



Global
Federation
of Insurance
Associations
Annual Report
2016–2017



Annual Report 2016–2017



The Global Federation of Insurance Associations (GFIA), established in October 2012, represents through its 40 member associations the interests of insurers and reinsurers in 61 countries. These companies account for 87% of total insurance premiums worldwide, amounting to more than \$4 trillion. GFIA is incorporated in Switzerland and its secretariat is based in Brussels.

Glossary

EC	European Commission	IAIS	International Association of Insurance Supervisors
EU	European Union	IMF	International Monetary Fund
FSB	Financial Stability Board	OECD	Organisation for Economic Co-operation & Development
G7	Group of Seven industrialised nations	UN	United Nations
G20	Group of Twenty major economies	WTO	World Trade Organization
GAAP	generally accepted accounting principles		
GDP	gross domestic product		

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GFIA president
Governor Dirk Kempthorne
President & CEO
American Council of Life Insurers

Foreword

GFIA can rightfully be proud of all that it has accomplished in its short, five-year existence. We reach consensus, shape industry positions and share best practices on insurance issues. We do so transparently and efficiently. We have produced nearly 120 issue papers. Our views are valued by all the major international bodies, including the IAIS, the FSB and the OECD. Every year, we keep G20 leaders informed on insurance issues. For example, statements by the G20 previously asserted that banks are significant sources of infrastructure capital. As the G20 learned more about our industry, it updated the statements to reference not only banks, but insurance companies too.

GFIA affirms the best of humanity. Our diverse organization serves the needs of individuals from every continent, 61 countries and 40 insurance trade associations. We speak countless languages. Yet we come together so that we may protect and promote an industry that does good work in our world — offering people around the globe the opportunity for financial security, peace of mind and dignity in life.

I am invigorated by a new generation of leaders rising up in our community, which we can see in incoming IAIS Secretary General Jonathan Dixon, who is the first IAIS staff leader drawn from an emerging market, and Victoria Saporta, who is a dynamic, progressive IAIS Chair. I had the pleasure of meeting Jonathan again in Old Windsor, United Kingdom this June, where he reiterated his interest in engaging with GFIA in a meaningful way. It's clear — GFIA's reputation is growing.

I am encouraged by Germany's leadership of the 2017 G20 and the courtesy and support that Jörg Freiherr Frank von Fürstenwerth, Chairman of the German Insurance Association (GDV), provided to GFIA. The German G20 financial services team included several former insurance regulators (Dr Thomas Steffen and Felix Hufeld) who understand insurance and advocate its appreciation among finance ministers and central bank governors.

I appreciate the teams who have come together to start GFIA working groups on critical issues like cyber risks and disruptive technology. All of GFIA's efforts have the tireless support of our secretariat, led by GFIA Secretary General Michaela Koller of Insurance Europe and her impressive team. We also appreciate the diligent work of the GFIA Treasurer, Toyonari Sasaki of the Life Insurance Association of Japan, as steward of our funds.

I am proud that we are participating in debates happening across the industry. In the past year, we have provided input to the IAIS on its development of a global risk-based capital standard. We have commented on IAIS Insurance Core Principles and ComFrame revisions, two IAIS application papers and papers from the OECD and FSB.

In 2015, when Turkey held the Presidency of the G20, the Turkish government sponsored a forum held by GFIA and the Insurance Association of Turkey, headed by Mehmet Akif Eroğlu, in Istanbul. Their stage banner read "Insurance and the G20 Goals". That was an important milestone, and this year we have continued to see our relationship with the G20 grow. Through efforts such as Bachir Baddou's from the Moroccan Federation, GFIA is working to increase the connection of the African and

Debating “2030 and beyond” at Insurance Europe’s 9th International Conference, Zurich, Switzerland, June 2017: (L to R) Maarten Edixhoven, Aegon Nederland; Eric Lombard; Generali France; Governor Dirk Kempthorne, GFIA; and moderator Karel Van Hulle.



Middle Eastern industry to share ideas and experience. When the G20 announced the “Compact with Africa”, GFIA stood ready to engage.

Through outreach, GFIA continues to grow. We should note the active member recruitment by Rob Whelan of the Insurance Council of Australia, including engaging insurance associations in ASEAN. We are growing our work with the International Labour Organization on access to insurance, thanks in large part to efforts by our Vice-President, Recaredo Arias of the Association of Mexican Insurance Companies, on financial inclusion.

You will read more stories of success throughout this Annual Report. As you do, hold this thought in your mind: our unity is more important now than ever. Around the world, policymakers are modernizing tax systems, developing risk-capital standards and negotiating international trade agreements. These are powerful forces. The good news is that policymakers around the world respect GFIA’s proactive agenda on these issues. Equally importantly, GFIA seeks to be responsive to new proposals and ideas.

In our five years, GFIA has laid a strong foundation of partnership and excellence. When we work together, we fulfill our mission of helping people reach their full potential for financial security. We thank our dedicated members, who contribute their talents to our organization time and again. We are able to represent our interests around the globe because of them.

As you read GFIA’s accomplishments in this Annual Report, please know that GFIA’s best days are ahead. May we continue our combined efforts for people throughout the world so that they can have peace of mind and dignity their entire lives.

Governor Dirk Kempthorne

President



Victoria Saporta
Chair, executive committee
International Association of Insurance Supervisors

Standard-bearer

Looking ahead to ICS 2.0, industry input is vital for the delivery of a global, convergent capital standard

In July 2017, the IAIS published its risk-based global insurance capital standard (ICS) Version 1.0 for extended field-testing. This represents a significant step towards the development of ICS Version 2.0, which is due for completion in late 2019. With the ICS Version 1.0 for extended field-testing, the IAIS has:

- narrowed the options in key components of the ICS;
- extended participation in the field-testing exercise to additional internationally active insurance groups (IAIGs) and interested volunteer groups, with around 50 of the largest insurance groups in the world now involved in the extended field-testing process (most of these insurance groups are GFIA members); and
- created a platform for achieving additional progress towards convergence in Version 2.0 by collecting more extensive data to inform a future direction, without limiting IAIS discretion to current options.

Listening to the industry

The IAIS is now looking ahead to developing ICS Version 2.0. As we do, industry participation will remain vital. GFIA can take a key role in this next iteration of the ICS. When the industry comes to us with suggestions for solving problems, the IAIS takes that very seriously. Let me set out examples:

- In 2015, the US volunteer groups participating in field-testing proposed using the US approach to determine the amount of capital that should be held for commercial mortgage risks. The IAIS tested that approach in 2016 field-testing. It incorporated the approach into ICS Version 1.0 after making some adjustments due to lessons learned from the field-testing.
- Morbidity and disability risk — a significant issue for health insurance products — has proved difficult to calibrate globally. However, with the assistance of volunteer groups, the IAIS was able to redesign its approach to this risk for ICS Version 1.0.


- When a number of volunteer groups proposed an “own assets with guardrails” approach to determining an adjustment to the base yield curve for discounting insurance liabilities for market-adjusted valuation, the IAIS agreed to test this as part of ICS Version 1.0.

Challenging but necessary

There is no question that arriving at an ICS that achieves greater convergence than that of the different group capital standards adopted in different jurisdictions and regions is a challenging task. But it is also a necessary one, if policyholders of international groups are to remain protected while enjoying the better and more inclusive offering that international diversification, with its capital efficiencies, can bring.

Group boards and risk managers, supervisors, investors and rating agencies stand to benefit from the establishment of a common language for measuring and assessing the capital adequacy of international companies; the ICS is a key means to provide this.

Industry input on dealing with specific risk issues, as illustrated above, has been extremely helpful — indeed crucial — so far. Now is the time for greater engagement from the industry on achieving greater convergence. Coordinated input through organisations like GFIA is one of the most effective ways. GFIA’s members understand the challenges of reconciling different systems in terms of valuation, measuring risk and determining capital resources available.

Continued and coordinated GFIA input has the potential to bring together the many different perspectives to achieve a more converged global standard for determining the minimum amount of capital an IAIG should hold at the consolidated group level. 



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

Round table talks

They might seem to be going round in circles, but capital standard discussions are in fact progressing

For the dedicated followers of the IAIS, international capital discussions can appear somewhat circular at times. Taking a step back, however, I am struck by how things have moved on.

Most obviously, there is now global insurance capital standard (ICS) 1.0 for extended field-testing, but there has also been significant activity on the Insurance Core Principles (ICPs), as well as the prospect of an activities-based approach to systemic risk. On the other hand, acronyms such as BCR (basic capital requirements) and SRIPF (systemic risk from insurance product features) now seldom feature in our discussions.

All this makes GFIA dialogue — both amongst its member trade associations and with the IAIS — vital in ensuring that the collective industry voice is heard.

While 2017 started with speculation that there may be a delay to ICS 1.0 and/or 2.0, the IAIS has been able to announce a great triumph with the timely delivery of ICS 1.0, albeit now qualified as being for “extended field-testing”.

Ambitious aims

This version of the ICS, rather than narrowing down the potential set of options on the path towards the IAIS’s ultimate goal, instead increases the number of approaches tested in crucial areas such as the discounting of liabilities. This is indicative of the mammoth task undertaken by the IAIS, and may be a sensible acknowledgement of the number of technical and conceptual issues that are still unresolved.

Indeed, GFIA has long called for the IAIS to prioritise developing a fit-for-purpose framework above attempting to meet truncated deadlines, so I hope this is a step in the right

direction of striving for a standard that takes into account what is reasonable in local jurisdictions.

This is not a simple task, and the number of elements on which views continue to diverge highlights more than ever the ambitiousness of the IAIS’s deadline to have an implementation-ready version of the ICS by the end of 2019. If maintained, this timeline allows for only one more consultation on the ICS before jurisdictions are instructed to start implementing the entirety of ComFrame, ICS included. It does not feel as though we are this close to the final product.

“GFIA has long called for the IAIS to prioritise developing a fit-for-purpose framework above attempting to meet truncated deadlines.”

