GFIA

GLOBAL FEDERATION OF INSURANCE ASSOCIATIONS

Global Federation of Insurance Associations

Annual Report 2018–2019

Annual Report 2018–2019

The Global Federation of Insurance Associations (GFIA), established in October 2012, represents through its 40 member associations and 1 observer association the interests of insurers and reinsurers in 64 countries. These companies account for 89% of total insurance premiums worldwide, amounting to more than $4 trillion. GFIA is incorporated in Switzerland and its secretariat is based in Brussels.

Glossary

EU	European Union
FSB	Financial Stability Board
G20	Group of Twenty major economies
GDP	gross domestic product
IAIS	International Association of Insurance Supervisors
OECD	Organisation for Economic Co-operation & Development
UN	United Nations
UNESCO	United Nations Educational, Scientific & Cultural Organization
WTO	World Trade Organization

Contents

GFIA President
Recaredo Arias
Director general
Mexican Association of Insurance Companies (AMIS)

Foreword

As the global representative of the insurance industry, GFIA truly comes into its own when it engages on the world stage with other international organisations.

It has been a great pleasure this year for our federation — and for me personally — to continue to support the G20, led by Japan, on a number of its key objectives and to represent insurers to our international supervisors, the IAIS.

In last year's Annual Report, I reflected on how rewarding GFIA's successful history of engagement with successive G20 presidencies has been. I am delighted to report that the close liaison has continued and strengthened this year.

Japan took over the G20 presidency from Argentina in December 2018 and a GFIA Executive Committee delegation was honoured to meet senior Japanese G20 — and B20 business — representatives during the very first week of their presidency.

We had a very constructive meeting with Japanese Minister of Finance Taro Aso and his team, who made clear that the G20 priorities put our industry at the centre of Japan's G20 agenda. We also had discussions with Haruhiko Kurodo, governor of the Bank of Japan, and with Toshihide Endo and Horishi Ota, the commissioner and deputy commissioner for international affairs at the Financial Services Agency. We are particularly delighted that Commissioner Endo has contributed an opinion article to this report, which you can read on p6.

It was a pleasure to learn of the Japanese Presidency's interest in the issue of the availability of long-term investment opportunities in infrastructure in both developed and developing economies. Recovery from natural catastrophes, financial innovation and digitalisation have likewise been welcome topics on the Japanese G20 list of priorities this year, and ones in which GFIA's working groups are actively engaged, as you can read in this report.

Perhaps most strikingly, Japan has been the first G20 presidency to put the issues created by ageing populations high on its agenda. It has been keen to promote dialogue between public and private entities and to ensure that ageing remains a theme for future presidencies.

This global issue of retirement security is one on which GFIA has been particularly active. As demographic trends widen the gap between the social security contributions collected and the pension payments made, countries have introduced reforms to increase the resilience of public pensions. Life insurers, as the main providers of occupational and personal pensions, can play a greater role in a multi-pillar system, since they already offer a range of pension and insurance products tailored to different savings cultures, demands and needs across the world.

GFIA was particularly pleased to support the Insurance Forum that was organised under the auspices of the G20 Presidency by one of GFIA's members, the Life Insurance Association of Japan (LIAJ). The event was held in June 2019 ahead of the G20 Osaka

Recaredo Arias making the closing remarks at the Insurance Forum Japan, which was held under the auspices of the Japanese G20 Presidency in Tokyo in June 2019.

Summit. The Forum discussed the role of insurance in achieving the G20's goals, particularly in relation to adapting to ageing societies, creating resilient economies and managing digital innovation. GFIA vice-president Don Forgeron moderated a discussion about insurers' role in building resilient economies, our secretary general, Michaela Koller, joined a panel looking at the implications of ageing societies and the insurance industry's role in pension provision and I had the honour of making closing remarks at the event. I would like to express my recognition to the LIAJ for their great work in organising this Forum.

Following the Forum, many GFIA members attended the G20's Global Partnership for Financial Inclusion. I also attended this meeting and had the privilege of speaking on a panel focusing on how insurers can help citizens cope with ageing.

Turning to our interactions with the IAIS, in June 2019, together with several GFIA members, I attended the IAIS Global Seminar in Buenos Aires, Argentina. We were pleased to be able to discuss with the IAIS its strategic priorities for the next five years and endorsed its shift from developing standards towards supporting implementation of existing ones and addressing emerging policy issues. I am delighted that IAIS chair Victoria Saporta has contributed a piece on the IAIS strategic plan to this Report (see p8) and very much look forward to continuing the discussions with the IAIS leadership at its Annual Conference in Abu Dhabi in November.

To close, GFIA has been delighted to welcome as a new member this year the Insurance Federation of Egypt. The Association of Insurance Companies in Lebanon has also joined us as an observer member. The new observer membership category has been created specifically to appeal to some of the smaller insurance markets around the world, so that we can broaden our global representation even beyond the 64 countries the federation already covers.

I would like to thank all our members for their commitment to our working groups and — in particular the members of our Executive Committee — for their contributions to our delegations. I look forward to continuing to work with the outstanding professionals among our existing members and — I hope — new members in the year ahead.

Recaredo Arias

Vice-president

Toshihide Endo
Commissioner
Financial Services Agency of Japan

The G20 and the insurance sector

Commissioner Endo explains how he sees insurers' role in addressing economic and societal changes

What is the relevance of the insurance sector to the Japanese G20 Presidency? Why is the insurance sector a focus?

This year, the G20 finance ministers and central bank governors focused on three themes: risks and challenges to the global economy; concrete actions to strengthen medium-term growth potential; and policy responses to economic and social changes stemming from both technological innovation and globalisation. These high-level topics cover a range of policy priorities, such as ageing and its policy implications, quality infrastructure investment and resilience against natural disasters.

The insurance sector has expressed its strong interest in these topics. In fact, I witnessed global audiences at the Insurance Forum Japan, which was hosted by the Life Insurance Association of Japan in June 2019 under the auspices of the Japanese G20 Presidency, paying close attention to discussions on these topics.

One of the priorities of the Japanese G20 Presidency is ageing and its policy implications. This is very relevant not only to advanced economies but also to emerging markets.

Among those who are over 60 years old, 70% or more are estimated to be resident in G20 member jurisdictions. In addition, according to United Nations statistics, more than two billion people will be 60 or older by 2050, and these older populations will be concentrated in low- and middle-income economies, with approximately 80% of those over 60 estimated to be in emerging economies. Ageing is a global challenge that all of us are facing.

What is your expectation for the insurance sector in addressing ageing?

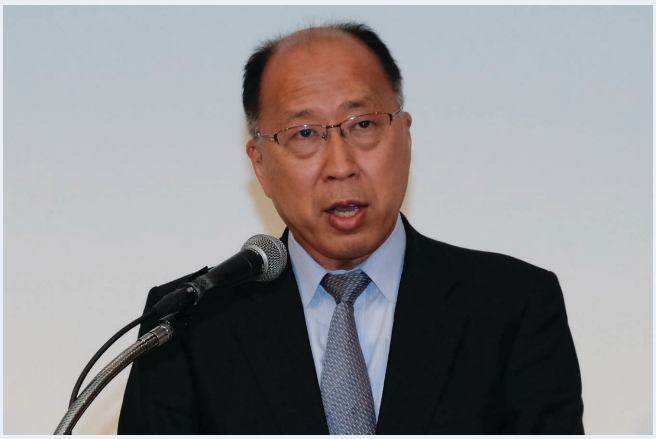
Ageing could cause various issues, such as declining working-age populations, increasing costs for medical and nursing care, and health problems including declining physical and cognitive abilities. I, however, hope that the insurance sector can turn these challenges into opportunities and contribute to our societies, including by providing products and services better adapted to ageing societies and the needs of older generations as well as younger ones.

Retirement saving is likewise a global issue across borders and there is a need for longer asset-life expectancy in accordance with the longer life expectancy. The insurance sector can play an important role in addressing this increasing need.

How can the insurance sector approach the challenges posed by ageing?

There have been initiatives taken by insurers that address

Commissioner Endo addressing the Insurance Forum Japan, held under the auspices of the G20 Presidency in June 2019.



INSURANCE FORUM JAPAN 2019

issues associated with ageing. For example, some insurers have developed products that provide incentives to policyholders to take part in health-enhancing activities for premium discounts; other insurers have developed products that provide not only protection for dementia but also support for its prevention and early detection; and others have begun accepting insurance claims from guardians that have been designated in advance by policyholders.

