresholds should recognise different accounting and industry business models. The Stage 1 tests enable the FSOC to determine which nonbank financial companies should be considered in more detail, and at the same time, inform other firms that will be excluded from further consideration. We understand that it is necessary to delimit the universe of organisations to be subject to further evaluation, but a clear distinction needs to be made between a Stage 1 intended to identify a target group, and subsequent testing in Stages 2 and 3 for potential systemic risk.

Comparative failure rates, resolution consequences, and regulatory oversight should be considered. The Geneva Association agrees with including existing regulatory scrutiny in the Stage 2 analysis of nonbank financial companies, as supervision can effectively address the risks of noninsurance activities conducted in groups. Further, the Stage 2 analysis should recognise the very low failure rates of companies that conduct traditional insurance activities, and the impact of such resolutions on other financial institutions and the real economy. Any financial company that is readily resolvable does not pose a risk to the financial stability of the United States. Non-viable company activities can wind down over time, typically a period of years, and because their activities are mainly self-funded, they do not require emergency liquidity injections or taxpayer support to avoid systemic disruption to other institutions or economic activity.

There should be consistency for applying quantitative tests. There is uncertainty regarding how the FSOC will calculate the quantitative tests to evaluate non-U.S. firms. It would not be meaningful to calculate some factors using the domestic level of consolidation, and group-wide measures for some of the other five factors. This same concern applies to Stage 2, where the data should measure the U.S. activities. The data used to consider insurance companies should rely on information already available before imposing any new information collection.

The Proposed Interpretive Guidance should be incorporated into the final rule in its entirety. We would be pleased to provide more information and interact further with the FSOC, hoping to contribute constructively to the development of a process to designate nonbank financial firms by offering our research expertise and the ability to directly access the world's largest insurance groups.

1. <u>General comments</u>

All providers of financial services benefit from having effective regulatory schemes that: promote resilient financial systems; allow for even competition among participants; and channel sustainable economic growth. No one industry is insulated when breakdowns in financial markets and regulation permit unsustainable practices that can lead to massive financial losses and destabilise financial institutions. The regulatory reforms underway should seek to preserve the private sector's ability to provide financial services at competitive market prices, limit the risks to financial institutions, taxpayers and the real economy, and provide open frameworks that encourage and facilitate cross border harmonisation. Specific financial stability measures and their market impact need to be balanced against possible negative consequences for economic growth and global trade. Any measures that would only marginally improve financial resilience but result in market loss of growth potential ought to be avoided in favour of measures that do not have such detrimental effects.

There is widespread agreement between regulators, supervisors and insurance companies that traditional insurance activities are not systemically risky activities, which is fully consistent with a comprehensive analysis carried out by The Geneva Association in 2009/10.[2] The IAIS has recently reported that, "*The traditional business model of insurance builds on the underwriting of diversified pools of mostly idiosyncratic and uncorrelated risks. Based on such a business model, traditional insurance is unlikely to become a source of systemic risk"*.[3] Not a single financial crisis has been triggered by any traditional insurance activity over the last many decades. The insurance business model—encompassing both insurers and reinsurers—has specific features that make it a source of stability in the financial system. Insurance is funded by upfront premiums, giving insurers strong operating cash flow without requiring wholesale, third party funding. Investments are funded by premium income and matched to liabilities, which consist of reserves set aside to pay estimated claims. Insurance policies are generally long-term, with predictable outflows, enabling insurers to act as stabilisers to the financial system. Policy pay-outs are tied to insured events, and not callable, with disincentives to cash in policies prematurely due to surrender charges, loss of insurance cover, and often loss of tax benefits.