With its global membership, GFIA has unique insight into the challenges of arriving at a global consensus, and its individual views are understandably shaped by the developments in domestic jurisdictions and markets.

Better step by step

It is this realisation that drives GFIA to continue calling for a programme of iterative, incremental progress and to support the recognition of local regimes that are consistent with the ICS as its suitable implementation. This is a more sensible starting point towards ongoing convergence than attempting to push through a single way of calculating capital worldwide when the political will to do so remains untested and the impact on customers is not even considered.

In the absence of formal consultations on the ICS this year, the GFIA capital working group has focused on facilitating ongoing

dialogue amongst its members, while taking every opportunity to re-emphasise its views to the IAIS.

Good to talk

In particular, the IAIS Executive Dialogue, as part of the Global Seminar and now in its third year, is a useful — if rare — opportunity to speak to the decision-makers within the IAIS directly. GFIA again submitted insurers' combined set of questions, this time jointly with the International Institute of Finance, and I was pleased to see a number of those queries debated by the two executive committee panels.

While compiling that combined submission, I referred to the output from a similar exercise from 2016. It was telling that most of the areas that we signposted as needing greater clarity then remained unanswered now — to the point that a colleague suggested saving ourselves the trouble and submitting the perfectly relevant pre-existing set of questions. From the interaction of the ICS with local capital regimes to the consequences of breaching the minimum standard, the fundamental questions are still put to one side. Perhaps some discussions are circular after all ...

Doing the rounds

Finally, as always for international-capital watchers, each year brings discovery of new places around the world, this time ranging from Asunción in Paraguay to La Jolla, USA.

In June, it was a particular pleasure

“From the ICS’s interaction with local capital regimes to the consequences of breaching the minimum standard, the fundamental questions are still put to one side.”

for my association, the ABI, to welcome everyone to London. Many attended the ABI’s “International perspectives on international regulation” event, at which the industry had the opportunity to exchange views with the IAIS (see photo). This was a helpful and open continuation of the dialogue on the ICS.

With the arrival of ICS 1.0 for extended field-testing, these conversations are certain to come around again soon. 🏹



Discussing international rules at the ABI, June 2017: (L to R) Romain Paserot, IAIS; George Brady, International Institute of Finance; Huw Evans, ABI; Cristina Mihai, Insurance Europe; and Dave Sandberg, International Actuarial Association.



Chair, GFIA ComFrame working group
Stef Zielezienski
American Insurance Association

Theme tuned

As the IAIS takes a new, themed approach to ComFrame, GFIA has been providing feedback

While the insurance industry continues to be broadly supportive of the objective of the IAIS's ComFrame project, it remains sceptical of the IAIS's ambitious timetable and its aim to merge not just quantitative but also detailed qualitative measures into one global framework.

That said, the IAIS has certainly made significant progress over recent months. As GFIA had previously advocated, the IAIS restarted work on what was initially ComFrame's focus, namely enhanced supervisory cooperation and coordination.

More efficiency, at least in structure

The disconnect between ComFrame and the IAIS's Insurance Core Principles (ICPs) had been a major industry concern and GFIA is pleased that the IAIS has found a practical way of addressing it. Back in September 2015, the IAIS adopted a "thematic approach", streamlining the development of supervisory materials by synchronising key milestones as much as possible.

Under this thematic approach, the development of supervisory material is organised by theme across three tiers of standard-setting (see chart on p10). In practice, adopting the thematic

approach means that ComFrame-specific material is integrated into ICPs.

Additionally — and crucially — the insurance industry welcomes the IAIS's acknowledgement that, as a result of the thematic approach, the ICPs related to ComFrame may require further adjustments after they have been revised. This will be necessary to ensure consistency with other parts of the supervisory material being developed, notably after the finalisation of the quantitative part of ComFrame and of the work on the activity-based approach to systemic risk.

“Overall, the industry sees the ICPs and related ComFrame material as improvements on the previous versions.”

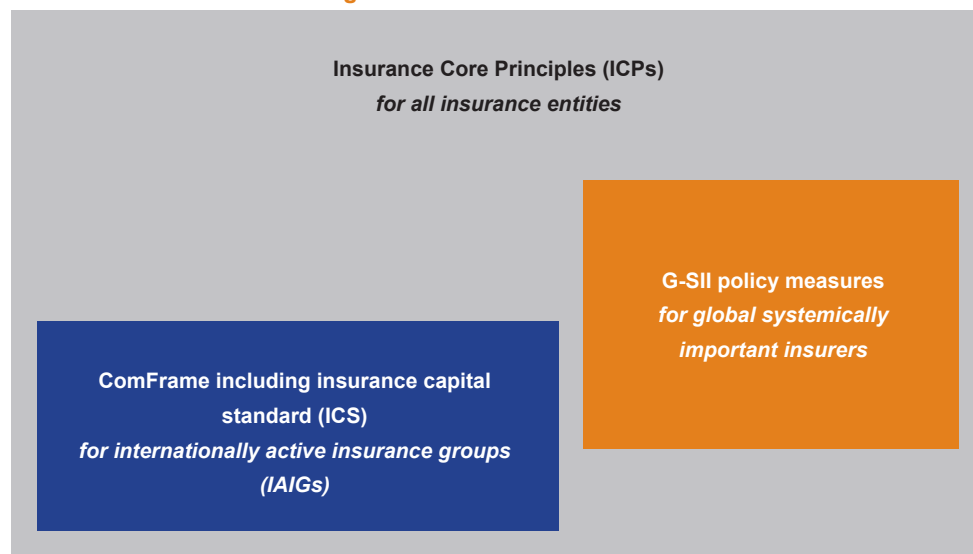
The new thematic approach was first seen in the IAIS's March 2017 consultation pack, which covered a broad range of topics. GFIA submitted detailed comments on all the material (see box on p10). Overall, the industry sees the ICPs and related ComFrame material as improvements on the previous versions.

Nevertheless, GFIA shared concerns about the over-prescriptiveness of the provisions and stressed the importance of maintaining proportionality and risk-based supervision as overarching concepts of the framework, particularly in light of the thematic approach. It stressed that legal and jurisdictional boundaries should be kept in mind when revising the ICPs or ComFrame Standards and Guidance to maintain sufficient flexibility for national supervisory authorities. One important point raised throughout the consulted material (especially on ICP 3 on information-sharing and confidentiality) was that strict confidentiality requirements must be in place in all jurisdictions.

What is ComFrame?

The IAIS has been working on a common framework (ComFrame) for supervising international insurance groups since 2010. Primarily triggered by the financial crisis, ComFrame was initially designed to address weaknesses in the regulation of international groups by helping national supervisors to cooperate and coordinate more effectively.

Three tiers of standard-setting



After the March package, in mid-2017, the IAIS consulted on a revised ICP 13 on reinsurance and other forms of risk transfer. In the context of the new thematic approach, it was interesting to see that this revised ICP does not include any ComFrame-specific provisions. According to the IAIS, all ICPs apply to both individual entities and internationally active groups in the same way (presumably under the overarching principle of proportionality). The efficiency that the new approach aims for is obvious here. Overall, GFIA believes the revisions proposed on ICP 13 are constructive, although it requested some clarifications and improvements to the text.

Care needed with additional material

In addition to the ongoing work on the ICPs and the ComFrame text itself, the IAIS is also constantly developing further supplementary material, such as application papers. In the interest of supervisory convergence, the industry is generally supportive of explanatory guidance, but remains concerned that this additional material may itself trigger a variety of issues, from shorter consultation periods, which do not provide the industry with sufficient opportunity to review and contribute, to scattered sources for applicable standards, making implementation and compliance more difficult.

The IAIS's ambitious work plan continues; GFIA commented on revised ICPs 1 and 2 on supervisors, 18 on intermediaries and 19 on conduct of business in August 2017, and on ICP 24 on macroprudential surveillance and insurance supervision in October 2017. Revised ICPs 15 on investment and 16 on enterprise risk management for solvency purposes will be published for consultation shortly. There is also the parallel work on the quantitative elements of ComFrame, with ICS Version 1.0 released in July 2017 for extended field-testing (see p6 and p7) and the work to develop an activities-based approach to systemic risk assessment. ➤

GFIA's ICP consultation feedback, March 2017

Governance (*ICP 5 Suitability of persons; ICP 7 Corporate governance; ICP 8 Risk management & internal controls*)

GFIA stressed the importance of delegating. For example, the responsibility for certain control functions and risk management processes can be delegated to local business units and/or legal entities without compromising the overall effectiveness of the group function. This was not reflected appropriately in the revised ComFrame material related to ICPs 5, 7 and 8.

Supervisor and supervisory measures (*ICP 9 Supervisory review & reporting; ICP 10 Preventive & corrective measures*)

The use of monitoring tools must not lead to earlier intervention or requests by supervisors that go beyond their legal mandates. Intervention should only be in cases where an insurer's own initiative has failed. The definition of preventive versus corrective measures and the link with early intervention should be clear. It is inappropriate for the supervisor to exercise preventive/early intervention powers before the insurer has breached the Prescribed Capital Requirement (PCR).

Supervisory cooperation and coordination (*ICP 3 Information sharing & confidentiality requirements; ICP 25 Supervisory cooperation & coordination*)

The industry called for the provisions to give much stronger protection of confidential information.

Exit from the market and resolution (*ICP 12, see p11*)



Chair, GFIA systemic risk working group
Nicolas Jeanmart
Insurance Europe

Firm resolve from IAIS and FSB

GFIA provides input as the two institutions press ahead on resolution issues

The work of the IAIS and the FSB on systemic risk in insurance — under the G20 mandate of ensuring that no financial institution is “too big to fail” — has continued in 2016 and 2017, with a focus on resolution.

In March 2017, the IAIS launched a consultation on its revised Insurance Core Principle (ICP) 12 and ComFrame M3E3, both dealing with the winding-up and exit from the market of insurers. This followed a pre-consultation in the second half of 2016, which provided a good opportunity for the industry to give initial comments, most of which were — encouragingly — reflected in the March version, on which GFIA commented in June.