Furthermore, insurers can use new technologies and innovations to help the elderly have better access to insurance services and products, even if their cognitive abilities decline, and to tailor products to individual customers' needs, as the lifestyles and needs of customers, including the elderly, have largely diversified. For instance, some insurers are using data to cover customers who would previously have been excluded due to pre-existing health conditions, such as high blood pressure. I believe that the insurance sector can further address the needs of ageing populations.

These initiatives by insurers using new technologies contribute to financial inclusion by providing better access for the elderly and those who would previously have been excluded from insurance. With regard to financial inclusion and ageing, the Global Partnership for Financial Inclusion and the OECD developed, under the Japanese G20 Presidency, the "G20 Fukuoka Policy Priorities on Aging and Financial Inclusion"[1]. This was endorsed by leaders at the G20 Summit in Osaka.

What are the key messages that you have for the insurance sector and global audiences?

The Insurance Forum Japan 2019 in Tokyo focused on: using digital technology and its impact on ageing societies; the roles of insurers in ageing societies; building a more resilient economy; and international insurance regulatory standards and ageing. These topics apply to both advanced and emerging economies across the globe and are very relevant to all of us.

I saw at the Insurance Forum both the insurance industry and its regulators pay close attention to these important issues. I was encouraged by the fact that the insurance sector takes these global issues seriously and has been actively involved. Close dialogues between the industry and supervisory authorities are effective in addressing the challenges and in benefiting from the opportunities associated with ageing.

The Financial Services Agency of Japan would like to further contribute to the issues on which the Japanese G20 Presidency and the Insurance Forum Japan 2019 put a focus and looks forward to further work with a broader range of stakeholders.

1 Available at http://www.gpfi.org/publications/g20-fukuoka-policy-priorities-aging-and-financial-inclusion

Victoria Saporta
Chair, executive committee
International Association of Insurance Supervisors

A new strategy for the IAIS

The IAIS 2020–2024 strategic plan focuses on fintech, cyber, climate and conduct

As the IAIS draws near to completing its post-crisis framework, it is striking how different the challenges facing our member supervisors are today compared to 2008.

In June 2019, at our Global Seminar in Buenos Aires, the IAIS launched a new five-year strategic plan, which runs from 2020 to 2024. It aims to allow the IAIS to more nimbly address the rapid evolution in the challenges and opportunities facing our member supervisors, so that we are able to better support them, whilst at the same time continuing to focus on our mission. That mission is to promote effective and globally consistent supervision in order to develop and maintain fair, safe and stable insurance markets for the benefit and protection of policyholders, and to contribute to global financial stability.

A focus on fintech

Financial technology is rapidly transforming several financial services sectors, including insurance, and its impact is likely to be fundamental and to continue over a long period. The IAIS has begun to address these issues through its FinTech Forum, which enables IAIS members to share their perspectives.

In late 2019, our FinTech Forum will hold a joint workshop with the FSB Financial Innovation Network on data and innovation. Alongside this, our Supervisory Forum has established groups to develop guidance on outsourcing to specialist technology providers and on the use of supervisory technology.

Distinct but closely related to fintech is cyber risk. Identified as the top global concern amongst our stakeholders in a recent poll, cyber risk has a global impact exceeding $450bn a year as crime moves online. We have launched a small group to assess the role of insurance supervisors in promoting sustainable cyber underwriting and we plan to undertake further work on cyber resilience.

"The IAIS will work to remove any disincentives to sustainable infrastructure investment that are not justified prudentially."

Meanwhile, climate-related risks affect all of us and drive a significant proportion of the global protection gap — estimated to total $163bn. The IAIS will work to remove any disincentives to sustainable infrastructure investment — itself underfunded by $94trn between now and 2040 — that are not justified prudentially. We will also continue to collaborate with the Sustainable Insurance Forum, a joint initiative between the UN Environment Programme and insurance supervisors and regulators. Together we intend to publish a joint Issues Paper on the awareness and implementation of the recommendations of the FSB Task Force on Climate-related Financial Disclosures.

Centring on conduct

Another key aspect of the strategic plan is an increased weighting towards conduct issues. Whilst the work of the IAIS has been largely focused on prudential issues in the recent, post-crisis years, we plan to build on our existing, significant body of market conduct standards and guidance by developing further supporting material for member supervisors on conduct issues, in particular those arising from fintech developments.

For example, we will publish an Issues Paper on the use of big data analytics in insurance before the end of 2019, to be followed by an Application Paper on the use of indicators to assess conduct-related performance.

In delivering our new strategic plan, I am conscious that supervisors and insurers must adapt and work together to take the insurance sector into the future. I look forward to working with GFIA and its members towards this objective.

Chair, GFIA capital working group
Hugh Savill
Association of British Insurers

Time to watch and learn

GFIA welcomes IAIS assurances about the trial of its Insurance Capital Standard

Throughout the last year, GFIA has worked hard to establish common industry positions on international prudential regulation, particularly in relation to version 2.0 of the global Insurance Capital Standard (ICS). This is the quantitative standard that is part of a group supervisory framework that the IAIS announced in 2013 and is scheduled to adopt in November 2019.

Frequent IAIS talks with stakeholders

At the heart of GFIA's messaging to international regulators has been the need for a commitment to transparency and regular stakeholder engagement. The IAIS has recognised this call and has met regularly with stakeholders at events in Basel, Orlando and Buenos Aires, to name but a few.

GFIA welcomed the IAIS commitment, made during its Global Seminar in Buenos Aires in June 2019, to engage as regularly with stakeholders during the upcoming five-year "monitoring period", during which the ICS will be trialled, as it did during the earlier field-testing phase. This is an important part of recognising that the job of developing a global ICS does not end in 2019.

The IAIS Executive Committee Dialogue with stakeholders in Buenos Aires was a great opportunity for the industry, including GFIA, to put questions to a panel of the most senior IAIS regulators. One request was for greater focus on the economic impact of the ICS, including an analysis of its costs versus its benefits. There was also a plea for meaningful changes to be possible during the monitoring period, so that unintended consequences and flaws that emerge can be corrected while the regime is being refined.

GFIA was keen to ensure a stakeholder session was scheduled between the end of the field-testing and the adoption of the regime, so it welcomed the opportunity the IAIS gave to hear updates and provide feedback on the field-testing during a conference call in September 2019. Hearing that the feedback received will be used to improve the ICS was particularly welcome, as was the IAIS's reiterated commitment to maintain the same level of stakeholder engagement during the monitoring period, although this could be improved through wider engagement beyond volunteer firms.

"The ICS will not be fit for purpose during the monitoring period and so should in no way lead to any form of supervisory intervention."

Monitoring period to be a true trial

It is now clear that the monitoring period — which will run from early 2020 to late 2024 — will be used to test the ICS regime itself and not be used to judge and compare the solvency or financial well-being of individual firms. This is an important distinction, since the ICS will not be fit for purpose during the monitoring period and so should in no way lead to any form of supervisory intervention. The IAIS also suggested that ICS data should not be relied upon by third parties, such as banks and rating agencies, during this period. This is welcome, but the IAIS should go further and ensure that third parties do not use ICS data at all during the monitoring period. The IAIS Annual Conference in Abu Dhabi in November 2019 should be used to communicate this and it should also be communicated to a wider, non-insurance audience before 1 January 2020.

Finally, the IAIS 202–2024 strategic plan (see IAIS opinion article opposite) looks positive, with a greater focus on emerging issues that have potential implications for capital, such as cyber risk, fintech and climate change.

Chair, GFIA ComFrame working group
Stef Zielezienski
American Property Casualty Insurance Association

Preparing for adoption

GFIA feeds into final changes to the IAIS supervisory framework

After nine years of development, the IAIS is scheduled to adopt the common framework for the supervision of internationally-active insurance groups (ComFrame) during its annual conference in November 2019. This follows the IAIS's 2018 public consultation on the overall ComFrame, which included ComFrame material in Insurance Core Principles (ICPs) 5, 7, 8, 9, 10, 12, 15, 16, 23 and 25.

In June 2019, the IAIS published limited revisions to ComFrame based on comments received during the 2018 public consultation. These revisions were endorsed by the IAIS Executive Committee, and they were published for information purposes only, as the IAIS did not hold a public consultation on the revised ComFrame material.

Material change

The IAIS's revised supervisory materials include an important change regarding the materiality of risks. Although the 2018 public consultation on ComFrame mentioned materiality in the context of ICP 7, materiality was not included in the introduction in which the overarching principles of the ICPs and ComFrame are discussed.

Since the materiality of risks is an overarching concept that should inform the supervisory materials as a whole, GFIA encouraged the IAIS to include materiality with the other overarching concepts in the introduction. Ultimately, the IAIS accepted GFIA's recommendation and added a paragraph to the introduction. As a result, the revised supervisory materials can be read in an appropriate context to focus on risks that are material to an insurance group as a whole.