During the financial crisis that emerged in 2008, insurers maintained relatively steady capacity, business volumes, and prices, and most importantly, positive cash flows. Those few financial conglomerates with significant insurance involvement, most notably AIG,[4] were brought down not by their insurance activities

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[2] *Systemic Risk in Insurance-An analysis of insurance and financial stability*, Special Report of The Geneva Association Systemic Risk Working Group, The Geneva Association, Geneva, March 2010.
[3] *Insurance and Financial Stability*, IAIS, November 2011, p.6.
[4] AIG Financial Products (AIGFP) alone accounts for 36 per cent of the credit losses, which were incurred through its massive CDS exposures. AIGFP was not an insurance company, was engaged in non-insurance CDS issuance, and operated outside the purview of regulatory surveillance bodies.

but by their quasi banking activities. Similarly, the "monoliners" (FSA, AMBAC, MBIA, *et al*.) concentrated exclusively on financial guarantees and CDS writing and trading. More than 90 per cent of the state assistance guarantees went to those companies with significant, failing non-insurance business.[5]

The IAIS notes that insurance business models are markedly different than banks due to the absence of certain activities that can lead to crisis (examples include funding models that do not depend on short-term funding to finance liquidity), thus insurers are not prone to sudden liability withdrawals.[6] Further, insurers do not operate payments or clearing systems essential to economic activity, although they depend on systems operated by banks and financial market utilities for transaction processing and clearing.

Insurance activities are generally independent of economic cycles (their solvency risks are not procyclical), do not extend or amplify systemic risk, and do not operate the payments system. Insurance companies do not provide maturity transformation, consumer or commercial credit, or transaction clearing services. Resolution schemes for failing insurance companies are stable processes with clearly limited economic impact. Non-viable companies can wind down over time, typically a period of years, and because their activities are mainly self-funded, they do not require emergency liquidity injections or taxpayer support. Illiquidity, a driving factor that sometimes motivates overnight banking bailouts, has not been an issue in the insurance industry. Any financial company that is readily resolvable cannot and should not be deemed a Systemically Important Financial Institution (SIFI), e.g. does not pose a risk to the financial stability of the United States. The FSB[7] and FDIC have both noted that companies that can be resolved without disruption to the financial system or taxpayer bailouts do not pose systemic risk. There will be no source of systemic risk and no threat to the financial system if a failure becomes an orderly process.[8]

2. <u>The FSOC Should Coordinate with International Initiatives</u>

The international community is currently developing a methodology to identify global SIFIs, which parallels the efforts being undertaken by the FSOC to develop a procedure to designate U.S. nonbank financial companies for heightened prudential supervision and Federal Reserve regulation. We are concerned about the lack of a formal mechanism to foster harmonisation or consistency among similar international efforts, e.g., being driven by the FSB, G-20, Basel Committee on Banking Supervision, the IAIS, and the International Organisation of Securities Commissions (IOSCO).

While the Proposed Rule is only to designate nonbank financial firms, which will then be subject to macro prudential regulation, the consequences of inconsistent designations may detract from the overall purpose of having more resilient financial systems. Uncoordinated efforts could have several unintended consequences. First, there may be international confusion about unintentional differences between global SIFIs and their domestic counterparts (for example, an international designation that is not recognised in some of its most significant markets could put a global company in an awkward position with its regulators and investors). Such confusion could bring into question the quality and credibility of designations from different sources. Having separate efforts could duplicate requests to obtain data, result in inconsistent analysis of the risks posed by individual nonbank financial companies, and distort markets' perception of these risks.

The FSOC should seek opportunities to coordinate the development of the domestic designation process with international standard setters, including the BCBS and the IAIS. For nonbank financial companies, insurance in particular, the FSOC should proceed in the same manner as the G-20 and FSB

[5] *Systemic Risk in Insurance—An analysis of insurance and financial stability,* The Geneva Association*, op. cit.,* p.12.
[6] See *Insurance and Financial Stability*, IAIS, *op. cit., (Appendix)* for insurance case studies in different regions.
[7] The FSB [a Systemically Important Financial Institution]: *"Financial Institutions whose disorderly failure, because of their size, complexity and systemic interconnectedness, would cause a significant disruption to the financial system and economic activity".*
[8] See statement of Sheila C. Bair, FDIC Chairman, before the House Subcommittee on Financial Institutions and Consumer Credit, 26 May 2011.

have done for banking, i.e. devise a methodology designation process first on the global level and then adopt a methodology and designation processes that are consistent with the global level approach.

The Federal Insurance Office (FIO) should play a key coordinating role between the FSOC and the international organisations for a consistent designation process. The FIO responsibilities under the Dodd-Frank Act include monitoring, collecting and disseminating data, recommending to the FSOC on SIFI designations, representing the U.S. in the IAIS, and determining whether state insurance provisions should be pre-empted by international agreements.

