

## FÉDÉRATION FRANÇAISE DES SOCIÉTÉS D'ASSURANCES

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LE PRÉSIDENT

Paris, May 31, 2001

Dear Madam,

The French insurance industry attaches a great interest in the new proposal of the Basel Committee about banking supervision.

The industry appreciates that the Basel Committee studies the opportunity to reckon, globally, the benefit of an insurance policy to cover certain operational risk exposures and, also more specifically, the contribution that credit insurers can bring as External Credit Assessment Institutions (ECAI). The former is a clear illustration of the assistance by the insurance industry in managing risk of the economy, especially the "low frequency, high severity" losses, and therefore in easing its development and its financing by the banking industry. We adamantly favour initiatives taking into account the benefit of this mitigation technique and support assessments of computing how it reduces capital requirements for operational risk of banks; we will support any possible exchange between our industry and your Risk Management Group about this matter. The latter illustrates the high credibility reached by credit insurers in assessing risk. No doubt that their objectivity, independence, transparency and resources qualify credit insurers to be reckoned by supervisors as ECAI.

The French industry welcomes the thorough research you conduct in the field of risk assessment. However, the industry would like to understand the considerations behind the risk weighting of claims on insurance companies of the banking book of banks in the standardised approach to credit risk. We note that these claims are put in the same category as claims on corporates and therefore are weighted, for the short-term ones which credit assessment is below "AA-" (AA minus), heavier than claims on banks. We mention the fact that available data from external observers such as rating agencies suggests a lower rate of default of the insurance industry compared with the one of other major industries. As we understand that this point is of great importance in determining the weighting, we will complete this argument with additional data in the coming weeks. More important are the facts that the insurance industry is a supervised industry as the banking one is and that all planned regulation, notably the announced European directive about financial conglomerates, search and tend to assess on the same basis banking and insurance solvencies in order to consolidate groups and avoid regulatory arbitrage. We would therefore appreciate to receive further details of the reasons motivating the weighting of claims on insurance companies. Our natural bias is to consider that their weighting should be similar with the one of claims on banks for comparable ratings.

Mrs Danièle Nouy  
Secrétaire Générale  
Comité de Bâle

Finally the insurance industry cannot disagree with the aim of avoiding double counting of capital in the assessment of risk of insurance subsidiaries of banking groups as mentioned in both your consultation paper and the proposal of the directive about supervising financial conglomerates by the European commission. Nevertheless we note that it should be noteworthy to take into account the benefit of the diversification of the activities in such groups.

We hope that our comments and suggestions will make a positive contribution to your project and that the subjects we raised in this letter will be examined and addressed by your Committee.

Sincerely,

A handwritten signature in black ink, consisting of a series of vertical strokes followed by a horizontal line.

Denis Kessler