

Mr William Coen
Secretary General
Basel Committee on Banking Supervision

June 2016

Dear Mr Coen

Subject: Comments on the “Consultative Document for Standardised Measurement Approach for operational risk”

We, as leaders in the insurance industry, welcomed the Basel Committee on Banking Supervision’s (BCBS) decision to enable banks to recognize the risk mitigating impact of insurance in the calculation of operational risk regulatory capital under Basel 2. The introduction of this incentive has facilitated use of an important tool to manage unexpected losses and financial volatility.

The insurance industry provides banks with efficient cover against material risks that can result in large unexpected operational risks losses. In this way it performs a crucial function within the financial system. The insurance sector ensures that specific risks are transferred efficiently across the industry and contributes to economic growth by giving the banks greater certainty in their forward planning.

The proposed Standardised Measurement Approach (SMA) provides a consistent methodology for the calculation of operational risk regulatory capital. This in turn enables insurance to be included in regulatory capital calculations for all globally active banks.

Our industry is well capitalised and well regulated, similarly to the banking sector. Sound governance, oversight and risk selection are cornerstones of our business models and we have extensive experience of underwriting the insurable risks facing banks.

Insurers support the banking system by ensuring that banks fulfil qualitative requirements. They would require from the bank that it:

- Retains material exposure, thereby mitigating moral hazard issues
- Has appropriate risk controls in place, which are continually maintained and reviewed
- Has well-defined and sound risk management and governance frameworks, including procedures to identify and manage losses as early as possible

Including insurance as an Opt-In in the Pillar 1 SMA calculation supports the BCBS’s overall goals by improving the resilience of the global banking system by leveraging the insurance industry’s expertise. This process has application for all globally active banks thereby providing support for sustainable economic growth for all countries including Low Income Developing Countries.

Best regards

Axel Theis, Member of the Board of Management, Allianz SE
Eric Andersen, Chief Executive Officer, Aon Benfield
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Dominic Addesso, President and Chief Executive Officer, Everest Re Group Limited
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