3. Comments on the Designation Process that the FSOC Intends to Follow

The proposed 3 Stage designation process has moved away from a "size alone" approach towards an analytical approach that at least indirectly assesses activities that have led to systemic breakdowns in the banking sector to identify firms that could pose a threat to the financial stability of the United States, according to a six-factor framework[9] and six uniform quantitative thresholds (please also see comment 4, below). In our view, its indicators still do not adequately consider the systemic potential of the underlying activities. An institutions/size approach is vulnerable to missing the build-up of problems at mid-size players who could quickly amass a level of risky activities that could have the potential to create a systemic crisis but would not be spotted in time, as their institutional size would not cross the threshold to trigger its designation until an advanced stage. Taking an activity-based approach is consistent with Section 120 of the Dodd-Frank Act that allows the FSOC to designate certain activities as "systemically risky".

Designating institutions based on a flawed methodology for identifying nonbank financial companies that could pose a financial stability risk has several negative consequences: it risks missing companies that are carrying out systemically risky activities and including companies that are not carrying out such activities. It misallocates regulatory resources away from institutions and activities that could be of concern and towards institutions that do not pose systemic risk, and could limit beneficial economic activity by inappropriately-designated companies. It risks missing the build-up of potentially systemically risky activities until they become widespread and difficult to constrain or roll back.

The fundamental principle of insurance is a law of large numbers: insurers reduce the relative risk of loss by insuring a large number of independent units. In the banking industry, the contrary of risk concentration is more likely to happen due to correlation with macro-economic developments. Thus, a designation based on size is intuitively against the basic insurance concept of the law of large numbers and diversification benefits. Further, designation based on size would reduce the insurance industry's capacity to underwrite large risks as only sizable institutions can guarantee well-balanced diversification.

An activity-based designation methodology, undertaken following Stage 1, would provide a more accurate approach to designate insurance companies.[10] The current proposal does not provide for the identification of potentially systemically risky activities (pSRAs). The Geneva Association, together with other insurance organisations, recommends an activity-based approach in two steps: first, identify those activities which could be potentially systemically risky, and second, apply specific indicators tailored to the systemically risky activities.

This "activity-based approach" which has been widely taken up in the international discussions,[11] provides a more accurate methodology to find insurance companies that could pose a threat to financial stability and economic growth. The designation methodology should focus exclusively on the activities that can lead to systemic risk, and the institutions that conduct such activities on a massive scale without appropriate risk management. pSRAs may include maturity transformation or mismanagement of short-term funding, and speculative derivative activities such as CDS issuance. Institutions that conduct

[9] Size, Interconnectedness, Substitutability, Leverage, Liquidity Risk and Maturity Mismatch, Existing Regulatory Scrutiny.

[10] *Considerations for Identifying Systemically Important Financial Institutions in Insurance, A contribution to the Financial Stability Board and International Association of Insurance Supervisors' discussions*, The Geneva Association, April 2011, p.19.

[11] See *Insurance and Financial Stability*, IAIS, *op. cit.*

pSRAs on a massive scale without appropriate risk management and supervisory oversight would be examined along the dimensions proposed by the FSB.[12]

4. Comments on Six Uniform Quantitative Thresholds (Stage 1)

The Stage 1 process enables the FSOC to determine which nonbank financial companies should be considered in more detail, and at the same time, informs other firms that will be excluded from further consideration.

We understand that it is necessary to delimit the universe of organisations to be subject to further evaluation, but a clear distinction needs to be made between a Stage 1 intended to identify a target group, and subsequent testing in Stages 2 and 3 for potential systemic risk. Stage 1 criteria, based on size, interconnectedness, leverage, and liquidity risk/maturity mismatch, provide a simplistic means to exclude companies that would fail further testing in subsequent stages.

Regarding definitions for each of the six criteria, there is insufficient distinction among different business models, accounting standards (including U.S. GAAP, IFRS and statutory), and analytical methods and concepts. Insurance, especially from the international perspective, is subject to different accounting standards. These differences in accounting authority and principles are sufficiently large that they would result in an inconsistent selection for Stage 2 and become jurisdiction dependent.

