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Dear Sir/Madam

## PRINCIPLES FOR AN EFFECTIVE RISK APPETITE FRAMEWORK

The Insurance Council of Australia<sup>1</sup> (Insurance Council) welcomes the opportunity to comment on the Financial Stability Board's (FSB) consultation on Principles for an Effective Risk Appetite Framework (Consultative Document).

The Insurance Council endorses the FSB's intention to increase the effectiveness of supervision for systemically important financial institutions (SIFIs) in order to enhance the stability of the global financial system. While recognising that Australia already has a rigorous risk-based prudential regime for the financial sector, we agree that in the global context, an effective risk appetite framework and strategy based on a coherent set of principles, if implemented well, would boost the prudential strength not only of SIFIs but also other financial institutions such as general insurers.

The Insurance Council does not have problems with the substance of the guidance provided in the Consultative Document. Our concern relates to the contrast between the prescriptive details of Section 4 "Roles and Responsibilities" and the intention set out in the Introduction of the Consultative Document that:

"The FSB Principles are high level to allow financial institutions to develop an effective RF that is firm-specific and reflects its business model and organisation, as well as enable financial institutions to adapt to the changing economic and regulatory environment in order to manage new types of risk."

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<sup>1</sup> The Insurance Council of Australia is the representative body of the general insurance industry in Australia. Our members represent more than 90 percent of total premium income written by private sector general insurers. Insurance Council members, both insurers and reinsurers, are a significant part of the financial services system. March 2013 Australian Prudential Regulation Authority statistics show that the private sector insurance industry generates gross written premium of \$39.2 billion per annum and has total assets of \$116.1 billion. The industry employs approximately 60,000 people and on average pays out about \$101 million in claims each working day.

Insurance Council members provide insurance products ranging from those usually purchased by individuals (such as home and contents insurance, travel insurance, motor vehicle insurance) to those purchased by small businesses and larger organisations (such as product and public liability insurance, professional indemnity insurance, commercial property, and directors and officers insurance).

While the allocation of roles and responsibilities in Section 4 may be appropriate for most SIFIs, its language, with repeated use of the word “should”, is unlikely to encourage flexibility to take account of differences between individual financial institutions. Furthermore, its applicability to small scale insurers is even more problematic. For example, some small and niche insurers may not have the scale of business to require and fund a dedicated Chief Risk Officer. This should be a decision made in light of their size, business model and risk profile.

Best practice regulation as advocated by the FSB is naturally often adopted by national regulators. Consequently, there is the possibility that national regulators may apply the Principles for an Effective Risk Appetite Framework more strictly in their jurisdiction than is warranted. The Insurance Council therefore recommends that the FSB reconsider the language of Section 4 in order to make it consistent with guidance as to best practice in building and maintaining an effective risk appetite framework.

We consider that the principles must be kept at a high level so as to be applicable for the supervision of SIFIs in all jurisdictions. This is important to reduce the risk of regulatory arbitrage that may result if some regulators chose not to adopt the principles in whole or in part due to their level of prescription.

If you have any questions or comments in relation to our submission please contact John Anning, the Insurance Council's General Manager Policy, Regulation Directorate, on tel: +61 2 9253 5121 or email: [janning@insurancecouncil.com.au](mailto:janning@insurancecouncil.com.au).

Yours sincerely



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