Welcome and less welcome elements

GFIA welcomed the distinction made in the guidance between “resolution authority” and “supervisor”, reflecting the fact that resolution actions may be split between different bodies. It also supported the recognition given in the revised ICP to groups and cross-border operations. This is an improvement on the current ICP, which only applies to individual legal entities.

Another positive aspect was that the revised ICP 12 acknowledged the usefulness of a resolution scheme with multiple points of entry for internationally active insurance groups organised through subsidiaries. GFIA also agreed that a range of powers should be available to authorities, so that any powers used to resolve an insurer are appropriate and proportionate. The explicit reference made to proportionality is very encouraging. With respect to stay and suspension powers, GFIA pointed out that these can be a helpful tool to preserve value and prevent mass lapses and that making use of these powers in a timely manner can preclude the application of the more drastic measures in the resolution toolkit.

At the same time, the IAIS guidance included elements that

GFIA sees less favourably. In particular, the IAIS introduces a principle that any public funds used for the resolution of an insurer should eventually be recouped from the industry. GFIA believes that it should be left to each jurisdiction to decide on the source of any public funding that it provides.

New year’s resolution

As the FSB reported to the G20 in July 2017, the priority for 2017/2018 will be the development of robust resolution plans for all global systemically important insurers (G-SIIs) and this will involve joint FSB/IAIS work on the execution of resolution powers (eg powers to conduct portfolio transfer, run-off, restructuring and bail-in) and the use of resolution tools (eg bridge institutions, management vehicles).

Beyond resolution, the IAIS is expected to again focus on what constitutes systemic risk in insurance. Specifically, a work plan for developing activity-based systemic risk assessment was announced by the IAIS in February 2017. It will involve the identification of potentially systemically risky activities in the insurance sector, the development of measures to address them (including a new version of the insurance capital standard, or ICS), a revised systemic risk assessment methodology and higher loss absorbency (HLA) requirements based on the new ICS. The work is scheduled to take three years, starting with a pre-consultation in late 2017.

Systemic risk in insurance can only originate from a very limited number of activities, and then only if undertaken on a large scale in the wrong conditions. Therefore, systemic risk regulation should target these specific activities irrespective of which type of financial institution undertakes them. GFIA sees the IAIS work plan as a good opportunity to better align systemic risk assessment methodology with the realities of the insurance business model. ➤



Tim Adams
President & CEO
Institute of International Finance (IIF)

Staying true to form

Any analysis of systemic risk must capture the true nature of the insurance business and current practices

The application of systemic risk analysis in the insurance sector continues on an uneven footing. The FSB, with recommendations from the IAIS, maintains a process for designating global systemically important insurers (G-SIIs). On the national level, in the US the Financial Stability Oversight Council (FSOC) carries out its aim to reduce systemic risk and promote market discipline, which includes the designation of systemically important non-banks. These are currently reduced to a field of two insurance groups.

“Convincing evidence of [systemic] risk, taking full account of the insurance business model, has not been shown.”

However, the already uncertain foundations for these post-crisis reforms have been further destabilised as focus returns to the fundamental question of how a framework specific to systemic risk should apply to this sector. Convincing evidence of this risk, taking full account of the insurance business model, has not been shown.

Based on banking

At the global level, the FSB/IAIS G-SII designation process has been relatively consistent, yet it is based at its core on a banking methodology. Given the high degree of secrecy at both the FSB and the IAIS on why the designations are made, the process fails to meet core objectives in not clearly explaining to designated insurers how they get on, much less how they get off, the list. Neither does it explain the elements of the process that distinguish their profile as “systemic” relative to others to which the IAIS methodology is applied.

Although the IAIS modified the process in 2016 to improve

transparency by adding more regular discussions with candidate firms, the intended benefits have not yet materialised.

Taskforce scrutiny

Of greater interest in the discussion of how the insurance sector may relate to systemic risk is the decision by the IAIS to launch a Systemic Risk Assessment Task Force to perform a critical review of the G-SII methodology, and to develop an activities-based approach to the analysis of systemic risk in insurance.

A notable foundation for this shift by the IAIS was the IMF’s Global Financial Stability Report, although many stakeholders and academics point to a failure in that analysis to capture the true nature of the insurance business and the central role played by conservative enterprise risk management practices and long-term investment strategies to match obligations that play out over the long-term.

There is little evidence that the mechanism on which the IMF Report designated the sector as systemic (namely, exposure to common risks, which the IMF fears could lead to joint asset fire sales by insurers when risks suddenly materialise) is present in practice. In fact, during the 2008–09 crisis, insurers were net buyers in financial markets.

Activities-based approach

The IAIS taskforce is expected to produce an initial, high-level analysis of what an activities-based approach looks like for insurance. Starting logically with “low-hanging fruit”, the IAIS will begin this work by analysing its work to date on macroprudential surveillance and developing an inventory of existing tools and practices that are already used by or available to supervisors.

A similar exercise is underway in a US National Association of Insurance Commissioners (NAIC) project involving the state regulators. In both cases, subsequent work might take those existing tools and further develop regulators' perspectives on how any of the activities of an insurer might transmit or increase risk to the broader financial sector and the general economy.

Ideally, these initiatives will also look at the way the sector has evolved — whether or not as a result of the crisis — and give proper consideration to the post-crisis regulatory changes that make the analysis in 2017 quite different from 10 years ago. Key among these are specific measures to regulate derivatives more closely and to require supervisory colleges and the widespread use of ORSAs (own risk and solvency assessments). It includes as well the heightened dialogue among regulators and with regulated entities in supervisory colleges, and emerging attention to “macroprudential” perspectives and explicit consideration of the interplay of the sector with the broader economic landscape.

Framework must be insurance-based

To attain a sound, insurance-based framework for assessing systemic risk, in place of the banking-based perspectives, many stakeholders have strongly encouraged policymakers to ensure that:


- The potential for adverse conditions emanating from the insurance sector is in fact viewed as “systemic” only where they result in “significant adverse consequences” to the general economy — a central element in systemic risk analysis — and are not just concerned with the viability of an insurer or the possibility of losses by policyholders or shareholders.
- Any review of a supervisory response to concerns with contagion to the wider economy takes full account of the

high degree of existing regulation and supervision in the insurance sector, and turns to these “microprudential” tools available to primary regulators before considering more.

- The approach is specific to the insurance model, not derived from banking analysis.
- Any analysis of how insurer activities might impact wider financial conditions duly recognises the stabilising role of the sector as a long-term investor, and takes account of the dimensions of the insurance business, which is considered as a potential source of large-scale financial instability.

“The approach [should be] specific to the insurance model, not derived from banking analysis.”

Nearly 10 years after the financial crisis, and with approaches rooted in banking being applied today to insurers, industry stakeholders must remain engaged in this ongoing process to inform and work with policymakers. Our collective goal is to ensure effective and efficient oversight of this business, which is critical to spreading risk worldwide, protecting policyholders, stabilising the financial sector and contributing to growth.

We must oppose the creation of unnecessary tools or measures that mistakenly tie the insurance business to the transmission of systemic risk into the general economy, especially where this fails to recognise the risk management tools at the core of the business model, the low leverage and liquidity concerns, the long-term horizons — even for insurance failures — and the already extensive tools and supervisory interactions of this stable, conservative, highly regulated industry. 



Chair, GFIA financial inclusion working group
Recaredo Arias
Association of Mexican Insurance Companies

All inclusive

The problem of financial exclusion exists not just in emerging markets but also in developed ones

Making insurance accessible and inclusive is vital for sustainable development and lasting prosperity. Access to financial services, including insurance products, can help individuals and enterprises generate income, build assets, manage cashflows and overcome setbacks. And inclusive insurance is not only about lack of access in emerging markets, but lack of access in developed markets too. Inclusive insurance markets are characterised by the IAIS as being:

- affordable
- sustainable
- convenient
- responsible
- delivered by licensed and supervised insurers and intermediaries

Understanding the challenges

This year, the GFIA financial inclusion working group, together with the International Labour Organization's Impact Insurance Facility, surveyed GFIA member associations about the challenges in developing inclusive insurance markets.

The 28 associations from four continents that responded to the survey identified the three greatest challenges for

What are inclusive insurance and microinsurance?

Inclusive insurance refers to insurance products and services aimed at excluded or underserved insurance markets.

Within that, **microinsurance** refers to products tailored to the needs of low-income groups.

insurers in developing inclusive insurance. The first was on the supply side: achieving product affordability and availability while ensuring sustainability and investing in distribution channels. The second was on the demand side: a lack of financial education or understanding of insurance. And the third was regulatory requirements: both in terms of costs and of excessive documentation requirements that could put off potential customers. The regulatory adaptation most frequently identified by associations as needed to enable inclusive insurance to be offered was minimum simplified documentation and disclosure requirements (see chart on p15).

Technology, of course, has enormous potential to help in tackling all the challenges identified, if used in the right way. Rapid digitalisation is transforming the insurance sector and companies' relationships and communications with customers. It is essential to harness technological benefits for the promotion of inclusive insurance but at the same time to address the risks; by ensuring all groups in society develop digital skills and by ensuring that regulatory frameworks are suitable for the new and evolving environment.

Exchanging best practice

GFIA has held two workshops in the past year to promote the sharing of ideas and best practices between its members.

The first — in November 2016, hosted with the Inter-American Federation of Insurance Companies (FIDES) in Asunción, Paraguay — brought home the unique role insurance associations can play in financial inclusion. Not only are associations active in financial education and consumer protection, but they are also perfectly placed to serve as a bridge between the industry, regulators and others. The importance of building consumers' trust in the insurance industry and ensuring customers have positive first

Miguel Solana of the International Labour Organization addressing GFIA's second financial inclusion workshop, Zurich, Switzerland, May 2017.



experiences when starting to use insurance were also made clear.

