GLOBAL FEDERATION OF INSURANCE ASSOCIATIONS

To: The Hon. Tony Abbott, MP
Prime Minister
Parliament House
CANBERRA ACT 2600

Date: 10 October 2014

Subject: **GFIA letter to the Australian G20 Presidency**

Dear Prime Minister,

The Global Federation of Insurance Associations (GFIA) through its 38 member associations represents insurers that account for around $4.0 trillion or 87% of total insurance premiums worldwide. The GFIA welcomed the opportunity earlier this year to meet with many of the key people and bodies involved in the Australian G20 presidency including the Parliamentary Secretary to the Treasurer, the Governor of Reserve Bank, the Australian Treasury, and the Department of Foreign Affairs and Trade and the opportunity this provided to discuss the important role the insurance industry can play in Australia's 2014 Presidency of the G20.

In advance of the Brisbane Summit and in recognition of the importance of both the discussions held at the Summit as well as the Action Plan agreed, we would like to express our support for the work of the G20 and the significant role it plays in coordinating international economic decision-making between members. We would also like to take this opportunity to elaborate upon the supportive role the global insurance industry can play in meeting the G20's economic and infrastructure development goals. At the same time it is important to have a regulatory and trade environment that does not hinder the growth and activities of the global insurance industry.

Insurance sector can play an important role in long-term sustainable growth

The GFIA recognises and welcomes the Australian G20 Presidency's focus on long term sustainable growth and the ambitious growth targets – 2% collective GDP growth over the coming five years – agreed at the Finance Ministers' Meeting in February 2014. Long-term sustainable growth needs long-term investment. The insurance industry with long-term illiquid liabilities and $4.6 trillion of premiums to invest annually is well placed to provide this unless unnecessarily constrained by regulatory or other framework conditions.

Currently insurers hold a small proportion of their assets in infrastructure, Small and Medium Enterprises (SMEs) and non-listed corporate; however there is strong interest to increase these investments; subject to a range of conditions being changed or improved. For example, the unnecessarily high capital charges on infrastructure investments and the development of a regular flow of infrastructure projects. An additional allocation of just 1% to infrastructure would increase investment by around $250 billion.

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The G20 should promote policies that leverage private sector participation in infrastructure financing, direct investment in SMEs and private equity, including Private Public Partnerships and reaffirm the mandate given to the Financial Stability Board (FSB) under the Russian Presidency to 'assess factors affecting long-term investment'. The GFIA welcomes the work the FSB has done in this area so far. However, given the long timeframes involved in regulatory change, it believes it is too early for conclusions to be drawn. Therefore, in many respects the FSB's recently published report noting that it finds "*little tangible evidence or data to suggest that global regulatory reforms have had consequences on the provision of long-term finance"* may well be premature. In addition, if the FSB's work is able to spot potential regulatory concerns appropriately in advance, then the GFIA hopes that tangible evidence of negative consequences should never materialise.

Insurers provide a vital social role in the economy

Insurers promote financial security by indemnifying risks faced by individuals and businesses as well as supporting governments in providing retirement savings and dealing with challenges posed by an ageing population. Insurers put a price on risk, therefore helping to optimise the allocation of resources to more productive uses on a risk-efficient basis. It is vital that regulation supports rather than restricts insurers in providing this important social role.

Regulation must be appropriate

The GFIA was very supportive of the B20 recommendation *"to establish a protocol for international rule-making processes commencing in 2015, which better engages the private sector to ensure rules are fit for purpose and fully take account of their impact on the real economy"*. The GFIA believe that this should not only include cost benefit analyses and impact assessments but also ensure that regulation is carefully tailored to the relevant sector. Insurance companies and banks have very different business models, which results in very different risk exposures. It is important that these stark differences are taken into account when developing new requirements for the sector.