The FSOC should further define some of the quantitative criteria to provide a more comparable basis for identifying nonbank financial companies that may be removed from consideration, or further analysed in Stage 2. Such refinements would consider the different business models and the analytical concepts used to assess different segments of the financial services industry. The goal should be to have lists that are roughly comparable for any Stage 1 firm, using publically available data.

We have concerns about the following Stage 1 criteria as formulated in the NPR:

Total Consolidated U.S. Assets (US$50 billion in global total consolidated assets for U.S. nonbank financial companies or US$50 billion in U.S. total consolidated assets for foreign nonbank financial companies),[13]—should exclude traditional insurance assets, as it has been demonstrated that such activities do not lead to systemic risk. Size scale is important to insurance as the law of large numbers contributes to confident estimates of potential policyholder claims. There can be an inverse relationship between size and risk, as being too small can increase loss volatility. Further, different industries may have flexibility to restructure their balance sheets to evade consideration altogether. For example, hedge funds may be able to restructure to reduce their balance sheets below the asset threshold without otherwise changing their business models or the scope and risks of their activities.

Leverage Ratio (consolidated assets to total equity of 15 to 1). Technical provisions and policyholder liabilities, which emerge due to insurable events, should be excluded from the calculation. In contrast to banks, policyholder liabilities and technical provisions are not correlated to the economic cycle and the risk of these is not mitigated by capital.

Credit Default Swaps Outstanding (US$30 billion gross notional value). A more targeted approach would be to compare the notional amount of outstanding CDS to the total amount of the company's issued bonds. This modification would identify situations where there is significant market speculation on a particular bond issue, without penalizing for prudent hedging by third parties that have exposure to the bond issue. Without this modification, the criteria could increase the cost of large bond issuance.

Derivative Liabilities (US$3.5 billion) should exclude derivatives for hedging and insurance asset-liability management purposes. Untargeted use of derivatives data would mainly capture large companies, and would not discriminate between derivatives that raise counterparty risks (speculation) versus those activities that can wind down without contagion to other financial institutions. Further, if derivatives for hedging purposes and insurance asset-liability management purposes are not

[12] We define these for insurance size of potentially systemically risky activity, interconnectedness linkage of the pSRA within the financial sector, substitutability for the institutions within the pSRA, and timing due the non-immediate nature of almost all potential shocks to insurers and their resolution processes.
[13] FSOC should also consider if assets under management should be excluded, to be consistent with exclusions of separate customer accounts in the other five criteria.

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distinguished from those for generating speculative profits, insurers and other nonbank financial companies may receive a false reputation as if they were engaged in massive risky transactions.

5. Comments on the Six-category Analytical Framework: Review and Prioritization of Stage 2 Pool

Stage 2 seeks to conduct an analysis of the potential threat that each of these nonbank financial companies could pose to U.S. financial stability, using both quantitative and qualitative factors, mainly based on public and regulatory information, from the company's primary federal regulator or home company supervisor. This analysis will use a six-category analytic framework based on a wide range of quantitative and qualitative industry-specific and company-specific data.[14] In particular, the proposal provides for an analytical approach that would identify firms having a higher probability of failure and gage the consequences to other financial institutions and the real economy in the event of failure.

The Geneva Association agrees with including existing regulatory scrutiny in the analysis of nonbank financial companies at Stage 2 as comprehensive group supervision is an important measure to address some of the systemic risk concerns in insurance (i.e., supervision of non-insurance activities). Important initiatives are under development or being implemented (such as the European Insurance and Occupational Pensions Authority Solvency II and the National Association of Insurance Commissioners (NAIC) Solvency Modernisation Initiative), which need to be taken into account when considering this factor. For insurance companies in particular, the Stage 2 analysis should exclude activities that do not lead to systemic risk. Further, the Stage 2 analysis should recognise comparative failure rates in insurance versus banking, and the lack of impact of insurance resolutions on other financial institutions and the real economy.