In May 2017, GFIA continued where it had left off in Paraguay, with a second financial inclusion workshop in Zurich, Switzerland. As in Paraguay, GFIA welcomed Miguel Solana of the International Labour Organization, who focused on the strong link between insurance and the UN's Sustainable Development Goals (see p16). The Insurance Association of Turkey shared its experience of the progress made by the Turkish Natural Catastrophe Insurance Pool, which has raised catastrophe insurance penetration rates from 4% to 45% since 2000. A presentation from Morocco showed the way strong growth in microinsurance by government-backed Al-Amana Microfinance has been achieved.

Future focus

Looking ahead, financial inclusion and financial literacy are firmly on the international agenda. Insurance plays a key role in the global economic agenda, expected to step up to provide the risk management solutions needed by different population segments around the world.

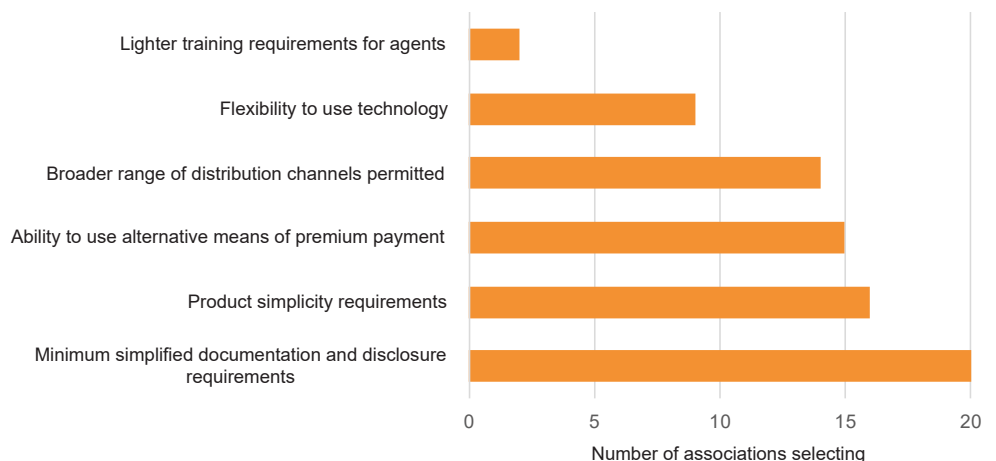
The July 2017 Summit of the German G20 presidency in Hamburg emphasised the need to promote better access to financing, technology and training. And inclusion is anticipated to be a central topic for the G20 when Argentina takes over the presidency in 2018.

While Germany's G20 presidency has focused primarily on businesses, the other side of the coin is addressing the needs of individuals.

Another global body, the OECD, maintains a set of Principles and Good Practices for Financial Education and Awareness. Its work centres on the belief that financial education should begin as early as possible and that it should last a lifetime.

A key part of ensuring that education remains relevant is keeping different techniques up to date, and the OECD runs a Programme for International Student Assessment which gauges the development of knowledge and skills. Meanwhile, here at GFIA, a further member survey has been launched, focusing specifically on educational tools. The objective is to measure how approaches to financial education are being affected by digitalisation. As a follow-up, another survey is analysing the impact and diffusion of financial education strategies. ➤

Regulatory adaptations needed to offer inclusive insurance





Miguel Solana
Senior technical officer, Impact Insurance Facility
International Labour Organization

Goal difference

Insurance can help the global development agenda achieve a greater impact

There is increasing agreement on the role that insurance can play in achieving global development objectives. At a Microinsurance Network meeting in Luxembourg in June 2017, a diverse group of stakeholders agreed on how insurance has a critical role to play in helping populations around the world manage their risks.

As a financial shock-absorber and an enabler of economic activity, insurance is most effective when complemented by risk-reducing strategies and measures that help prevent losses in order to make insurance solutions more accessible, affordable and sustainable.

“Insurance is most effective when complemented by risk-reducing strategies and measures that help prevent losses.”

The GIZ (Deutsche Gesellschaft für Internationale Zusammenarbeit) carried out a mapping exercise to understand the crucial role that insurance plays in achieving some of the United Nations’ proposed Sustainable Development Goal (SDG) targets. It identified a role for insurance in six of the 17 goals: no poverty; zero hunger; good health and well-being; gender equality; decent work and economic growth; and climate action. In each of these areas, insurance can provide direct solutions to protect people and assets from risks that endanger the accomplishment of the goals.



Insurance provides an economic protection mechanism for all, especially for the most vulnerable populations, for whom single risk events can hinder their way out of poverty.



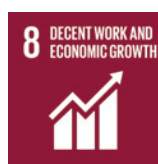
Insurance opens up financing mechanisms for farmers around the world, and can further encourage the investments needed to improve the productivity of agricultural practices.



Insurance can play a complementary role to social security floors in providing cover for the health expenses of households.



Insurance solutions can target the specific risks that women face in order to reduce the existing gender gap.



Insurance can help to protect productive assets that are key to guaranteeing investments that yield better incomes and work conditions.



Insurance can help to manage the financial impact of extreme weather events, while complementing other adaptation strategies in order to improve resilience.

Fulfilling expectations of the positive impact of insurance on people’s lives depends on the capacity of the industry to design and deliver products that respond to people’s needs. At the ILO’s Impact Insurance Facility, we believe that the first experience with insurance is crucial. It is an opportunity

to create trust and show the difference that insurance can make in everybody’s lives. Therefore, over recent years we have been working on the idea of “responsible insurance” as a way to improve the experience of insurance clients.

“The first experience with insurance is crucial. It is an opportunity to create trust and show the difference that insurance can make in everybody’s lives”

We define responsible insurance as the delivery of

appropriate insurance products in a transparent, accessible, fair, responsive and respectful way to informed consumers who are capable of using those products effectively. We see this as essential to achieving the expected impact of insurance. Integrating responsible insurance into the insurance market development agenda will help the industry to create the necessary trust and to expand to new market segments that can lead to significant future growth. The SDGs present a unique opportunity for the insurance industry to support the global development agenda, while at the same time exploring new markets and growth opportunities. ➤

What are the Sustainable Development Goals?

The Sustainable Development Goals (SDGs) are the core of the 2030 Agenda for Sustainable Development, spearheaded by the UN and its 193 member states. The 17 goals are the follow-up to the Millennium Development Goals, which were the overarching development framework from 2000 to 2015.





Dr Maryam Golnaraghi
Director, extreme events and climate risk
The Geneva Association

Casting the net

It takes a complex network of players to prevent and reduce natural catastrophe losses

The 2017 hurricane season will be remembered for giving rise, in fast succession, to three storms of enormous destructive power — Harvey, Irma and José — with their massive impact on lives, livelihoods and economies. There is a clear need for the insurance industry to enhance its partnerships with governments and other stakeholders to help societies build resilience to the increasing risks of natural catastrophes.

It is also crucial to align risk management strategies to the development level of specific nations. The recovery of economic activity to “normal levels” after a nat cat event is a process that can last around two years in developed countries and up to eight in less developed ones. However, the most vulnerable and least developed nations may never be able to recover.

According to the Bank for International Settlements’ working paper, “Unmitigated disasters? New evidence on the macroeconomic cost of natural catastrophes” (2012), the cumulative effect of major nat cats on GDP is huge and long lasting “if [the events are] uninsured”, but the same events will have an inconsequential effect on GDP level “if fully insured”.

Extreme events that are sufficiently insured are inconsequential in terms of the economic output foregone. Small and emerging countries suffer more when uninsured, but also recover faster when insured. It is mostly the uninsured part of catastrophe-related losses that drives the subsequent macroeconomic cost.

Denis Kessler, co-chair of The Geneva Association’s extreme events and climate risk working group and chairman and CEO of French reinsurer Scor, said at the Geneva Association’s General Assembly in June 2017 that nat cat events claimed over 3.2 million lives between 1960 and 2012, and caused US\$ 3 800bn in total direct losses, giving rise to US\$ 905bn in insurance payouts (in constant 2011 US dollars). Over this

period, nearly 60% of major events were entirely uninsured.

While insurance payouts are allocated to the repair or replacement of facilities, they are also likely to have second-round effects, indicated Kessler in his address, as funded reconstruction activity spills over to other sectors through externalities and strategic complementarity. In summary, insurance and alternative risk transfers may result in a welfare gain of several percentage points of annual consumption. This suggests that insurance is more welfare-enhancing than foreign aid.

“Insurance and alternative risk transfers may result in a welfare gain of several percentage points of annual consumption. This suggests that insurance is more welfare-enhancing than foreign aid.”

A range of risk factors

A recent paper of The Geneva Association and the Insurance Development Forum, “Guidelines for Risk Assessment to Support Sovereign Risk Financing and Risk Transfer” (2017)¹, states that a region’s economic vulnerability to extreme events depends on a range of factors linked to:

- increasing incidence and severity of hazards such as extreme weather events due to climate change; and,
- increasing exposure and vulnerabilities, such as higher concentrations of people and property in cities in exposed coastal regions, poor development planning, complex inter-dependent supply chains and trade patterns, cascading failure effects of critical infrastructure, and inter-linkages of natural and man-made catastrophes.

In absolute terms, the financial costs of disasters are highest

¹ <http://bit.ly/GA-IDF-GuidelinesRiskAssessment>

GFIA's extreme events working group

Under the leadership of Tracey Laws of the Reinsurance Association of America, GFIA's extreme events working group monitors and responds to regulatory issues related to natural disaster mitigation and prevention. It also serves as a forum in which insurance associations from around the world can share solutions that their markets have found for handling natural catastrophes.

for high-income countries. However, in relative terms, the financial effects of extreme events are much more devastating for middle- and low-income countries, when analysed in relation to their average GDP. Recurring disasters present a significant challenge to socio-economic development and poverty reduction efforts in those countries. As is too often the case, the poorest communities are the most vulnerable.

Evolving perception

According to The Geneva Association paper "An Integrated Approach to Managing Extreme Events and Climate Risks" (2016)², the three concurrent UN-led international policy dialogues on disaster risk reduction, climate change, and sustainable development have, over the past few decades, had a profound impact on the way governments perceive, plan and manage these risks.