Additionally, GFIA is pleased with the IAIS's recognition of other important overarching concepts in ComFrame. In the revised supervisory materials, the IAIS continues to acknowledge that ComFrame standards are outcomes-focused requirements for supervisors. Likewise, the revised materials state that ComFrame must provide flexibility to supervisors in applying the standards to fit within varying regulatory regimes and corporate structures. The latest iteration of ComFrame also continues to emphasise the importance of cooperation and coordination among insurance supervisors across multiple jurisdictions. These three concepts — outcome-driven standards, flexibility, as well as cooperation and coordination among supervisors — are critical to accomplishing ComFrame's intended purpose as risk-focused guidance for supervising internationally active insurers that can be applied throughout differing jurisdictions.

The IAIS highlighted cooperation and coordination among supervisors in the new ComFrame assessment methodology as well. The purpose of the methodology is to assess whether supervisors in a given jurisdiction are observing ComFrame standards, and this assessment is largely based on the degree and efficacy of coordination among involved supervisors. In August 2019, GFIA's ComFrame working group coordinated GFIA's comments on the new assessment methodology, among other items in the introduction to the supervisory materials, in response to the IAIS's most recent consultation.

Proportional implementation is essential

With the IAIS's adoption of ComFrame scheduled for November 2019, in theory most ComFrame standards will soon be implementable in jurisdictions around the world. The proportional application of ComFrame will be essential during implementation since proportionality ensures standards are applied fairly and effectively, while avoiding unnecessarily burdensome regulation. Proportionality will also take on a new dimension as the holistic framework for the assessment and mitigation of systemic risk in the insurance sector (see opposite) has been incorporated into the ICPs and ComFrame.

Chair, GFIA systemic risk working group
Nicolas Jeanmart
Insurance Europe

Commenting on the IAIS "holistic framework"

GFIA focuses on proportionality, substitutability and stress testing in the IAIS's systemic risk work

The IAIS is working to develop a new method to evaluate systemic risk in the insurance sector that it has dubbed the "holistic framework". This represents a move away from assessing systemic risk in insurance on an entity basis (ie by designating systemic insurers) to assessing it on an activity and sector-wide basis.

The holistic framework will be adopted in November 2019 and implemented from 2020 onwards. The IAIS ran two consultations in the past year on this topic and the GFIA systemic risk working group responded to both. The first consultation sought input on the conceptual approach to the holistic framework, while the second one invited comments on changes made to the Insurance Core Principles (ICPs) to implement the new framework. In responding to the two consultations in January and August 2019, GFIA raised a number of points.

Conventional insurance is not systemically risky

GFIA has always argued that conventional insurance is not systemically risky and that an entity-based assessment of systemic risk is inappropriate. Systemic risk in insurance can only originate from a very limited number of activities undertaken on a large scale in the wrong conditions.

It has likewise always argued that a strict and consistent application of the principle of proportionality is crucial. Proportionality should not be limited to requiring all insurers or all internationally active insurance groups to apply a measure with different expectations of granularity. Proportionality also means questioning whether an insurer should be subject to a certain measure at all.

The data collection amendments in the ICPs significantly increase the collection burden both for insurers and supervisors. Additional data collection from insurers should be minimised and already available data should be taken into account.

GFIA is unconvinced by the IAIS argument that systemic risk stems from a lack of substitutability; this is predominantly a competition issue. An insurer's size is also a poor indicator of systemic risk; the focus should rather be on an identified systemic activity, the size of this specific activity and then a transmission channel into wider financial markets.

The IAIS's proposed requirement to have a more detailed liquidity management process (in particular the requirements to have a contingency funding plan and liquidity stress tests) does not seem justified. The IAIS has not demonstrated why liquidity risk is assigned such a role within the holistic framework. It appears reasonable to assume that existing liquidity risk management processes should be sufficient to address what is generally characterised as a moderate level of liquidity risk in insurance.

GFIA also argued that stress testing should be directly related to particular risk exposures that can realistically have a negative impact on financial stability and the broader economy through an identified transmission channel. This focus is particularly important when determining whether non-life insurers should be required to undergo stress testing.

The overwhelming majority of insurers buy derivatives in order to hedge risks as part of prudent risk management rather than as speculative trades. Central clearing requirements introduced since the financial crisis have also mandated collateral to be posted against most derivatives, ensuring financial protection in the event of counterparty default. Taking both these facts into account, GFIA argues, the degree of engagement in derivatives is a poor indicator of systemic risk.

Chair, GFIA corporate governance working group
David Snyder
American Property Casualty Insurance Association

A question of balance

GFIA stresses flexibility and proportionality in international governance rules

Corporate governance issues are critically important to insurance companies and just as important to the people and enterprises who rely on insurance for their security. GFIA therefore appreciates the opportunities that the IAIS provides to comment on its Insurance Core Principles (ICPs) and application papers that relate to governance.

In October 2018, GFIA submitted comments on revised ICPs 5 (Suitability of persons), 7 (Corporate governance) and 8 (Risk management and internal controls). In December, it commented on ICP 16 (Enterprise risk management for solvency purposes) and the draft application paper on the proactive supervision of corporate governance. Finally, in January 2019, it commented on the draft application paper on recovery planning.

It is positive that the IAIS continues to accept different corporate structures as appropriate. However, there is a trend in IAIS papers toward greater intervention in company operations, which is reflected in the proactive supervision paper. In response to that paper, GFIA pointed out that before, during and after the financial crisis, insurance governance performed well overall. It raised concerns regarding greater supervisory involvement in Board actions, committee composition and compensation. It also emphasised the importance of proportionality and objected to some of the "red flags" justifying increased supervisory attention. It likewise commented on the importance of past performance as an indicator of sound corporate governance, as opposed to compliance with new standards.

On the recovery planning paper, GFIA again stressed the importance of proportionality and called for a flexible approach to recovery planning. Perhaps most importantly, it asked for clarification that the recovery plan is for the benefit of the company, not the supervisor. It also commented on the importance of supervisors being able to protect the confidentiality of the highly sensitive information that would be included in recovery planning and it endorsed the notion of high-level standards that could be met by companies in a variety of ways without adding significant new burdens such as prescribed stress tests that may be irrelevant to the company.

Governance in the IAIS's systemic risk work …

The next opportunity for comment was presented by the IAIS consultation on draft supervisory material related to a holistic framework for systemic risk (see also the report on the work of GFIA's systemic risk working group on p11). GFIA noted that it appreciated that the IAIS continues to recognise the differences in centralised versus decentralised company structures. Again, it emphasised the importance of proportionality, even as it endorsed the activities-based approach. It also asked the IAIS to more clearly delineate what activities could give rise to systemic risk, given that most of the activities conducted by traditional insurers do not.

… and in the IAIS strategic plan

The IAIS 2020–2024 strategic plan (see IAIS opinion article on p8) has several themes that include governance issues and one specifically relates to good conduct and culture. Indeed, it is likely that supervisory work on all of its themes will encompass corporate governance considerations.

As global interest grows in environmental, social and governance (ESG) issues, GFIA expects to see even more proposals and activities on governance issues. It will be important to increase the constructive dialogue between (re)insurers and supervisors to avoid increasingly more detailed standards that may have unintended negative market consequences.

Butch Bacani
Programme leader
UN Environment's Principles for Sustainable Insurance Initiative

One, two, three, go!

Insurers' wear three hats, giving the industry the capacity to respond strongly to the climate crisis

The 2018 report of the UN's Intergovernmental Panel on Climate Change (IPCC)[1] highlights the rapid, far-reaching and unprecedented changes needed to limit global warming to 1.5°C above pre-industrial levels. As rising temperatures accelerate sea level rise and catalyse extreme weather events, communities, businesses, cities and countries are facing new types and higher levels of risk (see table on p15). Furthermore, the 2019 report of the Intergovernmental Science-Policy Platform on Biodiversity and Ecosystem Services (IPBES) finds that around one million animal and plant species are now threatened with extinction.

Against this background, the insurance industry has an unparalleled opportunity to demonstrate decisive leadership with a more complete, ambitious, collaborative and urgent response to the climate crisis and wider sustainability challenge.

Insurance: an essential adaptation tool

Leading insurers and reinsurers were some of the first companies to recognise the risks posed by climate change, dating as far back as the 1970s. Over the years, the insurance industry's response has largely been to cope with the physical impacts of climate change — or climate change adaptation — through risk reduction measures and insurance protection. Insurance, as a financial risk transfer instrument, could be viewed as a natural form of adaptation. Indeed, insurance to support climate change adaptation is an absolutely essential contribution, particularly since the insurance protection gap — the gap between economic losses and insured losses — has been widening.