The number of failures and frequency of failures have been very low for the insurance industry, and the volatility of insurance failures have been less correlated with the economic cycle. Further, when compared with the banking industry, the frequency of insurance impairment has also been very low. These facts can be illustrated by "problem bank" data from the FDIC, and data on financially impaired property and casualty companies and financially impaired health and life companies from AM Best.[15] According to the FDIC, since 1990 the impairment rate for banks ranged from less than one per cent (2004, 2005, and 2006) to more than 11 per cent in 2010 and 2011. According to AM Best,[16] the "impairment" rate for Property & Casualty insurers during this same time period has ranged from about 0.1 per cent to about 1.8 per cent. The impairment rate for life and health insurers from 1990 to 2010 ranged from about 0.3 per cent to around 3 per cent. The average impairment rate for all insurers from 1976 to 2010 was below 1 per cent. This shows that impairment rates are considerably lower, and as well less volatile compared with banks.

We are prepared to provide more in-depth comparative analysis to illustrate the differences between failure rates in the two industries upon request.

Furthermore, insurance resolutions do not have any potential to disrupt or damage the financial system, except where insurance groups go beyond their core insurance activities. The IAIS notes that there is little evidence of traditional insurance either generating or amplifying systemic risk within the financial system or the real economy.[17] In certain situations, there may be a risk that the non-core part of the business interacts with the financial system in a way that can cause systemic risk. Before an insurance business requires winding up, the company will have moved through multiple stages of intervention, each of which can typically take several weeks or longer. It is this prolonged series of events that

[14] These factors are mainly related to the size of an institution: interconnectedness, substitutability, size, leverage, liquidity risk and maturity mismatch, and existing regulatory scrutiny.

[15] The FDIC problem bank data includes banks and savings institutions with CAMELS ratings of 4 or 5. According to federal regulators, these institutions have financial, operational, or managerial weaknesses that threaten their continued viability. AM Best defines Financially Impaired Companies as the first official regulatory action taken by an insurance department, for a variety of causes, including impaired ability to conduct normal insurance operations, inadequate capital and surplus, or concerns on general financial condition have triggered regulatory concern.

[16] Please see A.M. Best Company Inc., *2011 Special Report: U.S. Life/Health – 1976-2010 Impairment Review,* 2011, pp. 1-2.

[17] Please see *Insurance and Financial Stability,* IAIS*, op. cit.*

distinguishes failing insurance companies from failing banks. Insurance resolutions can take place over a number of years. An insurer's liabilities will not be accelerated due to its insolvency or failure. Policyholders and claimants do not normally have the right to terminate contracts in case of insolvency. Insurers also do not rely on funding through debt instruments, for example bond issuance, to any significant degree, nor do they rely on short-term liquidity that would rapidly dry up in case of financial distress. In contrast, for banks the funding side of the balance sheet will begin to evaporate as soon as doubts over its solvency emerge. The expectation of financial stress often triggers a run on the bank as wholesale and retail customers attempt to recover their deposits, and short-term investors stop rolling over their funds.[18]

6. <u>Applicability to non-U.S. Groups</u>

Title I of the Dodd-Frank Act defines a nonbank financial company as a domestic or foreign company that is predominately engaged in financial activities in the United States and provides that a company is predominately engaged based on certain tests of annual gross revenues and consolidated assets (in general, if U.S. activities comprise 85 per cent or more of consolidated activity). The Board of Governors has requested comment on a Proposed Rule to establish the requirements for determining whether a company is predominately engaged in financial activities for this purpose.

There is uncertainty regarding how the FSOC will calculate the quantitative tests to evaluate non-U.S. firms. For example, Stage 1 "total consolidated assets" guidance clearly specifies that for foreign nonbank companies, the asset size threshold will be based solely on U.S. holdings.[19] The other five factors (assets plus one) that determine which nonbank financial companies progress to the Stage 2 pool, should likewise be limited to data on U.S. holdings. If would not be meaningful to calculate some factors—total for the U.S. entity, and group-wide measures for the "plus-one" factors. This same concern applies to the Stage 2 six category framework, where the data should also consider the U.S. activities.

The data used to consider insurance companies should rely on information already available from the appropriate state regulator or the NAIC before imposing any new information collection. When considering foreign companies, the state insurance department should coordinate with the appropriate foreign supervisor(s), and rely on information already available before authorities—either at the state or federal level—impose any new information collection.