2015 was a landmark year in bringing clarity and coherence to reshape the global development pathway with the adoption of the UN's Sendai Framework for Disaster Risk Reduction, its 2030 Agenda for Sustainable Development Summit and its COP 21 Paris Agreement.

While each has its respective priorities for action, their common thread is the recognition of the importance of a cohesive and integrated approach to managing the risks of extreme events and climate change across different economic sectors, levels of government and society as a whole. The three framework agreements have explicitly or implicitly recognised the important role of insurance in building economic resilience.

While governments around the world are increasingly recognising the socio-economic benefits of risk-transfer tools such as insurance, the integration of risk management

² <http://bit.ly/IntegratedApproachEECR>

strategies into national development planning and budgeting is slowly coming into focus.

In fact, over the last decade, a highly complex network of stakeholders, including the UN, socio-economic groups, the international development community, non-governmental organisations (NGOs), academia and the insurance industry have all been working together to promote the implementation of a comprehensive approach to managing risks.

The Geneva Association paper "The Stakeholder Landscape in Extreme Events and Climate Risk Management" (2017)³ builds on this notion and states that the combined efforts of all stakeholders creates a synergy for more effective risk-management effects.

Economic resilience and risk management

The insurance industry has the potential to increase the economic resilience of societies to extreme events and climate risk, as recognised through initiatives such as the G7 InsuResilience, which aims to make direct or indirect climate risk insurance accessible to 400 million additional people in the most vulnerable developing countries by 2020.

When it comes to managing nat cat risk, the insurance industry's expertise could be highly beneficial to the public sector, particularly the industry's:

- knowledge of risk, risk modelling and risk pricing capabilities
- research in prevention and risk reduction measures
- innovation in risk transfer products and services
- claims management and processing
- sustainable risk transfer programmes through public-private partnerships

³ <http://bit.ly/StakeholderLandscapeEECR>

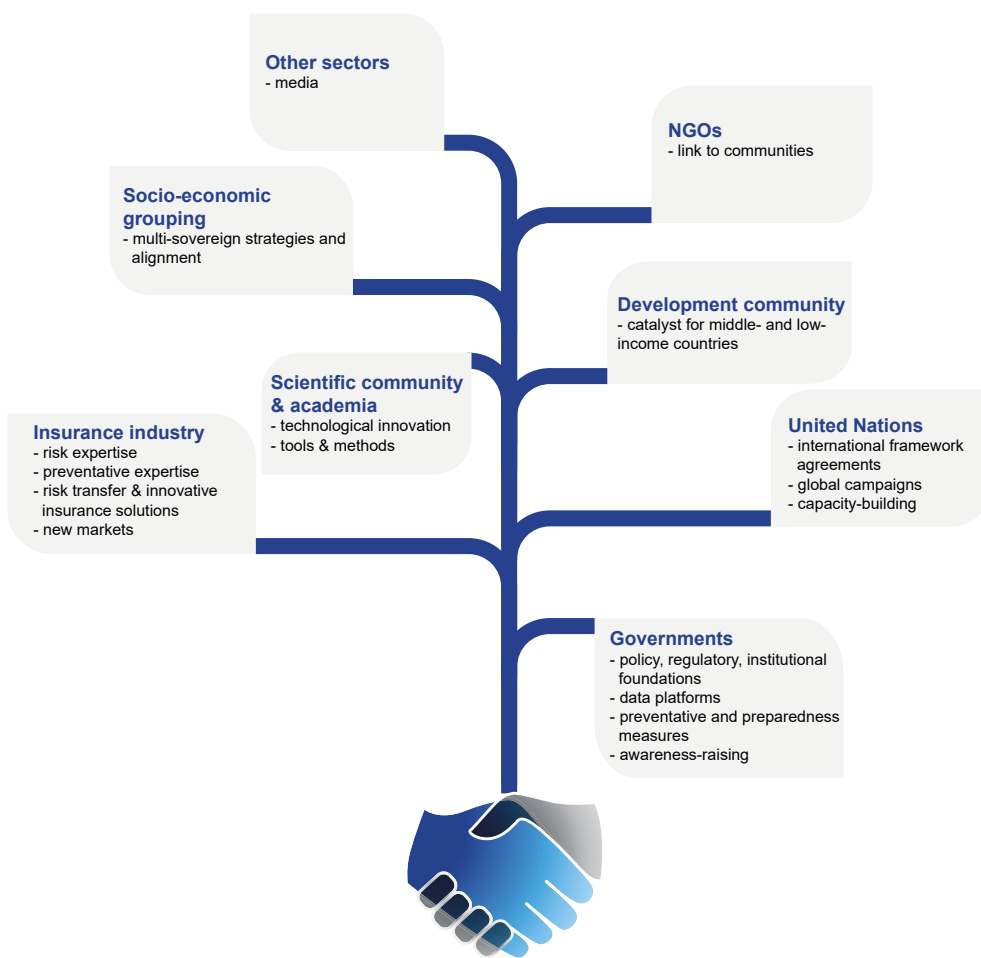
Climate-change challenge

Beyond building risk management capacities in order to reduce the impacts of catastrophic events, the dialogue around the mitigation of the effects of climate change is increasingly focused on the “inevitability” of transitioning to a low-carbon economy and the opportunities that this transition can create.

The perception of climate risk is shifting from a social corporate responsibility and sustainability topic to a core business issue.

As they are risk underwriters and institutional investors, insurance companies can play an important role in both the adaptation and mitigation sides of climate change. However, there are a number of issues that need to be addressed first. These concern not just public policy, legislation and market regulation, but also financial and capital markets, as well as reporting and compliance issues. 🏹

Effective public-private partnerships are at the centre of developing effective and sustainable risk-transfer and insurance programmes





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

Ways to ease the growing pains

GFIA is working for the right conditions for growth in the small but fast-developing cyber market

We are reminded daily that cyber risks continue to persist and evolve in sophistication. Most recently, two separate ransomware attacks displayed hackers' ability to adapt to defensive technologies and cause global consequences. These attacks spotlight lessons to be learned regarding both data security and cyber-security insurance, including how insurance products need to be tailored to these new risks, both for traditional and for stand-alone cyber-risk policies.

Input to OECD

GFIA's cyber risks working group has been able to provide coordinated insurance industry input into an OECD report on cyber-security insurance. Originally intended to be three separate reports, the OECD has combined these into a single, large report to provide:

- an overview of the cyber insurance market, challenges to its growth and available insurance coverage
- observations on the role of cyber insurance in risk measurement, mitigation and prevention
- regulatory and policy recommendations

The final draft report of June 2017 highlighted similar challenges to market growth to those that GFIA had identified in its response to the OECD survey that was the basis for development of the report, namely: the quantifiability of cyber risk due to limited availability of historical data and the changing nature of risks; accumulation risk; lack of awareness among managers of potential cyber losses; and misunderstanding about the insurance coverage available.

Commenting on the final draft report in September 2017, GFIA expressed appreciation for a very thorough and thoughtful summary of the current status of the market, which also presents a balanced view of the role of cyber insurance in overall cyber-resiliency efforts.

GFIA cautioned against putting undue pressure on cyber insurers to become standard-setters and associating premium calculation with specific adherence to standards. There are many factors that go into a premium calculation, such as lack of data and risk accumulation, so it is premature to connect premium discounts with adherence to specific standards.

It also stressed that regulatory intervention in the standardisation of products may impede the development of the market and competition. As with any emerging risk, harmonisation/standardisation is occurring organically as products evolve and become more available. Standardisation at this point in the market's development could curb innovation, resulting in products not well-matched to the needs of the market.

International consistency

As companies continue to take measures to increase their individual resiliency, governments wish to explore their role in enhancing national cyber resiliency, and interest in cyber insurance continues to grow.

GFIA is therefore developing a paper that should be useful in outlining consistent international objectives for regulatory intervention and oversight in the areas of data security and cyber-security insurance. Its policy objectives remain focused on promoting a risk-based and technology-neutral approach to regulation and encouraging organic cyber insurance market growth not stifled by overregulation.

This policy paper has been enhanced by one of the significant benefits of this relatively new working group on a risk that knows no boundaries: a valuable forum for sharing information on the legislative and regulatory activity related to corporate security and cyber insurance in 62 different countries. ➤



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

Understanding challenges, seizing opportunities

GFIA is seeking a balance between regulatory oversight and innovation

Technological innovation and the increasing digitalisation of our society create both challenges and opportunities for the insurance industry. Insurers therefore invest considerable resources both in understanding the changing nature of personal and business risks and in developing products that meet the demands of consumers, who increasingly want to purchase insurance products online and through smart devices.

However, regulatory frameworks in many regions are slow to modernise to reflect the nature of our increasingly digitised society. This needs to change, so that insurers can continue to provide consumers with the products and services they need in the modern world.

Guiding principle

The first action of GFIA's disruptive technology working group, which was set up in 2016, was to draw up a list of guiding principles to help steer GFIA's discussion with policymakers and regulators on the policy implications of innovation and disruption in the insurance market. These principles (available on GFIA's website) stress the need for technology-neutral regulation that maintains high levels of consumer protection but is, at the same time, conducive to innovation.

In January 2017, GFIA provided feedback on a draft report by the OECD on "Technology and innovation in the insurance sector". GFIA argued that, for insurers to remain at the forefront of innovation, a thorough vetting of existing regulation is needed to ensure that it properly reflects the realities of the digital age.

GFIA explained that, in many jurisdictions, regulatory restrictions are cumbersome and outdated, and that it is not enough to alter the regulatory environment just to help start-ups. Instead, holistic regulatory changes are required to create an environment that is generally conducive to innovation,

whether it is initiated by start-ups or by existing insurers. What today's insurers are looking for is a regulatory environment that balances consumer choice with the ability to use technology effectively — for all players in the ecosystem.