Therefore, as an adaptation tool, risk-reduction measures and insurance protection should continue to be strengthened and expanded, be it for individuals, households, businesses or governments. For example, the InsuResilience Global Partnership[2] launched at the 2017 UN Climate Conference in Bonn is one of the most ambitious efforts to deliver climate risk insurance protection for hundreds of millions of poor and vulnerable people in developing countries. Indeed, insurance is featured prominently in the 2019 report of the Global Commission on Adaptation, "Adapt now: A global call for leadership on climate resilience".

"As an adaptation tool, risk-reduction measures and insurance protection should continue to be strengthened and expanded."

Insurers' triple role

However, tackling climate change is not only about adaptation. It is also about curbing greenhouse gas emissions (ie climate change mitigation), the root cause of human-induced climate change. In short, adaptation and mitigation are two sides of the same coin. So, the insurance industry should harness its triple role as risk managers, insurers and investors for both climate change adaptation and mitigation.

As risk managers, more than 20 leading insurers have joined forces under UN Environment's Principles for Sustainable Insurance Initiative (PSI)[3] — the largest collaborative initiative between the UN and the insurance industry — to pilot the recommendations of the FSB's Task Force on Climate-related Financial Disclosures (TCFD)[4]. The aim is to develop a new generation of risk assessment tools designed to enable insurers to better understand the impacts of climate change. The pilot group will develop analytical tools that they will use to

1 www.ipcc.ch/sr15/

2 www.insuresilience.org
3 www.unepfi.org/psi/
4 www.fsb-tcfd.org/

"The insurance industry should harness its triple role as risk managers, insurers and investors for both climate change adaptation and mitigation."

pioneer insurer climate risk disclosures in line with the TCFD recommendations. This will require insurers to make use of the latest climate science, including some of the most advanced, forward-looking climate scenarios available.

As insurers, a growing number of leading companies have stopped underwriting coal-intensive businesses and have developed insurance solutions for renewable energy, natural ecosystems, green buildings and resilient infrastructure, and usage-based insurance for vehicles. The agenda of climate change adaptation and mitigation has been integrated into the first global environmental, social and governance (ESG) guide[5] for non-life insurance developed by the PSI to tackle risks posed by the most pressing global sustainability challenges. Likewise, the PSI is now addressing key sustainability challenges in life and health insurance, including climate risks.

As investors, a growing number of leading insurers have divested from coal-intensive businesses; are engaging carbon-intensive companies on low-carbon transition strategies; and are investing in renewable energy and sustainable agriculture, transport and water management. Some insurers are going further and are now aligning their investment portfolios with science-based targets and the aims of the Paris Agreement on Climate Change.

Strategic responses

Supported by over 60 practical case studies, a September 2019 guide produced by ShareAction AODP, "Insuring a low-carbon future"[6], comprehensively explores how leading insurers are strategically responding to climate-related risks and opportunities.

Another important development is the PSI's collaboration with the WWF and UNESCO to produce the first global guide for the insurance industry to protect natural and cultural World Heritage Sites[7]. Natural World Heritage Sites, in particular, provide vital resources such as food and water, and deliver critical environmental services such as stabilising soils, preventing floods and capturing carbon — all of which increase resilience to the most harmful impacts of a warming climate.

Supervisors and regulators have a role too

Insurance supervisors and regulators also have a key role to play. In 2016, UN Environment and insurance supervisors launched the Sustainable Insurance Forum (SIF)[8], a global network of insurance supervisors and regulators working together to strengthen responses to sustainability challenges facing the insurance industry.

In 2017, the SIF became the first group of financial regulators to publicly support the TCFD recommendations. In 2018, the SIF and the IAIS collaborated to produce a landmark Issues Paper on climate change risks to the insurance industry.

In 2019, the SIF carried out a pioneering global climate change risk survey of the insurance industry. It uncovered significant differences between many insurers' awareness of climate change risk and the steps taken to identify, assess, and disclose information on the risks they face. The survey

5 www.unepfi.org/psi/underwriting-esg-risks/

6 https://aodproject.net/wp-content/uploads/2019/09/AODP-Insuring-a-Low-Carbon-Future-Full-Report.pdf

7 www.unepfi.org/psi/world-heritage

8 www.sustainableinsuranceforum.org

Impacts of global warming by 2100

	1.5°C	2°C	3°C	5°C
Sea-level rise	0.3-0.6m	0.4-0.8m	0.4-0.9m	0.5-1.7m
Coastal assets to defend	$10.2trn	$11.7trn	$14.6trn	$27.5trn
Chance of ice-free Arctic summer	1 in 30	1 in 6	4 in 6 (63%)	6 in 6 (100%)
Tropical cyclones: Fewer (category 1-5)	-1%	-6%	-16%	Unknown
Stronger (cat. 4-5)	+24%*	+16%	+28%	+55%
Wetter (total rain)	+6%	+12%	+18%	+35%
Frequency of extreme rainfall	+17%	+36%	+70%	+150%
Increase in wildfire extent	x1.4	x1.6	x2.0	x2.6
People facing extreme heatwaves	x22	x27	x80	x300
Land area hospitable to malaria	+12%	+18%	+29%	+46%
Global GDP impact (2018: $80trn)	-10%	-13%	-23%	-45%

Source: "The heat is on: Insurability and resilience in a changing climate", CRO Forum, January 2019
Data from IPCC and other sources
** The total number of hurricane category 1-5 tropical cyclones is predicted to decline with rising temperatures. The proportion of those that are category 4-5 will increase. The interaction of these two effects is non-linear in the models.*

"Action on climate risk disclosure is progressing unevenly within and across markets."

showed that action on climate risk disclosure is progressing unevenly within and across markets.

Last June, SIF chair Geoff Summerhayes commented that "while there is some leadership on climate risk disclosure by a few of the world's major insurers, the vast majority of the sector is not yet assessing and disclosing climate risk information in a consistent or systematic way". The SIF will develop an Issues Paper on climate risk assessment and disclosure, focusing on TCFD implementation and will conduct research on the consideration of climate change risk factors in insurance industry stress testing and scenario analysis.

Going forward, the PSI will be working with insurers, regulators, governments and key stakeholders to deliver sustainable insurance roadmaps in different markets. These roadmaps will harness the insurance industry's triple role as risk managers, insurers and investors for climate change adaptation and mitigation and the wider sustainable development agenda.

In closing, one of the clearest messages on the insurance industry's crucial role in tackling climate change has come from Christiana Figueres, the UN's former top climate official, who was instrumental in forging the historic Paris Agreement in 2015. In February 2019, Figueres remarked that "as risk managers, insurers and investors, no industry has the capacity to keep us safe other than the insurance industry".

Figueres concluded that "as financial scientists, we need the insurance industry to complete the IPCC report by translating the latest climate change science into the language of risk that the world can fully understand and tackle with radical collaboration and stubborn optimism".

Chair, GFIA cyber risks working group
Stephen Simchak
American Property Casualty Insurance Association

A growing network

With its own and external workstreams, GFIA has had a busy year on cyber risks

In an ever-more interconnected world, GFIA's work on cyber risks reflects the crucial societal role that insurers often play. As businesses and governments grapple with growing cyber risks (see box opposite), GFIA's activities in this area also keep it engaged in some of the most important discussions both within the insurance industry and with supervisors and other governmental authorities.

GFIA has continued to provide input into a number of international workstreams related to cyber risks and cyber underwriting. At the same time, it is launching several proactive projects to help GFIA member associations address cyber issues in their national jurisdictions.

Engaging with the OECD on legislation and regulation

GFIA has been engaging with the OECD on its review of how legislation and regulation impacts cyber insurance coverage. In January 2019, in response to an OECD consultation on the next steps in its project, GFIA suggested that the OECD review the broader cybersecurity landscape to see how policy and regulation could support greater cyber insurance penetration by increasing cyber-risk awareness, data-sharing and information-sharing. Following up on GFIA's submission, I was pleased to represent GFIA in June 2019 at a meeting of the OECD's Insurance and Private Pensions Committee and GFIA then submitted written comments to the OECD on the draft of its initial findings.

The OECD is focused on what governments can do to improve data-sharing and whether governments can play a role in reducing the complexity of cyber coverage, both of which it identified as major challenges to greater cyber-insurance uptake.

Some of the OECD's potential recommendations on data-sharing could be very helpful, particularly in encouraging governments to remove political and legal barriers to the sharing of cyber-incident data by affected companies. GFIA also suggested that the OECD encourage governments to support consumer education efforts around cyber risks.