7. <u>Appendix I: The Proposed Interpretive Guidance Should be Incorporated into the Rule</u>

Finally, we recommend that the Proposed Interpretive Guidance, which describes the manner in which the FSOC intends to apply the statutory standards in making determinations (Section I), and the process that the FSOC intends to follow when determining whether to subject a nonbank financial company to Board of Governors supervision and prudential standards (Section II), and a detailed description of the analysis that the FSOC intends to conduct during each stage of its review (Section III), should be incorporated into the final rule in its entirety to improve the overall process transparency by requiring that any changes to the Proposed Interpretive Guidance would be subject to the federal rule making process. In general, this would mean that any changes to the Proposed Interpretive Guidance would undergo public consultation notice and comment.

We would be pleased to provide more information and interact further with the FSOC, hoping to contribute constructively to the development of a process to designate nonbank financial firms by offering our research expertise and the ability to directly access the world's largest insurance groups.

Yours sincerely,

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Daniel Haefeli
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[18] *Ibid.*
[19] This is consistent with the threshold for U.S. bank holding companies.

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Notes to Editors

The Geneva Association is the leading international insurance think tank for strategically important insurance and risk management issues.

The Geneva Association identifies fundamental trends and strategic issues where insurance plays a substantial role or which influence the insurance sector. Through the development of research programmes, regular publications and the organisation of international meetings, The Geneva Association serves as a catalyst for progress in the understanding of risk and insurance matters and acts as an information creator and disseminator. It is the leading voice of the largest insurance groups worldwide in the dialogue with international institutions. In parallel, it advances—in economic and cultural terms—the development and application of risk management and the understanding of uncertainty in the modern economy.

The Geneva Association membership comprises a statutory maximum of 90 Chief Executive Officers (CEOs) from the world's top insurance and reinsurance companies. It organises international expert networks and manages discussion platforms for senior insurance executives and specialists as well as policy-makers, regulators and multilateral organisations. The Geneva Association's annual General Assembly is the most prestigious gathering of leading insurance CEOs worldwide.

Established in 1973, The Geneva Association, officially the "International Association for the Study of Insurance Economics", is based in Geneva, Switzerland and is a non-profit organisation funded by its members. For more information, please visit our website, *www.genevaassociation.org*

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The Geneva Association has issued a series of documents on financial stability in insurance. The following documents would be of interest to those following the financial stability agenda:

Open Letter to the Finance Ministers and Central Bank Governors of the G-20 (2 November 2011), at *http://www.genevaassociation.org/PDF/General_Information/GA2011-PR-13-11.pdf*

The Geneva Association—Response to IAIS FSC questions (28 October 2011), at *http://www.genevaassociation.org/PDF/Insurance_And_Finance/The%20Geneva%20Association%20response%20to%20IAIS%20FSC%20Questions_28102011.pdf*

IAIS and FSB project on systemically important financial institutions (SIFIs), IAIS Financial Stability Committee Hearing, Kansas City, 5 May 2011, at *http://www.genevaassociation.org/pdf/News/GA2011_Presentation_IAIS_mtg_05-05.pdf*

Considerations for Identifying Systemically Important Financial Institutions in Insurance—A contribution to the FSB and IAJS's discussions, at *http://www.genevaassociation.org/PDF/BookandMonographs/GA2011-Considerations_for_Identifying_SIFIs_in_Insurance.pdf*

Key Financial Stability Issues in Insurance—An account of The Geneva Association's ongoing dialogue on systemic risk with regulators and policy-makers (July 2010), at *http://www.genevaassociation.org/PDF/BookandMonographs/Geneva_Association_Key_Financial_Stability_Issues_in_Insurance_July2010.pdf*

Systemic Risk in Insurance—An analysis of insurance and financial stability (March 2010), at *http://www.genevaassociation.org/PDF/BookandMonographs/Geneva_Association_Systemic_Risk_in_Insurance_Report_March2010.pdf*

For more information on The Geneva Association's work on Financial Stability in Insurance, please visit *http://www.genevaassociation.org/Home/Financial_Stability.aspx*