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

Open for business

GFIA combines education and advocacy to expand private sector risk protection to new communities

GFIA represents companies that account for almost 90% of the world's insurance premiums, so it is a firm advocate of open, well-regulated (re)insurance markets that allow the optimum geographic and economic spread of risk and underpin long-term economic growth.

Over the last 12 months, GFIA has focused on existing or proposed barriers to open (re)insurance trade or hindrances to efficient (re)insurance markets — sharing intelligence on trade and market access developments among its members and engaging with finance ministers and insurance regulators.

As set out below, it has seen positive developments begin to unfold in Indonesia, Vietnam and Thailand, but would like to see more comprehensive application of consistent outcomes in South Korea and Canada. GFIA members also shared information on moves in India to remove the 49% equity cap on foreign ownership of Indian insurers and, notably the beginning of implementation of China's removal of the 50% equity cap on foreign ownership of life, pension and health insurance companies.

Individual GFIA member associations have also been active over the last year: arguing against a revision to Myanmar's reinsurance law to require a 40% retention by the state-owned reinsurer and expressing opposition to China's move to require reinsurers to retain more capital within the country. Some of these actions have been undertaken under the auspices of the Coalition on Reinsurance Education (CORE), of which GFIA is a founding member of CORE, along with the Global Reinsurance Forum, Insurance Europe's Reinsurance Advisory Board and numerous national (re)insurance associations. CORE combines research and advocacy resources to tackle barriers to open (re)insurance markets, such as the forced localisation of reinsurance.

Looking ahead, as the economic effects of the COVID-19 pandemic take their toll on governments and households, GFIA is monitoring concerning emergency proposals — particularly in South America — to defund private pension plans, as these could have serious long-term effects on the adequacy of future retirement provision and impact international investors.

SOUTH KOREA

Combatting forced data localisation

Despite being considered a global leader in insurance regulation, South Korea has a fundamental barrier to global (re)insurance markets in the form of forced data localisation requirements that prohibit the use of regional or global data processing infrastructure. This means that global (re) insurers operating in South Korea are required to keep all data within the country and are not able to use global underwriting, back-up and regulatory compliance systems. This can be inconsistent with global governance and group supervision requirements and so undermines the ability of insurers operating in South Korea to transfer risk across borders through the use of both affiliated and non-affiliated reinsurance.

GFIA has requested that the South Korean authorities change or reinterpret their regulations so that they comply with its obligations under the EU-Korea Free Trade Agreement, the US-Korea Free Trade Agreement and other binding agreements. This would allow global (re)insurers licenced in South Korea to use their global technology platforms wherever they are located, as long as they meet the same level of protection applicable domestically in South Korea.

Concerns over reinsurance rules

GFIA has written to and met Canada's regulator, the Office of the Superintendent of Financial Institutions (OSFI), to express serious concerns over changes being considered to Canada's reinsurance framework. GFIA believes the changes would result in a shortage of insurance cover for certain risks and are inconsistent with globally accepted supervisory approaches to the transfer of insurance risk.

A proposal for property and casualty insurers to be fully capitalised against three extremely remote loss scenarios would require large commercial writers to raise an unfeasible additional CAD$21–30bn in excess capital or excess collateral from global reinsurers, which would be likely to lead to a shortage of capacity for specialised risks such as aviation, nuclear, oil and gas and large construction projects.

And a proposal to withhold capital credit for foreign reinsurance arrangements through affiliates would further reduce capacity by discouraging global commercial insurers from participating in the Canadian market. Such intra-group reinsurance arrangements are a recognised and effective tool that underpins the global management of risks.

GFIA has urged the OSFI to rethink its proposals and, due to the COVID-19 pandemic, to date no new draft of the proposals has been issued.

Plans to phase out compulsory cessions

GFIA has long called for the removal of regulations that have been in place in Indonesia since 2016 which require Indonesian insurers to cede 100% of almost all reinsurance lines to its five state-owned and one private domestic reinsurers, effectively closing the Indonesian market to non-Indonesian reinsurers. As well as dangerously concentrating risks geographically, this limits the capacity of Indonesia's primary insurers. Stifling competition also results in higher reinsurance costs and deprives Indonesia of the expertise of multinational reinsurers. Furthermore, such market-access barriers contravene Indonesia's World Trade Organization commitments.

GFIA was therefore pleased to learn that Indonesia's Ministry of Finance plans to phase out this compulsory reinsurance cession by the end of 2020. It is urging the Ministry to release details of the timeframe for the changes and details of the new regulations.

A new credit for reinsurance law

GFIA has been offering its expertise and support to Vietnam's Insurance Supervisory Authority as it updates its insurance laws and regulations.

In particular, GFIA has been providing support in the creation of a credit for reinsurance law or regulation that would allow a ceding insurer's reinsurance recoverables to receive reserve credit, ie to be recognised on the insurer's statutory financial statements as an asset or a reduction of liabilities.

Such a law would bring Vietnam into line with the world's developed insurance markets, which all allow credit for reinsurance, and would contribute to Vietnam's aim of creating new opportunities for its insurers and strengthening their finances and management. GFIA understands that Vietnam's Finance Ministry hopes to have a credit for reinsurance law drafted by the end of May 2021.

New rules for reinsurance branch licences

GFIA welcomes the Thai Ministry of Finance's preparation of regulations that will allow foreign reinsurers, some of which already have representative offices in the country, to apply for branch licences. A strong cross-border reinsurance market provides many benefits, including the geographic and economic spreading of risk and the stimulation of greater product innovation.

GFIA believes that early finalisation and implementation of the licence regulation are in the best interests of Thailand's economy and its consumers and GFIA has offered its assistance to the Ministry of Finance as it works to complete the regulation.