However, GFIA does have some concerns that the final report could push governments to mandate the sharing of claims data and artificial standardisation of products, which it opposes strongly. Troublingly, the OECD's preliminary findings suggest that some governments presuppose that differences between cyber policies inherently create confusion about coverage. In fact, regulatory intervention in the standardisation of products may impede market development and competition. As with any emerging risk, harmonisation and standardisation will occur organically as products evolve and become more available, so GFIA particularly appreciates the OECD's proactivity in seeking input from the industry.

Troubling ISO standard

Unfortunately, the International Organization for Standardization (ISO) was not as willing to hear the industry's views as the OECD. ISO recently developed and adopted "Guidelines for cyber insurance" as part its standards for information security management. While GFIA appreciates ISO's educational objectives for the standard, in its April 2019 comments to ISO it expressed concern that ISO was developing an insurance guideline without adequate involvement of the insurance industry.

GFIA again cautioned that the guidelines not be taken as a push toward standardisation, particularly at a time when markets are still developing and evolving to meet the changing nature of the risks and consumer demands. To the best of GFIA's knowledge, this is the first ISO document addressing

GFIA has been engaging with the OECD on its review of how legislation and regulation impacts cyber insurance coverage.

a particular line of insurance and this is especially troubling given the nascent nature of the cyber insurance market. Despite receiving GFIA's concerns, ISO proceeded to adopt the guidelines in August 2019.

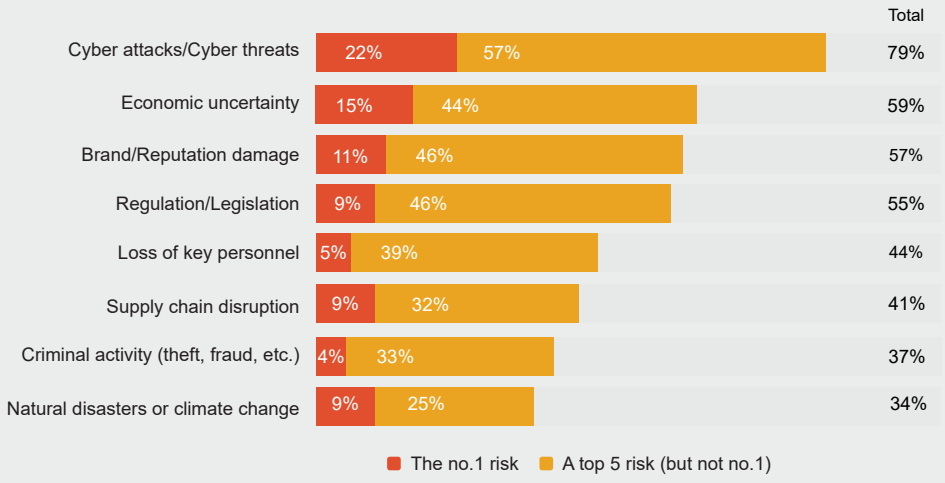
Liaising with the IAIS on supervision

Meanwhile, the IAIS is beginning to move forward with its long-awaited group to examine the supervision of cyber underwriting. Earlier IAIS efforts had been focused on insurers' cyber risks and included the development of an application paper. GFIA and the IAIS secretariat have agreed to coordinate closely as the group begins its work. We understand that the IAIS will hold a stakeholder roundtable in the near future, in which GFIA looks forward to participating.

Cyber exposure is growing, as are concerns about cyber risks

Over 1 500 business leaders from around the globe, representing a range of key functions in a wide variety of industries, were questioned in February and March 2019 for the Marsh Microsoft Global Cyber Risk Perception Survey. They were asked about their awareness of cyber risk (see Chart 1) and their tactics for addressing it in an environment that is being transformed by technological innovation (see Chart 2 overleaf).

Chart 1: Top 5 perceived business threats (% ranking each item a top 5 risk)



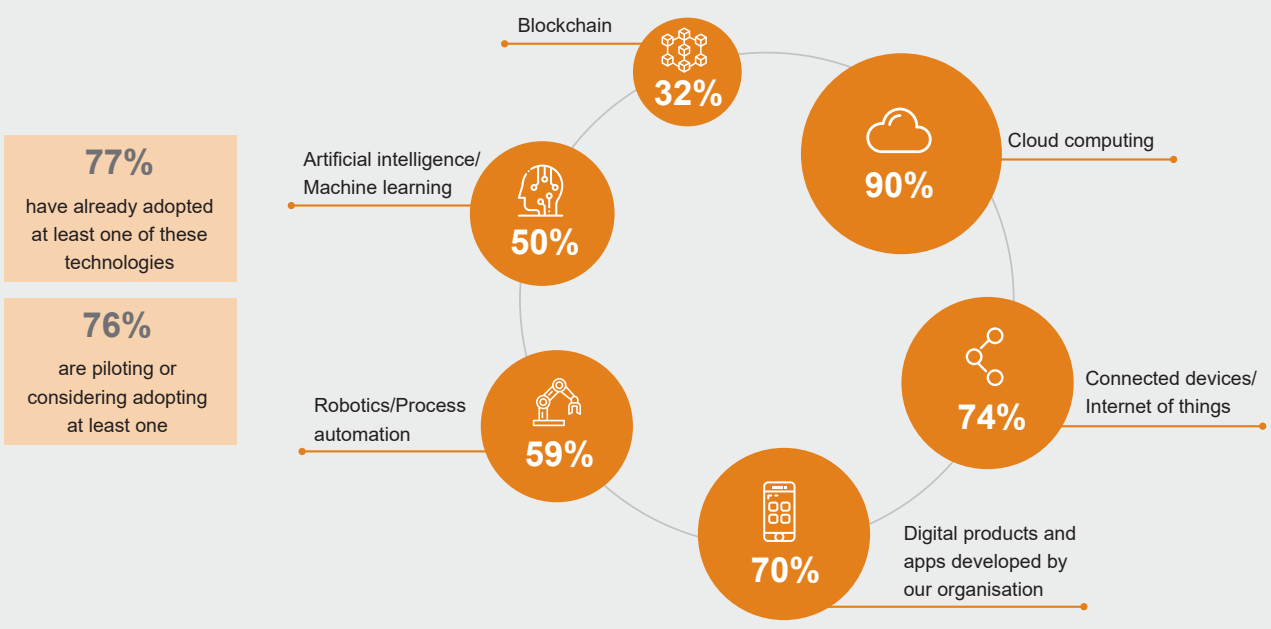
Source: Marsh Microsoft Global Cyber Risk Perception Survey, September 2019

New workstreams

GFIA's cyber risks working group is not only focused on external consultations. After a lively discussion at the GFIA General Assembly in Bucharest in May 2019, it launched several new workstreams, which include gathering and presenting best practices in consumer education on cyber issues, encouraging cyber-event data-sharing, and responding to regulators' concerns that cyber underwriting creates systemic risk.

The group is also launching a joint project with the disruptive technology working group (see opposite) on the challenges insurers face regarding automated vehicles. Called "The future of mobility and auto insurance", the project will build on the insightful discussions at the Bucharest General Assembly. While the project will cover broad topics, one focus will be to examine how insurers respond to autonomous vehicle cyber breaches, which is no doubt a topic that will continue to grow in significance.

Chart 2: Organisations that have adopted or are piloting/considering each technology (%)



Source: Marsh Microsoft Global Cyber Risk Perception Survey, September 2019

Chair, GFIA disruptive technology working group
Don Forgeron
Insurance Bureau of Canada

Making the links

GFIA's work on disruptive technology increasingly ties in with its cyber and conduct workstreams

The growing interconnections in today's societies and hence in the risks covered by insurers were brought into stark relief within GFIA's own structure this year, as its disruptive technology working group worked in tandem with both its market conduct working group (see p20) and its cyber risks working group (see p16).

Working together on big data ...

In May 2019, the IAIS Market Conduct Working Group invited GFIA's disruptive technology and market conduct working groups to participate in a discussion about insurers' use of customer data. GFIA's key messages centred on the benefits and challenges of innovation and on public policy and international standards (for more details see p20).

In September 2019, the IAIS released an issues paper on the use of big data analytics in insurance. The two GFIA working groups reviewed the paper and developed a response (again see p20).

... and on automated vehicles

Automated vehicles will have a dramatic effect on motor insurance underwriting, pricing, sales, distribution and claims management.

To prepare for these seismic shifts, in May 2019 I chaired a roundtable on automated vehicles during the GFIA General Assembly in Bucharest. The presentations by insurance associations from Canada, Europe, Japan, Mexico and the US showed that there are four areas of focus for most associations:

- Addressing liability considerations to ensure claims proceed smoothly and injured people are compensated fairly and quickly.
- Determining coverage for new risks, such as cyber breaches, which will become a growing concern for those who own automated vehicles.
- Ensuring access to in-vehicle data, which could change how insurers underwrite, rate, manage claims and fight fraud, as well as devise more innovative services.
- Updating vehicle safety standards to reflect the technology that operates the vehicles.

