Association of British Insurers

The ABI's Response to the European Banking Authority's (EBA) Consultation Paper

Draft Regulatory Technical Standards (RTS) on Criteria to identify categories of staff whose professional activities have a material impact on an institution's risk profile under Article 90(2) of the proposed Capital Requirements Directive (EBA/CP/2013/11)

August 2013

The UK Insurance Industry

The UK insurance industry is the third largest in the world and the largest in Europe. It is a vital part of the UK economy, managing investments amounting to 26% of the UK's total net worth and contributing £10.4 billion in taxes to the Government. Employing over 290,000 people in the UK alone, the insurance industry is also one of this country's major exporters, with 30% of its net premium income coming from overseas business.

Insurance helps individuals and businesses protect themselves against the everyday risks they face, enabling people to own homes, travel overseas, provide for a financially secure future and run businesses. Insurance underpins a healthy and prosperous society, enabling businesses and individuals to thrive, safe in the knowledge that problems can be handled and risks carefully managed. Every day, our members pay out £200 million to customers, including motorists, pension annuity payments and businesses.

The ABI

The ABI is the voice of insurance, representing the general insurance, protection, investment and long-term savings industry. It was formed in 1985 to represent the whole of the industry and today has 300 members, accounting for some 90% of premiums in the UK.

The ABI's role is to:

- Be the voice of the UK insurance industry, leading debate and speaking up for insurers.
- Represent the UK insurance industry to government, regulators and policy makers in the UK, EU and internationally, driving effective public policy and regulation.
- Advocate high standards of customer service within the industry and provide useful information to the public about insurance.
- Promote the benefits of insurance to the government, regulators, policy makers and the public.

The ABI welcomes the opportunity to comment on the European Banking Authority's (EBA) consultation paper on Draft Regulatory Technical Standards (RTS) on criteria to identify categories of staff whose professional activities have a material impact on an institution's risk profile under Article 90(2) of the Capital Requirements Directive. We will not be responding to the specific questions raised in the consultation paper, but provide a summary of our views below.

For firms within the scope of the CRD requirements, the ABI believes a proportionate approach is preferable and so supports the EBA's proposal to base identification on a combination of internal and other regulatory qualitative and quantitative criteria.

The proportionality principle in the Committee of European Banking Supervisors (CEBS) Guidelines (December 2010) aims to consistently match the remuneration policies and practices with the individual risk profile, risk appetite and the strategy of the institution. The effect of the proportionality principle is that not all institutions have to give substance to the remuneration requirements in the same way and to the same extent. The CEBS Guidelines further leads to the neutralisation of requirements in relation to payout processes and remuneration committees and ensures that limited licence and limited activity investment firms are not subject to those CRD requirements that are intended solely for the credit institutions and principle trading investment firms. We support the CEBS Guidelines and believe they should be applied to CRD IV. It is important to reflect the different risks posed by firms that trade on their own account and those that only act as agent for their clients.

This is consistent with Article 92(2) of CRD IV, which further states that competent authorities shall apply the remuneration policy in a manner that is consistent with, and promotes sound and effective risk management, in line with the business strategy, objectives, values and long-term interests of the institution.

ABI members that will be in scope are limited license or limited activity investment firms that act as agents for their clients:

- As these companies do not deal on their own accounts, nor do they provide investment services of underwriting or placing financial instruments on a firm commitment basis, they typically present a lower prudential risk profile. Therefore, **limited licence investment firms should be subject to a more proportionate regime**
- **TheCEBS Guidelines (Section 1.2.1 Proportionality in general) under CRD III should be formally extended or applied to CRD IV so they continue to apply to limited licence and limited activity investment firms.**
- **This proportionate approach should also be extended to include the ability to disapply the EBA's proposed RTS on identifying categories of staff who have a material impact on an institution's profile, when that institution is a limited licence or limited activity investment firm.**

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