While the final OECD report, published in October 2017, remained broadly similar to the draft, it included a welcome additional reference to the importance of a level playing field being applied in regulatory sandboxes. And a new section of the report sets out recommendations for the OECD's own future role that are similar to those made by GFIA. ➤

Data analytics vary by jurisdiction

As new data sources become available, they enable insurers to make more accurate underwriting and claims decisions. In some jurisdictions, using this data has already had a profound impact on the insurance industry, transforming general insurance product classes by making more accurate, risk-based pricing possible. This has allowed pricing to move away from a community-rating model to more individualised underwriting.

However, in other jurisdictions, the data available from telematics devices and other sources of big data may not be compatible with market conduct and privacy regulations. This leads to variations in the application of technology in the insurance industry across jurisdictions, as some insurers are held back from using technology to improve their products by dated regulations and policies.





Chair, GFIA market conduct working group
Deirdre Manna
Property Casualty Insurers Association of America

Balancing act

International rules for conduct of business need to be firm but fair

Appropriate and well-designed conduct of business rules are vital for insurers to meet the needs of their customers and for the industry to thrive. GFIA therefore engages in market conduct discussions with several key international bodies, including the IAIS and the OECD, to ensure that rules are balanced and fit for purpose. As part of this work, in August 2017, GFIA provided input to two IAIS consultations on modifications to Insurance Core Principles (ICPs) 18 and 19.

ICP 18 (Intermediaries)

GFIA welcomed the recognition by the IAIS of the wide array of distribution models in use across markets, and the importance of applying standards consistently to reduce regulatory arbitrage. However, while it expressed support for the IAIS's balanced approach to redrafting ICP 18, GFIA warned that it would not be appropriate or proportional to require an insurance intermediary operating across multiple jurisdictions to meet a standard higher than a local firm. To do so would create an uneven playing field and undermine the role of each supervisor to set standards in their own jurisdiction.

Additionally, the suggestion in ICP 18 that the legal requirements of individual jurisdictions should be overlooked in favour of ICP 18 could lead to several negative outcomes, including loss of choice for policyholders and a negative impact on insurance penetration. References in the ICP to the principle of proportionality, as well as the promotion of financial awareness and education are, however, to be welcomed.

ICP 19 (Conduct of business)

Overall, GFIA supported the changes to ICP 19 to better clarify the responsibilities of insurers and intermediaries, as the current version only focuses on the responsibilities of insurers. However, ICP 19 also covers activities that are not typically associated with intermediation in life and health insurance.

Therefore, some businesses — such as managing general agents, third-party administrators and other outsourcing firms — may not be within the supervisor's scope. Because of this, activities associated with intermediation in ICP 19 should be limited to activities that do fall under the supervisor's remit.

As an additional general comment, the principle of proportionality should be more evident in ICP 19, especially in terms of the requirement of senior management to be involved in implementation and monitoring procedures. Such excessively detailed procedures — assessment, review and recording — would be too onerous to implement, particularly for small firms.

Drafting changes to ICP 19 would require insurers to verify that the intermediaries they work with have the appropriate knowledge and ability to conduct the business. This would go too far and be unworkable — particularly for brokers — because it is not possible for insurers to verify the knowledge and ability of brokers' employees.

In some jurisdictions, insurance brokers are governed by different rules to insurers and by a different governing body. Again, this means that expecting insurers to regulate or have a role in regulating intermediaries is not realistic.

For example, insurers should not be responsible for verifying if an intermediary is in breach of its regulatory requirements; this is the role of supervisors. Since they are regulated, intermediaries should be responsible for their distribution activities. Moreover, the risks related to intermediaries are different to those associated with insurers and so a one-size-fits-all regulatory approach would not be appropriate. Instead the text should be changed to require insurers to conduct business only with intermediaries that are licensed. ➤



Chair, GFIA corporate governance working group
David Snyder
Property Casualty Insurers Association of America

Fit and proper

Appropriate, sufficiently flexible governance rules are essential for a well-functioning insurance market

Several years ago, the IAIS issued a paper that divided insurance supervision into three main categories: financial, governance and conduct of business. Of the three, financial supervision, such as the insurance capital standard, has been put ahead of governance and conduct supervision for some time. However, inappropriate governance standards can be every bit as problematic for competitive private insurance markets and market players as ill-advised financial supervision.

Over the past year alone, the GFIA corporate governance working group has provided comments on IAIS Insurance Core Principles (ICPs) and ComFrame revisions, two IAIS application papers, and OECD and FSB papers.

Correct control

The first workstream is particularly noteworthy. In its March ComFrame consultation package, the IAIS asked for feedback on revisions to ICP 5 (Suitability of persons), ICP 7 (Corporate governance), and ICP 8 (Risk management and internal controls). GFIA provided substantial feedback on issues such as the delegation of control functions and internal policies. It reiterated that some duties can be and are reasonably assigned differently to the board and senior management in different jurisdictions; something that is not yet appropriately reflected in the revised ICPs.

Also of concern are governance standards that require boards to ensure “fair” treatment of customers either without defining “fair” or defining it so broadly as to virtually be different for each person. GFIA has commented repeatedly that “fair” is best defined as compliance with legislation and regulation and should not mean any more or less than that. However, international supervisory documents, such as the IAIS application papers on governance, continue to require broad and undefined “fair” treatment.

Increasingly, executive compensation issues have been linked to governance supervision. Again, the danger is that a too subjective and prescriptive approach, which does not recognise that insurers are, in fact, well-governed and that their compensation systems are already linked to insurance risks, will actually harm insurance markets.

And this year’s developments have further shown that there is often too little recognition in supervisory materials of the positive aspects of competition and innovation. Good governance and consumer protection seem too often to be defined only in terms of restrictions placed on companies.

More transparency and dialogue needed

In terms of procedure, GFIA would welcome more opportunities to engage in meaningful proactive dialogue with international supervisory bodies, especially IAIS and FSB working groups, during the drafting process.

In addition, it is critical to ensure reasonable consultation periods; at least 60 days for all papers. For example, a recent application paper on product oversight in inclusive insurance, with potentially broad impact far beyond microinsurance, was issued with just a 30-day consultation.

Governance just as important as capital

Supervisors have long realised that sufficient capital alone will not ensure the sustainable viability of entities and markets, and that governance rules form an equally important part of the supervisory framework. In light of the IAIS’s new thematic approach for ComFrame (see p9), the link between qualitative and quantitative supervision will become more and more relevant. Global corporate governance provisions must be appropriate and be sufficiently flexible to accommodate existing, well-functioning insurance governance models. ➤



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

Out in the open

An increasingly protectionist environment threatens open trade and market access in (re)insurance

Global trade dynamics have changed in recent months, with traditional free-trade champions reevaluating previous agreements and policies and becoming more protectionist. These shifts affect ongoing and upcoming trade negotiations — such as the Trade in Services Agreement (TiSA) currently being negotiated by 23 members of the WTO — which are of major importance to the global (re)insurance industry.

Faced with this change, GFIA has continued to call for the removal of protectionism in its many forms and the opening of markets for the international (re)insurance players that can be such key contributors to countries' economic and social development. While some positive developments have been seen in key jurisdictions such as Argentina and, in some respects, India, protectionism remains on the rise.

More regulatory reforms in India ...

Overall, the Insurance Regulatory and Development Authority of India (IRDAI) has continued to propose and/or implement regulations that directly undermine the effects of the 2015 opening of the Indian (re)insurance market.

One such regulation is the “order of preference”, which introduced a four-tier system in January 2017 under which Indian insurers should cede risk to reinsurers according to a prescribed order of preference that favours Indian reinsurers over foreign reinsurers' branches. These discriminatory provisions have faced significant international resistance. GFIA stressed to the Indian authorities the severe negative effects of such detrimental regulatory treatment of foreign market players, whose capacity and expertise are crucial for the sustained development of the local insurance market and serve to reduce the concentration of risk. Sadly, the IRDAI has only committed to reviewing the regulation after it has been in force for one year.

Another negative regulatory development in India that GFIA has sought to avoid is the IRDAI's proposal to prohibit the outsourcing of a number of “core activities”, such as investment or fund management. GFIA urged the Indian authorities to take a more holistic view, suggesting that it could achieve the same prudential objectives via clear internal governance and control requirements when outsourcing, as opposed to full prohibitions. The final regulations, published in May 2017, regrettably did not address the strong concerns that GFIA had raised.

On a more positive note, the Indian authorities agreed to reconsider previous initiatives on the mandatory public listing of insurers. These regulatory plans would have significantly weakened the investment climate for (re)insurers in India, and GFIA had highlighted that listing decisions in a competitive market should be made by companies, based on commercial considerations. This change of plan, highlighted in a joint statement following the US-India Trade Policy Forum in October 2016, provided some comfort to the international (re)insurance community and GFIA subsequently sent a supportive note to the Indian Minister of Commerce and Industry.

... but positive signals on industry input

Several international reinsurers have successfully established, or are establishing, branch offices in India following the much-welcomed opening of the market in 2015. These new market entrants have prompted the IRDAI to further review the organisation and regulation of the sector. To that end, the regulator formed an expert committee that comprises IRDAI representatives, independent experts and several industry executives. The industry executives include high-level representatives from GFIA member countries, suggesting that the IRDAI is becoming more open to hearing industry views. GFIA sees this as a very positive development and has, in fact, advocated it on numerous occasions. It remains to be



GFIA's trade focus this year has been to promote open and competitive markets in India, Indonesia, Kenya, Malaysia and Argentina

seen, of course how the IRDAI's commitment to engagement will develop.

FDI caps in Indonesia and Malaysia

Following the global protectionist trend, Malaysia and Indonesia recently started to discuss foreign direct investment (FDI) caps for (re)insurance companies. In the case of Indonesia, this came as no surprise, as lowering the current 80% limit on the foreign ownership of insurance entities has been an on/off, often politically driven, debate for some time. The initiative in Malaysia did, however, come as an unpleasant surprise, with the government enforcing a previously unenforced policy that foreign companies owning 100% of local insurers must cut their stakes to no more than 70%.

