Meeting Summary
September 23,2003

Participants

Supervisory Agencies:
Federal Reserve Board; Federal Reserve Bank of New York; Federal Reserve Bank of Boston; Office of the Comptroller of the Currency; Federal Deposit Insurance Corporation; Secretariat, Basel Committee on Banking Supervision; La Commission Bancaire et Financière, Belgium; Office of the Superintendent of Financial Institutions, Canada; European Central Bank; European Commission; Commission Bancaire, France; Deutsche Bundesbank & Bundesanstalt fur Finanzdienstleistungsaufsicht, Germany; Banca d'Italia, Italy; Bank of Japan & Financial Services Agency, Japan; De Nederlandsche Bank, Netherlands; Banco de España, Spain; Finansinspektionen, Sweden; Eidgenossische Bankenkommission, Switzerland; Financial Services Authority, United Kingdom

Industry Representatives:
Aon Professional Risks; Swiss Re

Summary

The chair of the Risk Management Group (RMG) noted that, because the United States is in the official comment period (ending November 3) for the recently issued advance notice of proposed rulemaking (ANPR), the meeting must be summarized and placed in the public record in the U.S.

Insurance industry representatives made a presentation to the RMG on the role of insurance as an operational risk mitigant, comments on the third Basel consulative paper (CP3), and data on certainty of payment. Insurance representatives suggested that the use of insurance could promote better risk management and encourage the modeling of economic and regulatory capital.

In discussing CP3, insurance industry representatives suggested that the proposed 20% cap on insurance recognition made sense as a starting point, but that they hoped that this would be subject to review and potentially more favorable treatment in the future. One industry representative suggested that the 20% cap could stifle demand and innovation, while supervisors questioned the extent to which banks would make insurance decisions based on regulatory capital requirements. Insurance industry representatives also requested clarification regarding whether the cap applied to individual business lines and/or loss event types (e.g., could there be more capital relief in some business lines than others), or whether it only applied to the overall capital charge.

With regard to haircuts and residual terms, insurance industry representatives expressed a desire that existing insurance contracts not be impeded from capital recognition, and indicated that non-renewals and cancellations were rare. Representatives also questioned why CP3 called for a minimum rating for claims paying ability rather than a minimum rating for financial strength, and indicated that an insurer's rating could instead be factored into the calculation of haircuts.

Supervisors indicated that the conservatism built into the criteria for recognition of insurance was largely a function of insurance not meeting the same standards for loss absorption as tier 1 capital. Supervisors nevertheless want to open the door to insurance recognition and provide incentives for the use of insurance where it conveys genuine benefits. The Basel Committee has been skeptical about the recognition of insurance, so supervisors indicated that the current criteria reflect the Committee's skepticism.

Insurance industry representatives requested clarification on the treatment of insurance policies where a failed bank enters into liquidation or receivership, as well as the scope of disclosure requirements. Representatives also indicated that the requirement to map insurance coverage to an institution's loss exposure may be unnecessary as this requirement is already set forth elsewhere in CP3.

Insurance industry representatives then presented data from a random sample of 100 bankers' blanket bond claims. This data suggested that most claims were paid in a timely manner, and that even the largest claims were typically settled within one year. Supervisors indicated that further work in this area could be useful. Supervisors also indicated that further work in the use of captive insurers could be beneficial. Insurance industry representatives indicated a willingness to work with supervisors in these areas.