While there has been strong support for the G20 derivatives reform, aimed at improving the transparency and resilience of derivative markets, unfortunately, this is an example where insufficient effort went into ensuring the new requirements function as intended for the insurance industry. As a result insurers will find the use of derivatives for risk mitigation more problematic and expensive. The increasing need for cash also looks likely to have unintended consequences on market liquidity in general and will impact the cost and availability of long-term products, where derivatives are used as an important tool to support good risk management.

The work of the IAIS and FSB on global capital for insurers is progressing at a rapid rate – in the space of five years the insurance sector is moving from having no global capital standard to being subject to three. These capital standards have the potential to have a significant impact on the insurance industry and must therefore be carefully assessed to avoid unintended consequences.

How these new capital standards interact with local and regional capital regimes already in place will be particularly important. The insurance industry has invested significant resources to ensure it meets local standards. In addition, the designs of many of these local capital requirements are based on many years' experience and careful testing. This is not to say improvements cannot and should not be made, however, it is important that all changes are preceded by careful cost benefit analyses and impact assessments.

The GFIA is supportive of governments working collaboratively to strengthen tax systems to combat tax evasion. However, it is vital that any new reporting requirements for the insurance sector are carefully tailored to the insurance business model and focus on areas of high risk. It is also important that the benefits for governments of any new tax compliance initiatives can be justified based on increased government revenue. We are concerned that the ambitious deadlines for the OECD's work on base erosion and profit shifting (BEPS) might not allow for this to be the case.

In addition, G20 regulatory development goals need to be sensitive to existing framework conditions. Adaptations will be required for developing countries and should be allowed for. The pace of development must be consistent with countries' supervisory capacity and level of financial development. The current rate of regulatory change, driven by the G20 agenda and committed to by financial leaders, seems to give little regard to the differing needs of developing markets. Application of the principle of proportionality is key here; financial reform should enable, not inhibit the development of local markets, which in turn should help facilitate sustainable growth for all.

Open markets are an important source of global growth

The GFIA welcomes the FSB's recent progress report to the G20, in which they recognised the link between *"the openness of the global financial system and consequently the strength and sustainability of global growth"*. In particular, we support the FSB's recommendations that "*the G20 should commit to an approach which is characterised by:*

- *Deferring to each other's market regulatory regimes where they achieve equivalent outcomes;*
- *Enhanced co-operation to avoid domestic measures that fragment the global system".*

For (re)insurance markets to function well, they need to be able to pool different sorts of catastrophic and non-catastrophic risk. Reinsurers of large events rely on the principle of diversification in underwriting the risk they assume. Therefore, open markets are vital to enable (re)insurance markets to operate efficiently to diversify risk globally and to promote continued growth and recovery of global and national economies.

Against this backdrop the GFIA are especially disappointed that certain jurisdictions, including a small number of G20 members, have introduced new restrictive measures in their markets. While the GFIA view the role of the World Trade Organization (WTO) and its rules-based system of commitments as the best long-term path against implementation of protectionist measures, the GFIA urges the G20 to remain committed to setting a strong example by not imposing new trade restrictive measures. The issues of particular concern to the insurance industry are:

- limitations on the conduct of cross border reinsurance;

- restrictions on cross border data flows; and
- reversal of private account pensions.

Conclusion

The work of global bodies is not subject to the same parliamentary or ministerial scrutiny as national or regional reform initiatives. Nevertheless the outcomes of many of the global reform initiatives currently underway could have real impact on the insurance business model and the sector’s important social and economic role. The GFIA, therefore, look to the Australian G20 presidency to use its leadership to ensure appropriate political scrutiny takes place before any new standard is agreed.

The GFIA hope that you will give this letter your due consideration and our comments are received in the constructive spirit in which they are offered. We would like to wish you and your colleagues every success at the Brisbane G20 Summit. The global insurance industry stands ready to support your objectives and contribute to your growth objectives in the G20.

Yours sincerely,

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About the GFIA

Through its 38 member associations, the Global Federation of Insurance Associations (GFIA) represents the interests of insurers and reinsurers in 56 countries. These companies account for around 87% of total insurance premiums worldwide. The GFIA is incorporated in Switzerland and its secretariat is based in Brussels.