

To: Mr Stefan Ingves, Chairman
Mr William Coen, Secretary general
Basel Committee on Banking Supervision

Your
reference: [Consultative document on "standardised measurement approach for operational risk"](#)
Our
reference: ECO-16-046

Subject: Consultative Document: Standardised Measurement Approach for operational risk

Brussels, 31 May 2016

Dear Mr Ingves, Dear Mr Coen,

On behalf of Insurance Europe, the European insurance and reinsurance federation, I would like to submit the following comments regarding this Consultative Document.

We note that the Committee is proposing to introduce a Standardised Measurement Approach (SMA) for the estimation of operational risk capital and to withdraw the ability of banks to use internal modelling approaches for operational risk regulatory capital.

Insurance Europe is a firm supporter of the efficacy of internal modelling for both regulatory capital purposes and efficient risk management in the insurance sector. Nevertheless, we do not propose to comment on the Committee's overall approach. Our remarks are confined to a particular aspect: the use of insurance to mitigate operational risk.

The SMA set out in this document does not make any provision for the risk mitigating aspect of insurance. Currently, banks using an Advanced Measurement Approach (AMA) are permitted to recognise the risk mitigating impact of insurance in the calculation of operational risk regulatory capital, subject to approval criteria and a maximum reduction of 20% of the total operational risk capital charge calculated.

The consultative document does not discuss why this recognition is being withdrawn. We would like to explain why we believe that insurance is a valuable element in the management of operational risk and why its recognition within the Basel framework facilitates fulfilment of supervisory objectives on operational risk, of risk understanding, management and governance.

The Basel Committee's paper entitled "*Principles for the Sound Management of Operational Risk*" says that the Committee: "...desires to promote and enhance the effectiveness of operational risk management throughout the banking system." The paper sets out 11 fundamental principles of operational risk management: insurance helps reinforce compliance with these principles.

Insurers are prepared to provide material cover to banks only where they have well-defined and sound risk governance, open cultures and robust risk frameworks. Insurers expect clients in the banking sector to retain material exposure and to put in place effective risk controls. Banks must identify losses as early as possible and escalate them to insurers where coverage exists, to minimise their potential impact. They must notify insurers as soon as possible of incidents that could give rise to claims under a policy.

The process of purchasing insurance gives a bank access to guidance on risk measurement, management and governance. The insurer provides an independent review, validating a bank's risk profile and how it compares



with its peers in the sector. The client's understanding of risk is thereby enhanced and its risk governance improved. There is material transfer of the financial consequences of operational risk from the client to the insurance market, providing access to capital at a time of financial distress.

Insurance thereby provides challenge, oversight and reward for effective operational risk management, contributing to supervisory expectations that banks should continuously improve their approaches to operational risk management.

We therefore support suggestions that the SMA should be amended to recognise the benefits of purchasing insurance, subject to appropriate supervisory safeguards.

Yours sincerely

A handwritten signature in blue ink, appearing to read "Olav Jones", is written over a horizontal line.

Olav Jones
Deputy director general

Insurance Europe is the European insurance and reinsurance federation. Through its 34 member bodies — the national insurance associations — Insurance Europe represents all types of insurance and reinsurance undertakings, eg pan-European companies, monoliners, mutuals and SMEs. Insurance Europe, which is based in Brussels, represents undertakings that account for around 95% of total European premium income. Insurance makes a major contribution to Europe's economic growth and development. European insurers generate premium income of almost €1 170bn, employ a little under one million people and invest nearly €9 600bn in the economy.