GFIA's disruptive technology and cyber risks working groups are now developing public policy principles for the future of mobility and insurance in a world in which automated vehicles are more prevalent.

"GFIA is developing public policy principles for the future of mobility and insurance in a world in which automated vehicles are more prevalent."

GFIA is preparing a paper called "The future of mobility and auto insurance", which will include those guiding principles, to help steer the discussion with governments and regulators on the public policy implications of automated vehicles for the insurance market.

For example, GFIA's working groups have proposed that national vehicle regulations should include safety standards for cyber security and for the interface between the technology that operates the vehicle in certain instances and the human who operates the vehicle at other times, such as in emergencies.

The working groups have also proposed that vehicle regulations should mandate that vehicle manufacturers capture and store vehicle data in a read-only format that can be accessed by a commercially available tool.

Chair, GFIA market conduct working group
David Snyder
American Property Casualty Insurance Association

Big data can bring big benefits

Insurers' use of big data analytics brings new conduct questions but also consumer benefits

International insurance bodies have always taken an interest in market conduct issues, but the financial crisis moved financial regulatory reforms and governance issues to the top of the agenda for a while. Now, that is changing and there is a growing focus on how insurers conduct their business, including the societal welfare aspects of insurance and the effects of innovation.

Indeed, the IAIS 2020–2024 strategic plan (see p8) lists five themes, three of which potentially have significant market conduct aspects: technological innovation; conduct and culture; and financial inclusion and sustainable economic development (including closing the protection gap).

Supervisors link innovation and conduct

Most of the work of GFIA's market conduct working group over the last 12 months has been in cooperation with the disruption working group (see p19), as innovation and market conduct have been closely linked in supervisory papers.

First, there was a much-appreciated opportunity to discuss insurers' use of customer data with the IAIS Market Conduct Working Group in Amsterdam in May 2019, in advance of the publication of the IAIS draft issues paper on the use of big data analytics in insurance in early September. Then, GFIA was invited to provide preliminary comments on the paper, along with other stakeholders.

The draft issues paper, due to be finalised soon, reflects many of the themes that GFIA presented in May, including the importance of insurers adjusting to changing consumer needs for new products and services and the safety improvements made possible through usage-based insurance and other big-data-enabled innovations.

Granularity leads to more cover

GFIA believes that — contrary to what is said in the draft IAIS paper — more granular underwriting has actually led to greater availability of coverage rather than less. New technology and the employment of customer data can assist insurers in improving customer service, risk assessment and pricing. They can also help insurers identify fraud and settle claims more accurately and rapidly. In addition, they can give customers value-added products and services that help mitigate their risk.

> **"More granular underwriting has actually led to greater availability of coverage rather than less."**

The management of new data is crucial when deploying new technologies such as usage-based insurance and natural catastrophe risk modelling and helping communities to become more resilient to the effects of severe weather.

Data protection regimes are working

Of course, consumers are increasingly mindful of who is using, sharing and storing their personal data. Governments are responsible for ensuring optimal outcomes for consumers, so most countries have developed data protection and/or use regulatory regimes that place appropriate controls on those who use and store data in order to protect consumer privacy. These regimes are fairly recent and, in spite of jurisdictional differences, appear to be working without the need for international revisions or additional measures to address specific industries.

Should the IAIS insist that international standards for insurance are needed, it should focus on high-level principles for individual jurisdictions to consider, taking into

account the global discussion. These principles should also take account of the appropriate proportionality of measures and the cost versus the benefit of additional regulations.

In the meeting with the IAIS in September 2019, GFIA suggested that the issue of insurance access for vulnerable sectors of the population should be dealt with either by the market as a whole or by governments, and that supervisors should not interfere with risk-based pricing. GFIA also strongly supported upfront discussion with supervisors when a company introduces a new model or uses new data. Finally, it urged insurance regulators to be involved in general privacy debates to make the case for insurers' appropriate access to and use of data.

"'Fair treatment' of insurance customers will no doubt be reviewed in virtually all jurisdictions in connection with both traditional operations and innovation."

As for the future, it is clear that market conduct issues will continue to grow in importance. What is considered "fair treatment" of insurance customers will no doubt be reviewed in virtually all jurisdictions in connection with both traditional operations and innovation. Market conduct considerations will also be a significant focus at international level as supervisors expand the scope of their deliberations on conduct and culture, greater inclusiveness in insurance, sustainable development and bridging protection gaps.

New technology and the employment of customer data can assist insurers by improving customer service, risk assessment and pricing.

Annamaria Lusardi
Founder and academic director
Global Financial Literacy Excellence Center

Are you feeling well?

A comprehensive approach is needed to improve the financial wellness of individuals

Discussion has recently turned to signs of a slowing global economy and how this may impact the financial security and well-being of individuals. The ability of individuals to achieve financial security has become more difficult with the global changes in the economic landscape, including the shift on to individuals of the responsibility for saving, investing and managing risk. As financial challenges continue to grow in complexity, an inclusive system that promotes financial wellness (see box opposite) is needed more than ever before.

Worrying US statistics

Taking the US as an example, data from the latest US National Financial Capability Study (NFCS)[1] shows that, in 2018, 31% of Americans could not come up with $2 000 to address an unexpected need within a month. They would have been unable to manage a medical bill, an unexpected home or car repair, or another emergency. The situation has improved since the financial crisis; when the same data was collected in 2008, as many as half of Americans were unprepared for a financial shock. Nevertheless, although the most recent findings therefore show improvement over the last decade, too much financial fragility remains.

And averages in the population hide large differences among subgroups. As many as 36% of women, versus 25% of men, are financially fragile. The young are more fragile than other age groups: 35% of those aged 18 to 35. Those with low educational attainment are also more likely to not be financially resilient; 40% of those with a high school education or less are financially fragile versus 16% of those with a college or higher degree.

This NFCS measure is particularly informative because it takes into account not only a lack of assets but also high debt and difficulties with debt. Moreover, the measure takes into consideration the many ways people can deal with a financial shock, beyond relying on savings. For example, people could turn to their network of family and friends, work extra hours or take on a second job.

These statistics are important because financial fragility can exact a toll on household well-being. Look no further than the US government shutdown in January 2019; within two weeks of being furloughed, many government employees were turning to charities or food banks for emergency help. Moreover, a lack of financial resilience is not just a short-term problem, it carries long-term ramifications. People unable to manage a financial shock are much less likely to plan for retirement.

Creating a financial wellness ecosystem

As evidenced by the NFCS data, there is a need to improve financial resilience/wellness, in particular among certain population groups. Because financial wellness is influenced by many factors, solutions must take a comprehensive approach. It is important to foster the development of an ecosystem where individuals can safely make financial decisions that are suitable for their needs and economic circumstances. Such an ecosystem has three main components:

- basic financial literacy
- equal access to and participation in the financial system
- sound regulation that enables a smooth functioning of the financial system

The first component, basic financial literacy, is a necessary ingredient. Individuals need to have the knowledge and skills to make informed financial decisions. Research has shown that financially literate individuals are more likely to be resilient to shocks. But it does not stop there; financially literate individuals

1 The US National Financial Capability Study is a project of the FINRA Investor Education Foundation

are also more likely to save and plan for retirement, to invest in the stock market, and to be savvy about debt and debt management.

The second component includes giving equal access to individuals to participate in the financial system. Examples of this include access to savings and retirement accounts and fair and equitable credit. Only 58% of Americans report having an employer-sponsored retirement account. This low participation rate may, in part, be due to limited access to these savings vehicles. Low-wage earners and part-time employees often do not have access to retirement accounts. Financial inclusion is clearly linked to financial resilience and financial wellness. Individuals who hold retirement assets, are banked or have health insurance are more likely to be able to withstand a financial shock.

"Financial inclusion is clearly linked to financial resilience and financial wellness."

The third and final component of an ecosystem is sound regulation that promotes market efficiency and stability and provides protection for consumers and investors. Examples of such regulation may include protecting consumers from fraud or theft, transparency in financial activities, or preventing exploitative practices against consumers. Improving financial resilience and well-being through improved access and financial education may be limited if the financial system lacks proper regulation.

It is time to focus attention on policies and programmes that can improve financial wellness for all.

What is financial wellness?