GFIA wrote to both the Indonesian Ministry of Finance and Bank Negara Malaysia (the country's financial regulator) highlighting the strong interest of GFIA member (re)insurers in investing in both countries and stressing the need for legal certainty and continuity in foreign investment rules. It also reiterated older concerns regarding Indonesia, such as the introduction of mandatory reinsurance cession requirements for major lines of life and non-life business to Indonesia Re — a fully state-owned reinsurer created in 2015. To date, important implementation details in both Indonesia and Malaysia are not publicly available, and GFIA will continue to engage with both countries, not least at the November 2017 IAIS meetings in Kuala Lumpur.

Argentina increasingly open

Positive developments have emerged over the past year in Argentina, likely linked to the objective of more international trade that is being pursued by the Macri government which took office in 2015. The Superintendencia de Seguros de la Nación (SSN) issued a resolution in November 2016 promulgating

measures to gradually open Argentina's (re)insurance market. By way of background, Argentina did have an open reinsurance market until February 2011, when the SSN started limiting foreign reinsurers' access significantly.

Mindful of the history, GFIA congratulated the Ministry of Finance on the new position while seeking more ambition, as the proposed measures to gradually open the market did not go far enough in scope (eg facultative risks were not included) and the implementation timetable (2017 to 2024) was very long. GFIA suggested that more ambitious measures would help to ensure that sufficient (re)insurance capacity and expertise was available to unleash the full potential of the Argentinian market and support the economy.

In July 2017, a resolution came into effect that extends the scope of the reforms and speeds up the pace of liberalisation. While this framework still does not foresee the full elimination of the restrictions, it was nevertheless encouraging to see the SSN receptive to serious industry concerns. Argentina's generally stronger presence in international fora, such as the OECD and WTO, and the SSN's regulatory plans for the near future are also to be welcomed.

Kenya approaches GFIA

In August 2017, the Kenyan Insurance Regulatory Authority (IRA) approached GFIA for comment on its proposed domestication of reinsurance risks. This is to feed into a study the IRA is conducting, having been asked by local reinsurers to domesticate certain classes of non-life business. GFIA welcomed the opportunity to provide comments and stressed how critical international risk transfer is for risk-spreading. It explained that forced localisation of reinsurance contradicts IAIS Core Principles and ultimately creates higher prices and lower financial security for consumers. ➤



Chair, GFIA ageing society working group
Nicolas Jeanmart
Insurance Europe

Multi-story

Governments cannot solve the pension challenge alone; they need multi-pillar pension systems

Widespread “greying” of populations across the world is putting unprecedented pressure on statutory pension systems. Increasing life expectancy and falling fertility rates in developed countries are skewing the old-age dependency ratio of retirees to workers that is the bedrock of national pay-as-you-go pension systems. The ratio is set to double in the next 60 years: in the OECD in 2015 there were 28 individuals aged 65 and over for every 100 of working age, by 2075 it will be 55.

That OECD average masks some even starker figures — nowhere more so than in South Korea, where the ratio is set to rise to 80:100 in 2075, despite being only 6:100 in 1950. South Korea is expected to move from currently being the OECD’s fourth youngest country to being its oldest.

The challenge these shifting demographics pose to pension systems is clear. As a result, many states are introducing reforms to make their systems more sustainable: raising retirement ages, curtailing access to early retirement and reducing the generosity of benefits.

“Governments need individuals to increase the amount they save in private, funded pension schemes.”

Yet such changes alone will not be sufficient, and they are going to result in lower pension revenues. Governments therefore also need individuals to increase the amount they save in private, funded pension schemes.

It is multi-pillar pension systems — ones that complement state retirement income (the first pillar) with occupational pensions (the second) and personal pensions (the third) — that are widely seen as the most effective way to improve

the sustainability of systems and the adequacy of pension revenues.

As major providers of occupational and personal pensions, insurers have a significant role to play in any multi-pillar pension system. Drawing on this experience, GFIA is developing a paper setting out recommendations to policymakers. These focus on three areas: stimulating the uptake of private pensions; empowering consumers; and fostering efficiency in pension savings.

Stimulating uptake

Governments should introduce or further develop enrolment systems that ensure the widest possible uptake and coverage of private pensions. This should be done while giving due consideration to the design and role of the statutory system. The scale of compulsion to enroll currently ranges from mandatory participation for some or all people, through soft compulsion such as auto-enrolment (usually applied to second-pillar schemes), to voluntary participation.

Auto-enrolment schemes — which seek to overcome citizens’ inertia and make it possible to reach the crucial mass necessary to achieve economies of scale in running a scheme — currently exist in six OECD countries: Canada, Chile, Italy, New Zealand, the UK and the US. Over 6.7 million people have been automatically enrolled in the UK since the scheme was introduced in 2012.

Another key way to incentivise individuals to save for the long-term is the configuration of the tax regime. There are three possible flows of money that can be taxed: the contributions paid in; the capital gains accruing to the pension pot; and the benefits paid in retirement. This creates eight possible tax configurations.

Of the 35 OECD countries, 18 apply a variant of the EET tax configuration (ie contributions exempt, investments exempt, benefits taxed). Younger savers, in particular, benefit from such a configuration, because of the non-taxation of investment income, and it is therefore an incentive to start saving early. It also has the advantage of providing the state with tax revenue when it needs it most, ie when people retire and thus start to claim their state pension.

Governments should also provide citizens of working age with clear and accurate information about the expected value of their future state pension and what level of retirement income they need to have a comfortable retirement. Here policymakers can draw on the possibilities offered by digitalisation, not just in terms of making access to long-term savings products easier, but also in enabling the creation of pension tracking tools and dashboards.

Just one of many examples is the Swedish pension tracking system, “Min Pension” (My Pension). Established in 2004 as a subsidiary of insurance association Insurance Sweden, it gives individuals a picture of their current total pension rights and savings in all three pillars. People can also receive a free estimate of their total future pension.

Empowering consumers

Levels of financial literacy are low in most countries, including developed ones. This is unfortunate, as in order to make the best decisions about their financial future, it is crucial for individuals to have adequate levels of financial education — and to have them from an early age. Insurers are involved in many financial education initiatives. In Japan, for example, in 2017 the Life Insurance Association of Japan developed materials for junior high and high schools on insurance in the context of social security.

Consumer empowerment is also about providing the right information, so ensuring that product information is meaningful, clear and not misleading is vital. Pre-contractual information, for example, must strike the right balance between quantity and clarity, and policymakers as well as product providers have a role to play here.

Fostering efficiency

Future pension adequacy depends not only on how much people save and how early they start saving, but also on the asset mix in which the savings are invested, since different asset classes produce very different long-term returns. The asset mix can be as important as saving early.

The long-term nature of insurance savings products allows insurers to include illiquid and long-term assets in their portfolios, such as infrastructure and green projects. Prudential regulations must not discourage insurers from investing in long-term assets and offering well-designed, long-term, tailor-made collective pension products.

Alongside the correct asset mix and the appropriate prudential treatment of long-term investments, savers should be offered the decumulation options that are best suited to their needs — whether that is annuities, lump sums, programmed withdrawals or a combination of these different options.

While pensions are a core issue of national competence, the challenge is global and no country will be unaffected. With its recommendations on how to incentivise citizens to save more, better and more wisely, the insurance sector wishes to engage in the discussion and contribute to making systems more sustainable and improving pension revenues throughout the world. ➤



Chair, GFIA taxation working group
Peggy McFarland
Canadian Life and Health Insurance Association

Doing its duty

GFIA continues to seek tax rules that are fair, effective and do not discriminate against insurers

Over the last year, policymakers around the world have continued to work on measures to address tax avoidance and evasion or simply to review and modernise tax systems. GFIA has been monitoring initiatives that could impact the global insurance industry, engaging when appropriate.

In general, GFIA strives to ensure that tax rules are fair and effective, without imposing unnecessary compliance burdens or creating unintended consequences for insurers.

Busy on BEPS

The OECD's base erosion and profit shifting (BEPS) initiatives target tax avoidance strategies that exploit gaps and mismatches in tax rules to artificially shift profits to low or no-tax jurisdictions. After completing its ambitious plan to tackle BEPS with the publication of 15 action items in 2015, the OECD has continued to fine-tune its proposals. Two consultations took place in 2016, on BEPS involving interest in the banking and insurance sectors (Action 4) and on the attribution of profits to permanent establishments (Action 7).

- In December 2016, the OECD published updated Action 4 Recommendations to address BEPS involving interest in the banking and insurance sectors. These have been well received by the industry. As recommended by GFIA, the OECD has specifically recognised and taken into account the highly regulated nature of the insurance industry, which minimises BEPS risks.
- Accordingly, the OECD decided not to provide special rules for insurers that could have been problematic. Instead, the OECD has left it up to jurisdictions to identify potential BEPS risks and states that "where no material risks are identified, a country may reasonably exempt banking and/or insurance groups from the fixed ratio rule and group ratio rule without the need for additional tax rules. Where BEPS risks are identified, a country should introduce rules

appropriate to address these risks, taking into account the regulatory regime and tax system in that country". GFIA was pleased by this outcome and by the OECD's careful consideration of the role of capital in insurance and of the impact of regulation on the way that insurers use capital.

- As for its guidance on permanent establishments (PEs), the OECD decided to change its approach after analysing the feedback received from stakeholders. A new discussion draft was published in June 2017, which was a significant improvement on the previous draft. Nevertheless, GFIA responded to this consultation and expressed concern that a widened definition of PE that includes intermediaries would result in the creation of a potentially large number of insurance PEs with nil or minimal additional profit being attributed to them.
- Finally, an OECD discussion draft on the transfer pricing for financial transactions is expected some time in 2017. GFIA will review this draft and comment on any issues of concern.

Sales tax increase in India

Prior to India's introduction on 1 July 2017 of a new goods and services tax (GST) regime to replace the previous, complex multiple indirect tax structure, GFIA engaged with the Indian government to minimise the potential negative impact on insurance products.

