



Canadian Life  
and Health Insurance  
Association Inc.

Association canadienne  
des compagnies d'assurances  
de personnes inc.

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Secretariat of the Joint Forum (BCBS Secretariat)  
Bank for International Settlements  
CH-4002 Basel  
Switzerland

[baselcommittee@bis.org](mailto:baselcommittee@bis.org)

Dear committee members,

### **Principles for the supervision of financial conglomerates - Consultative report**

The Canadian Life and Health Insurance Association (CLHIA) represents insurers accounting for 99% of the life and health insurance in force in Canada. Through their foreign branch and subsidiary operations, Canadian life and health insurers actively conduct business in more than 20 countries and territories around the world, providing financial protection to more than 45 million people through life and health insurance policies and annuity contracts.

Canada's Office of the Superintendent of Financial Institutions (OSFI) is an integrated prudential supervisor overseeing insurers, banks and other types of financial institutions since it was established in 1987 to ensure a coordinated approach to supervision and a modern regulatory framework for Canada's financial system. OSFI's experience and expertise in group-wide supervision is highly valued by the industry. Indeed, a key finding of the latest Financial Institutions Survey conducted by the Strategic Counsel, an independent research firm, showed that 92% of respondents (CEOs and other senior executives) strongly felt that overall, OSFI is effective in monitoring and supervising their institutions.

The supervision of Canadian financial institutions is conducted on a consolidated basis, which involves an assessment of all of an institution's material entities (including all subsidiaries, branches and joint ventures), both in Canada and internationally.

**CLHIA member companies have reviewed the December 2011 consultative report of the Joint Forum on principles for the supervision of financial conglomerates and found it to be generally acceptable subject to the comments and suggestions submitted jointly by many insurance associations, CLHIA included, as members of the International Network of Insurance Associations.**

In relation to group risk arising from reputational contagion, we found specific reference to stress and scenario testing, risk aggregation and off-balance with no mention of risks that conduct of business may create for members of the group and the group itself. This oversight appears to be a supervisory "blind spot" in the Joint Forum's proposed framework for the supervision of financial conglomerates and in the overall monitoring of risk concentrations. Clarification would be appreciated.

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In this brief email we simply want to emphasize a few high level issues of importance to Canadian life and health insurers.

1 - In the context of mutual recognition and the growing globalization of markets the use of broad principles is essential to bridge differences and promote convergence in supervisory frameworks. We fully support a principles-based approach to supervision where the principles lay down broad outcomes and strictly necessary implementation criteria or standards to achieve them. Each financial institution must be free to determine for itself the "how to" processes in proportion to its nature, size, complexity and inherent risks.

2 - Any set of internationally agreed principles for enhancing the supervision of groups of companies in the financial sector should ensure a level playing field. Governments must avoid the temptation of lowering the set principles in the belief that this could give them a greater comparative advantage in international trade. In the long run such practices do not benefit anyone.

3 - Although we don't object to the development of guidance and methodology in regard to group-wide supervision (Insurance Core Principle 23 of the International Association of Insurance Supervisors), ComFrame for supervising internationally active insurance groups, the Joint Forum's principles for the surveillance of financial conglomerates and the Financial Stability Board's requirements for globally significantly important financial institutions (G-SIFI), the accepted standards and practices must not create overlapping and conflicting situations. Complexity cost money and its creates gaps.

4 - All formal approaches to supervision and related supervisory framework, whether national, regional or global in scope, should be subject to sunset clauses. Old implementation standards/criteria or regulatory/supervisory expectations must be re-evaluated periodically to see if the original analysis and policy goals behind them remain valid.

We very much appreciate the opportunity to provide input and look forward to continued work with the Joint Forum in updating the 1999 Principles to improve supervision.

Best regards,

*Original Signed by*

J-P Bernier  
Special Advisor to the President, Risk Management  
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cc Stuart Wason, OSFI