- A simple definition of financial wellness is whether individuals feel secure in their financial situation and have the freedom to pursue their goals for the future.
- Financial wellness, or well-being, takes into account the economic opportunities individuals have, their inclusion in the economic system, and the financial skills and behaviours they demonstrate on a day-to-day basis.
- Financial wellness is thus an encompassing measure that goes beyond single behaviours, such as saving or borrowing.
- A simple proxy of financial wellness is the capacity of families to cope with a financial shock.

Chair, GFIA trade working group
Brad Smith
American Council of Life Insurers

Promoting CORE values

GFIA mobilises the industry to tackle forced reinsurance localisation

While GFIA has welcomed the positive moves by China and India on removing equity limits on global companies operating in their markets, its focus this year has been on efforts to overturn forced partial or full reinsurance localisation in certain markets. GFIA's endeavours in this area have been channelled into a recently formed global (re)insurance industry initiative, the Coalition on Reinsurance Education (CORE). The coalition (see box opposite) aims to remove various types of barriers in a discrete set of priority markets, while promoting the long-term and stable growth of the global economy.

Worrying reinsurance rules proposed

The Canadian regulator, the Office of the Superintendent of Financial Institutions (OSFI), issued a discussion paper in 2018 on its reinsurance framework. Changes are being considered to guidelines on prudential limits and restrictions and on capital adequacy for foreign-regulated property and casualty insurers.

The changes relate to the risks associated with writing large policies in Canada and ceding a significant portion of those risks outside Canada and also to entities with little capital or few assets in the country. If implemented, the proposal would, among other things, increase the cost of insurance in Canada and reduce overall insurance capacity, while at the same time imposing burdensome measures designed to discourage the participation of foreign reinsurers in the Canadian market.

In July 2019, GFIA shared its substantive concerns with the OSFI regarding the proposals, urging it to consider the potential impact on the market since, on average, Canadian carriers would be required to more than triple their capital base.

GFIA likewise commented in September 2019 on draft revisions to the OSFI's "Guideline B3: Sound Reinsurance Practices and Procedures" and, once the OSFI's draft Guideline B2 is released for comment, will provide further comments. The envisaged measures do not promote market-based solutions and have the effect of significantly reducing the return on capital, thus disincentivising groups from offering (re)insurance services or investing in Canada.

Failure to comply with WTO commitments

Currently, Indonesian insurers face a compulsory 100% reinsurance cession for "simple risks", which include all life business and most property and casualty lines, to domestic reinsurers, namely Indonesia Re, the state reinsurer. Indonesia Re thus enjoys a dominant market position, limiting the capacity of both primary companies in Indonesia and global reinsurance companies.

Ending this local reinsurance monopoly is essential for an open, fair and free Indonesian (re)insurance market. This is why GFIA will continue to advocate the full removal of all market-access barriers for foreign reinsurers and compliance with Indonesia's WTO commitments to allow access to global reinsurance (see also box opposite).

Coalition on Reinsurance Education (CORE)

One of the elements of insurance that provides particular value to countries is the geographic and economic spreading of risk through cross-border reinsurance. Despite this well-documented benefit, there have recently been a series of non-prudentially motivated government actions to force partial or full reinsurance localisation within their own countries. Such actions can create dangerous concentrations of risk.

In response, a group that includes GFIA, the Global Reinsurance Forum, Insurance Europe's Reinsurance Advisory Board and numerous national (re)insurance associations has formed the Coalition on Reinsurance Education (CORE). The aim is to combine research and advocacy resources to tackle the issue of forced reinsurance localisation and other regulatory barriers facing the international (re)insurance industry.

CORE will first focus on the barriers to open (re)insurance markets that exist in five markets: India, Indonesia, Korea, Thailand and Vietnam. As issues are — hopefully — resolved, CORE will turn its attention to other markets, drawing on its links with the general business community and regulation experts.

As part of CORE's efforts to raise the risks of forced localisation with policymakers, it has provided the IAIS with an analysis of the current and upcoming Insurance Core Principles, showing how forced localisation is inconsistent with prudential standards on risk concentration and diversification. CORE is seeking a statement from the IAIS that will remove any justification by the target markets for their actions.

CORE members are also engaging with the OECD Insurance and Private Pensions Committee on expanding the scope of the OECD's research on the subject and is hopeful that the OECD's recent visits to south-east Asia and upcoming programme in India will help support reform. CORE members are also speaking with their representatives in international policymaking bodies about the way forced localisation of reinsurance creates market fragmentation that curbs economic growth.

A preference for no preference

GFIA has welcomed the changes introduced by the Insurance Regulatory and Development Authority of India (IRDAI) to the country's reinsurance framework, while urging that more be done to improve and open the Indian (re)insurance market to international (re)insurers.

The Reinsurance Regulations 2018, which came into force on 1 January 2019, changed how the order of preference is applied to local cedants when placing reinsurance business. These new rules have partially opened the Indian reinsurance market to international reinsurers, eliminating the previous full right of preference to national reinsurers and introducing a two-step procedure for reinsurance placements.

However, although life (re)insurers are exempt from these rules, international reinsurers' capacity to compete on equal terms with national reinsurers is still limited, as there remains an order of preference in favour of local reinsurers. GFIA will continue to call on the Indian authorities to remove any form of order of preference entirely and to advocate a level playing field in the rules for national and foreign reinsurers.

Welcome news on equity limits

GFIA is pleased that the China Banking and Insurance Regulatory Commission (CBIRC) recently introduced changes to its current rules on foreign insurance investment. The amendments remove the requirement that a foreign insurance company applying to establish a foreign-funded insurance company in China should have been engaged in insurance business for more than 30 years and have had a representative office in China for more than two years.

The changes allow foreign insurance groups to invest in and set up foreign-funded insurance companies in China, and allow overseas financial institutions to take shares in foreign-funded insurance companies in China.

GFIA likewise supports the announcement by the Indian Finance Minister in her 2019 Budget Speech that India will review the current 49% equity cap on the foreign ownership of Indian insurance companies. GFIA will continue to advocate complete removal of the cap; a move that would stimulate the Indian insurance sector and lead to higher insurance penetration rates.

Chair, GFIA taxation working group
Mervyn Skeet
Association of British Insurers

Digital takes centre stage

Tax developments related to the digital economy have preoccupied GFIA this year

Despite taxation being a largely sovereign matter, many tax issues are increasingly being discussed and decided at international level, keeping GFIA busy on the work of the OECD and the EU, as well as that of individual countries.

Taxation of the digital economy

In May 2019, the OECD/G20 Inclusive Framework on Base Erosion and Profit Shifting (which seeks to ensure that profits are taxed where economic activity and value creation occur) released its "Programme of work to develop a consensus solution to the tax challenges of the digitalisation of the economy". Pillar 1 of the report focused on revised nexus and profit allocation rules and Pillar 2 on a global anti-base erosion proposal that could lead to minimum taxes.

The insurance industry has concerns about both pillars. They relate to how this significant international tax reform may negatively impact the legitimate business structures of (re)insurers, which are centred around risk transfer and pooling, often at a global level. GFIA will continue to engage with the OECD and individual country members of the Inclusive Framework to explain how the insurance industry operates, the interdependence of its various components and the role of regulation in determining the insurance business model.

If the work of the Inclusive Framework proceeds in the next 16–18 months as expected, it could lead to a new international tax allocation system and taxes being applied to income at a minimum rate wherever that income is earned.

Meanwhile, looking for a solution at an international level has not stopped a number of countries, including France and the UK, from introducing or proposing legislation for a "temporary" digital services tax, and GFIA continues to also monitor these pieces of legislation as they are developed.

US tax reform

In addition to discussions on digital taxes, GFIA has continued to engage on the comprehensive US tax changes that are a key plank of the Trump administration's reforms, in particular the proposed passive foreign investment company (PFIC) rules, which are expected to be applied to tax years on or after the date the final regulations are published, and the Base Erosion Anti-Abuse Tax (BEAT), which is already applicable to payments made by US-based companies to foreign affiliates.

The BEAT fully applies to gross intra-group reinsurance premiums, rendering unviable the way most global (re)insurance providers operate in the US. GFIA responded to US Treasury/Internal Revenue Service consultations on both topics in 2019, suggesting ways in which the significant burden they place on (re)insurers operating in the US could be alleviated without compromising their legitimate objectives.

IFRS and FTT

At the same time, GFIA continues to monitor the International Accounting Standards Board's development of International Financial Reporting Standard (IRFS) 17, which applies to insurance liabilities. Insurers have major concerns about the tax implications of the transition to IFRS 17 and the impact on ongoing taxable income.

GFIA is also following taxation-related developments in the EU, where new proposals are expected to emerge from the European Commission expected to begin its term in December 2019. The discussions between 10 EU member states to establish a financial transaction tax (FTT) have progressed over recent months and such a tax may materialise by the end of 2019. GFIA is critical of the FTT, particularly in respect of its potentially detrimental impact on retirement savings if pension services providers are not exempted from its scope.

