**From:** "BCBScommentupload@bis.org"@lbecs11.bisinfo.org
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# BCBS Comment Upload

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Consultative document: Operational risk - Revisions to the simpler approaches - consultative document(/publ/bcbs291.pdf)

Classification: Public

Comments:

Recognizing Insurance in the new Simple Approach

Since the application of Basel II, Financial Institutions have collected a large amount of quantitative and qualitative data to assess their operational risk exposure. This information has been used by many AMA banks to reshape and optimize insurance programs, reducing cost and increasing coverage performance. The capital benefit, when recognized, has been an important driver for innovation, but is limited if compared to other capital reducing mechanisms (like diversification, discount of EL, and statistical techniques aimed to reduce the impact of large losses recorded ...)

At the same time, we have seen an actual convergence between the Operational Risk Management function and the Insurance & Procurement function that was traditionally buying insurance without linking it to the risk appetite/tolerance framework.
The Insurance market is reacting in a positive way, reshaping insurance products (wording) to effectively cover risks identified by the oprisk framework.

We think that the possibility to recognize a capital benefit linked to risk transfer mechanism also for Financial Institutions applying the new simple approach has the potentiality to boost innovation in the risk transfer industry and will avoid market shocks, and the write down of multi-years insurance programs, if Basel 4 will not recognize advanced models for Pillar I capital calculations.

We then propose the implementation of a simple formula that takes into account the volume of premiums or the deductible/limit structure to guarantee a capital offset in the new simplified approach framework.

Best Regards
Giorgio Aprile

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