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Consultation document, review of Directive 2002/87/EC on the Supplementary Supervision of credit institutions, insurance undertakings and investment firms in a financial conglomerate (FCD)

Information on the respondent

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We do not object to the publication of our response.

The main parts of the questions are directed to conglomerates and are specific questions about their business. Finansinspektionen will therefore only answer the general questions and will not answer question 5-10, 12-16 and 19-29.

Question 1

For which of the following a review with respect to the transparency of group structures would be justified? Please select all that apply and explain why?

Comments:

Yes - for all groups, banks or insurers or conglomerates.

Why:

Reviews of group structures are relevant for identifying scope for supervision of a financial conglomerate, insurance group or a bank group. Also having the possibility not to regard the group as a financial conglomerate where the level of risk in the smallest sector is assumed to only have a minor affect on the total level of risk in the group in question.

In the case of a mixed financial holding company, we could apply the sectoral rules where these would result in more efficient group supervision if the form of Insurance Holding company or Financial Holding company is kept at the level of the conglomerate.

Question 2

Do you think that a more in-depth investigation is justified with respect to the supervisory scope of supplementary supervision, especially in relation to the non-regulated parts of financial conglomerates? Please explain why?

Comments:

Yes

Why:

One of the lessons learnt from the financial crisis is that within all groups (banks, insurance and conglomerates) the internal transactions as well as risk concentrations should be closely analysed. This refers not least to the non-regulated entities. For example, the financial situation of a non-regulated entity should also be evaluated if there is a significant exposure to that entity.

Question 3

In your opinion, would the debates on the definition of capital in the banking and insurance sector respectively justify a more in-depth investigation of the cross-sectoral perspective? Please explain why?

Comments:

Yes

Why:

We believe a more in depth investigation is justified. The primary reason for our view is based on the fact the results of financial conglomerates' ICAAP could be viewed as being based on the assumption that capital in the banking sector and capital in the insurance sector is fully comparable. Where this may be the case we are aware that the definition of capital in the banking sector is under review in light of the recent financial crises.

Given the current opportunity presented by the ongoing review of the composition of the capital base in the banking sector it would seem wise to seize the opportunity and carry out a parallel review of the cross-sectoral capital base with the aim of synchronising demands on resilience in the financial sector as a whole.

A common ground for banking- and insurance capital adequacy has substantial potential to strengthen the supervisory review and evaluation process.

Question 4

With respect to the group wide remuneration policies in financial conglomerates, would you regard it as useful to consider the compatibility of these policies across the banking and insurance sectors within the conglomerate?

Comments:

It's definitely of interest to consider the compatibility of the policies throughout the various sectors within the financial conglomerate. We think it's important that the remuneration policies follow the same overall principles and framework. At the same time we think it's important to recognize that there could be justified differences in the remunerations based on the fact that insurance- and banking business are different in the way they are conducted and in the way a remuneration program should be defined to prevent unnecessary risk taking. There may also be different statutory requirements in different countries.

Top Level Supervision – Interaction between supplementary versus sectoral supervision**Question 11**

Do you want to share any other relevant information with the Services regarding the supervision problems at the top level?

Comments:

In current supervision when there is a Mixed Financial Holding Company at the top of the conglomerate level, the sector rules will not apply .

If the form Insurance Holding company and Financial Holding Company is kept at the level of the conglomerate (according to the FCD review), we could use supervisory tools that are available in the sectoral rules where these would result in a more efficient group supervision and in some cases more effective measures from an authority's perspective.

Identification process**Question 17**

Which of the following indicators could be used in addition to or instead of 10% of solvency and of total assets in the other sector to make the identification process of a financial conglomerate more risk-based? Select all that apply:

Comments:

From our point of view we think it's difficult to find a relevant and reliable alternative to the existing thresholds that exist today. If we were to consider an alternative it would be to give the supervisory authority the possibility to decide, based on our qualitative assessment or supervisory judgement, that the group should be a financial conglomerate (although not "breaking any thresholds"). To give examples of where such a qualitative assessment could be valuable, one could mention a situation of an

imminent need of capital injections into the smaller sector, if the smaller sector has a capital ratio of close to 1 or if the situation is such that we consider that the risk exposure in the smaller sector calls for additional supervisory activities. These qualitative assessment should only be used in exceptional cases.

Question 18

*Do you think that bancassurance groups whose smallest sector is smaller than 6 billion euro **and** smaller than 10% of its solvency and of total assets would never be materially exposed to group risks?*

Comments:

Our answer is no. See also our discussion under question 17.

Question 19 a

Would you like to share any other relevant information with respect to the identification process of financial conglomerates?

Comments:

No

Med vänlig hälsning

FINANSINSPEKTIONEN

A handwritten signature in black ink, appearing to read 'Per Håkansson', is written over a faint rectangular stamp.

Per Håkansson
Chief Legal Council

A handwritten signature in black ink, appearing to read 'Solveig Grinde', is written in a cursive style.

Solveig Grinde
Senior Financial Supervisor