Chair, GFIA anti-money laundering/
countering terrorism financing working group
Ethan Kohn
Canadian Life and Health Insurance Association

Targeting terrorism

GFIA continues to call for measures that match real risks

Despite its limited exposure, the insurance industry remains as committed as ever to countering money laundering and terrorism financing. GFIA has therefore continued to engage with the various parties working in this field on the international stage.

In particular, GFIA engaged with the IAIS as it worked on updating its Insurance Core Principle (ICP) 22 on anti-money laundering and combating the financing of terrorism, which is the supervisory material designed to provide guidance for insurance supervisors when they review the practices of the insurers acting within their jurisdictions. This work came on the heels of the update by the intergovernmental Financial Action Taskforce (FATF) of its guidance for life insurers and their supervisors.

GFIA's objective was not only to ensure that the IAIS improved ICP 22 but also to make sure that it made it more consistent with the FATF guidance, so that insurers have a clear international framework on which to base their approach to countering money laundering and terrorism financing.

A risk-based approach is most effective …

Since at least 2012 — when it was promoted in the FATF Recommendations — the overarching principle of the international framework has been a risk-based approach. This approach ensures an allocation of resources to countering money laundering and terrorism financing that is adapted and proportionate to the given risk and its mitigation, thus also ensuring the effectiveness of the actions undertaken by companies as part of their measures.

It is widely accepted that insurance is a sector with limited exposure to the risks of money laundering or terrorism financing. Any risks are restricted to certain types of life insurance — usually those with an investment element to them. Non-life insurance products simply do not lend themselves to money laundering or terrorism financing activity unless fraud is employed, in which case many mechanisms are already in place to counter it.

"It is widely accepted that insurance is a sector with limited exposure to the risks of money laundering or terrorism financing."

… yet the focus on non-life persists

When applying the risk-based approach to insurance, therefore, the focus should be on those life insurance products that present a possible risk, albeit a much lower one than in other areas of financial services. Despite this widely acknowledged reality, in both its 2013 iteration and the draft presented this year by the IAIS, ICP 22 includes non-life insurance in its scope. GFIA urged the IAIS to change course on this, as the IAIS is effectively sending supervisors around the world the wrong message. The IAIS is also going against the message sent by the FATF a year earlier, which is that the risk-based supervision of insurers' efforts to counter money laundering and terrorism financing should focus on life insurance.

This exchange with the IAIS shows the need for GFIA to continue to call for the risk-based approach to underpin any regulatory action in this area at international level. Only very few jurisdictions currently extend their regulation to non-life insurance, and that extension has no proven benefit in the fight against money laundering and terrorism financing. It is essential to avoid this model being replicated at international level or having international standards based on it. GFIA will therefore continue to urge the IAIS not to use these countries as a benchmark, but rather to encourage its members to use their resources efficiently to tackle the real risks.

Member associations

Association for Savings and Investment South Africa (ASISA)
www.asisa.org.za

Insurance Federation of Egypt (IFE)
www.ifegypt.org

Moroccan Federation of Insurance and Reinsurance Companies (FMSAR)
www.fmsar.org.ma

South African Insurance Association (SAIA)
www.saia.co.za

Tunisian Federation of Insurance Companies (FTUSA)
www.ftusanet.org

American Council of Life Insurers (ACLI)
www.acli.com

American Property Casualty Insurance Association (APCIA)
www.apci.org

Association of Bermuda Insurers and Reinsurers (ABIR)
www.abir.bm

Brazilian Insurance Confederation (CNseg)
www.cnseg.org.br

Canadian Life and Health Insurance Association (CLHIA)
www.clhia.ca

Chilean Insurance Association (AACH)
www.aach.cl

Insurance Bureau of Canada (IBC)
www.ibc.ca

Interamerican Federation of Insurance Companies (FIDES)
www.fideseguros.com

Mexican Association of Insurance Companies (AMIS)
www.amis.org.mx

National Association of Mutual Insurance Companies (NAMIC)
www.namic.org

Reinsurance Association of America (RAA)
www.reinsurance.org

General Insurance Association of Japan (GIAJ)
www.sonpo.or.jp/en

General Insurance Association of Korea (GIAK)
www.knia.or.kr/eng

Korea Life Insurance Association (KLIA)
www.klia.or.kr

Life Insurance Association of Japan (LIAJ)
www.seiho.or.jp/english/

All Russian Insurance Association (ARIA)
www.ins-union.ru

Association of Mutual Insurers and Insurance Cooperatives in Europe (AMICE)
www.amice-eu.org

Association of Spanish Insurers (UNESPA)
www.unespa.es

British Insurance Group (BIG)
comprising:

- Association of British Insurers (ABI)
  www.abi.org.uk
- Corporation of Lloyd's
  www.lloyds.com
- International Underwriting Association of London (IUA)
  www.iua.co.uk

Dutch Association of Insurers (VVN)
www.verzekeraars.nl

French Insurance Federation (FFA)
www.ffa-assurance.fr

German Insurance Association (GDV)
www.gdv.de

Insurance Association of Turkey
www.tsb.org.tr

Insurance Europe
www.insuranceeurope.eu

Insurance Ireland
www.insuranceireland.eu

Italian Association of Insurance Companies (ANIA)
www.ania.it

Luxembourg Insurance and Reinsurance Association (ACA)
www.aca.lu

Polish Insurance Association (PIU)
www.piu.org.pl

Portuguese Association of Insurers (APS)
www.apseguradores.pt

Swiss Insurance Association (ASA/SVV)
www.svv.ch

Financial Services Council of New Zealand (FSC)
www.fsc.org.nz

Insurance Council of Australia (ICA)
www.insurancecouncil.com.au

Insurance Council of New Zealand (ICNZ)
www.icnz.org.nz

Observer

Association of Insurance Companies in Lebanon (ACAL)
www.acal.org.lb

Executives

◄ President

Recaredo Arias

Director general

Mexican Association of Insurance Companies

◄ Vice-president

Don Forgeron

President & CEO

Insurance Bureau of Canada

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Life Insurance Association of Japan

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Insurance Europe

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Working group chairs

1. Ageing society working group and Systemic risk working group

Chair: Nicolas Jeanmart
Insurance Europe

2. Anti-money laundering/countering terrorism financing working group

Chair: Ethan Kohn
Canadian Life and Health Insurance Association

3. Capital working group

Chair: Hugh Savill
Association of British Insurers

4. ComFrame working group

Chair: Stef Zielezienski
American Property Casualty Insurance Association

5. Corporate governance working group and Market conduct working group

Chair: David Snyder
American Property Casualty Insurance Association

6. Cyber risks working group

Chair: Stephen Simchak
American Property Casualty Insurance Association

7. Disruptive technology working group

Chair: Don Forgeron
Insurance Bureau of Canada

8. Extreme events working group

Chair: Dennis Burke
Reinsurance Association of America

9. Financial inclusion working group

Chair: Themba Palagangwe
South African Insurance Association

10. Taxation working group

Chair: Mervyn Skeet
Association of British Insurers

11. Trade working group

Chair: Brad Smith
American Council of Life Insurers

Positions and publications

December 2018
- Comments on IAIS draft application paper on the proactive supervision of corporate governance

January 2019
- Comments on IAIS draft application paper on recovery planning
- Comments on OECD Insurance and Private Pensions Committee next steps on cyber issues
- Response to IAIS consultation on a holistic framework for systemic risk in the insurance sector

March 2019
- Letter to ISO on the development of cyber insurance guidelines (ISO/IEC 27102)

June 2019
- Policy recommendations on ageing for the Japanese G20 presidency

July 2019
- Letter to Canada's Office of the Superintendent of Financial Institutions (OSFI) on its discussion paper on a reinsurance framework

August 2019
- Response to IAIS consultation on revisions to the holistic framework for systemic risk in the insurance sector
- Response to IAIS consultation on revisions to the IAIS glossary, introduction to ICPs and ICP 7 (Corporate governance), and ComFrame assessment methodology
- Response to IAIS consultation on ICP 22 (Anti-money laundering and combating the financing of terrorism)

September 2019
- Letter to Canada's OSFI on draft revisions to Guideline B-3: Sound reinsurance practices and procedures

October 2019
- Comments on IAIS draft issues paper on the use of big data analytics in insurance

All GFIA's public positions and publications are available on the GFIA website: www.GFIAinsurance.org

The Global Federation of Insurance Association's Annual Report 2018–2019 is available on the GFIA website:
www.GFIAinsurance.org

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