GFIA wrote to the GST Council in October 2016 to recommend zero-rating for insurance or, alternatively, a merit rate (12%) of GST and an exemption for microinsurance, in recognition of the importance of insurance as a socio-economic instrument in India, given low household savings, the prevalence of natural catastrophes and limited state health benefits. GFIA also recommended several administrative measures to reduce compliance burdens and

costs for insurers. GFIA followed up with another letter in April 2017 to reiterate its recommendations.

In response to GFIA's recommendations, the government granted an exemption for microinsurance and a number of the administrative issues affecting insurers were satisfactorily resolved, such that the implementation of the new GST on 1 July has been relatively smooth for the

industry. However, unfortunately, the final GST regime did not provide a preferential rate for insurance products, which are now taxed at the standard rate of 18%.

The GST law provides for an annual review of sector-specific treatment and GFIA will continue to stress to Indian policymakers the importance of tax policies that support insurance as a means of protection and savings. ➤

Three more issues

- **US tax reform and the proposed Border Adjustability Tax (BAT)**

One of the the Trump administration's stated priorities is comprehensive tax reform that would lower the US corporate income tax rate. The Committee on Ways & Means, the tax-writing committee of the US House of Representatives, produced a framework for tax reform in mid-2016, which contained a "border adjustability" provision that would effectively impose a tax on imports of goods and services. The BAT would have been highly problematic if it had applied to cross-border insurance and reinsurance services. In response to intense lobbying and criticism from US industries that rely on imports, and concerns from foreign governments and international organisations over its anti-competitive and protectionist nature, US policymakers announced in late July that they would not proceed with the BAT. GFIA will continue to monitor the progress of US tax reform to make sure that potentially harmful measures do not make their way into the final legislation.

- **Financial Transaction Tax (FTT)**

GFIA continues to follow developments on the proposed European FTT. Negotiations among the 10 participating countries have been put on hold until the end of 2017 as a result of a shift in priorities, partly due to the upcoming exit of the UK from the EU. Should a revised proposal be put forward, GFIA will reiterate its recommendations to minimise the impact on life insurers and their policyholders and ensure the FTT does not have unintended consequences, such as a negative impact on investment returns and thus policyholders' long-term benefits.

- **Automatic exchange of tax information**

101 countries have adopted the OECD's Common Reporting Standard (CRS), with the first exchange of financial account information in 2017 by 50 countries (and the remainder in 2018). Detailed implementation guidance was slow to be published in many jurisdictions and this has resulted in some uncertainty for financial institutions.



Chair, GFIA anti-money laundering/
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Ethan Kohn
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Guiding light

GFIA is helping the Financial Action Task Force update its guidance papers

GFIA's working group on anti-money laundering/countering terrorism financing (AML/CTF) has, over the last year, closely monitored developments around the world, with a focus on the implementation of and compliance with the recommendations of the intergovernmental Financial Action Task Force (FATF). It has also been liaising with the FATF over the development of policies and standards to identify, prevent and combat other financial crimes, such as political corruption, fraud and violations of government-imposed economic sanctions.

“GFIA is committed to ensuring a risk-based approach (RBA) is preserved, since this is the best tool for this fight.”

GFIA has reiterated the industry's dedication to fighting money laundering and terrorist financing, despite the insurance sector's relatively low risk exposure. GFIA is also committed to ensuring a risk-based approach (RBA) is preserved, since this is the best tool for this fight.

Update of information-sharing guidance

GFIA took part in the FATF's annual private sector consultative forum in Vienna in March 2017 and followed the discussions between the FATF and G20 leaders in the context of the Action Plan, Declaration and Statement on Countering Terrorism that were adopted at the July 2017 G20 Summit.

GFIA responded to the FATF consultation on its Draft Guidance for Private Sector Information-Sharing. GFIA, too, sees effective information-sharing as one of the cornerstones of a well-functioning AML/CTF framework. Insurers are keen to leverage group-wide information to detect and deter money laundering and terrorist financing, and to assist in the investigation and prosecution of such offences. GFIA praised the guidance for its clear acknowledgement of the industry's

difficult balancing act between customers' right to privacy and the need to share personal information for AML/CTF purposes.

In order to help achieve this balance, GFIA called for a better dialogue between the authorities responsible for privacy and those responsible for AML/CTF. It similarly called for better two-way information-sharing between government authorities and financial institutions, as systems are far more robust where there is a feedback loop between financial institutions and regulators, instead of a one-way flow of information.

Insurers' support enhanced information-sharing across business groups and national boundaries. For this to happen, national authorities must address the legal uncertainty surrounding information-sharing. GFIA will also continue calling for greater cooperation by law enforcement authorities and financial intelligence units with the institutions they oversee.

Update of insurance guidance

GFIA is now focused on the FATF's upcoming revision of its 2009 RBA Guidance for the insurance sector, which is for public authorities and for life insurance companies and intermediaries implementing a risk-based anti-money laundering programme. It includes high-level principles, describes good public- and private-sector practices and seeks to foster communication between the two sectors.

An FATF group, comprising public authorities and industry representatives, will revise the FATF RBA Guidance. The aim is to support the effective implementation of AML/CFT measures by focusing on risks and mitigation measures. GFIA representatives will sit on this group, whose main drafting will be from November 2017 to January 2018, with the review expected to be finalised by June 2018. ➤



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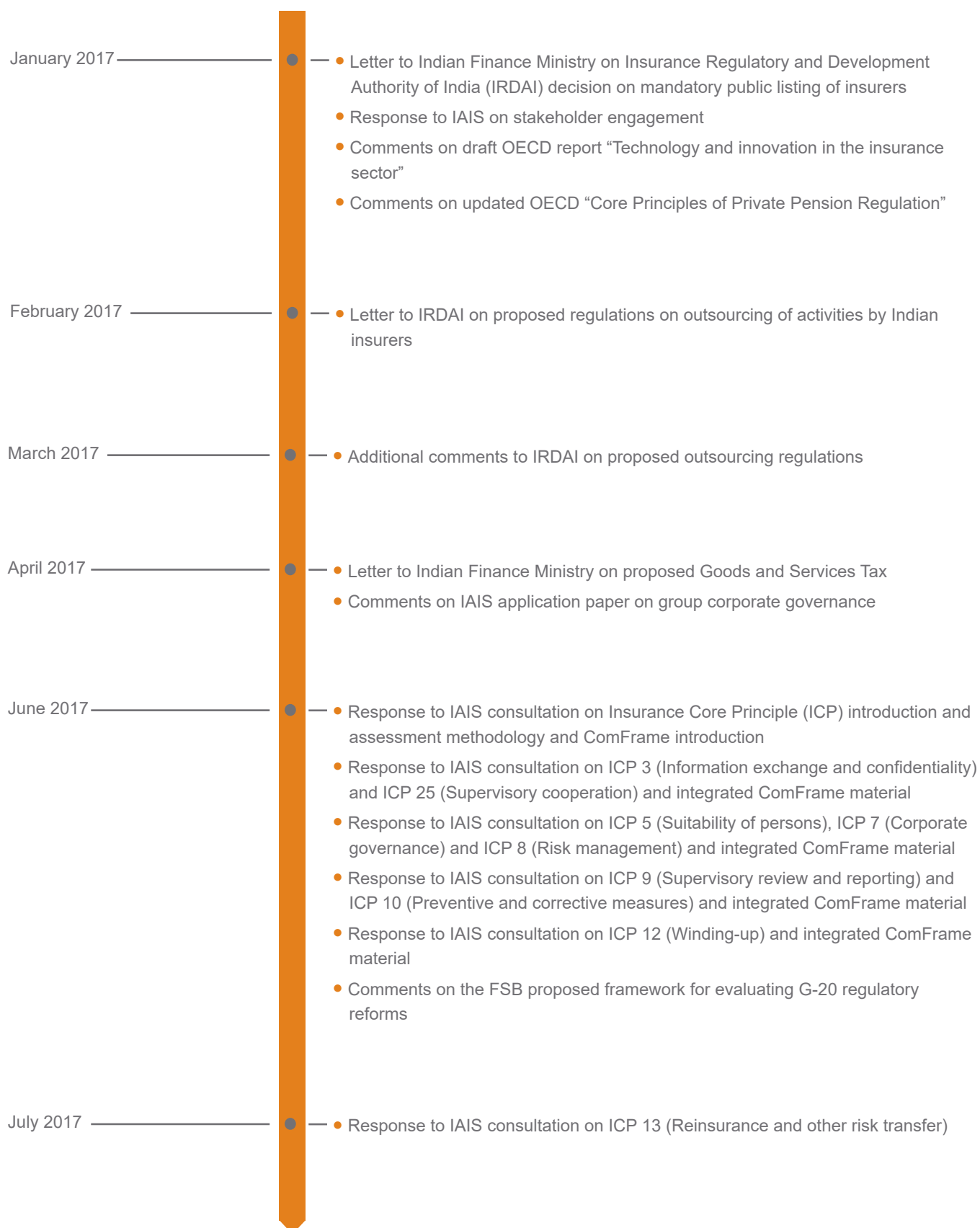


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Position papers



- August 2017
- Comments on Financial Action Task Force (FATF) draft guidance for private-sector information-sharing
 - Comments on IAIS draft application paper on product oversight in inclusive insurance
 - Response to IAIS consultation on ICPs 1 and 2 (Supervisors)
 - Response to IAIS consultation on ICP 18 (Intermediaries)
 - Response to IAIS consultation on ICP 19 (Conduct of business)
 - Response to FSB consultation on supplementary guidance on sound compensation practices
- September 2017
- Response to OECD consultation on draft consolidated report on cyber insurance
 - Response to OECD consultation on BEPS Action 7
 - Response to IAIS consultation on ICP 24 (Macroprudential surveillance and insurance supervision)
 - Letter to Turkish government on motor third-party liability sector

All GFIA's public statements are available on the GFIA website: www.GFIAinsurance.org



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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 Insurance Association

5. Corporate governance working group

Chair: David Snyder
Property Casualty Insurers Association of America

6. Cyber risks working group

Chair: Stephen Simchak
American Insurance Association

7. Disruptive technology working group

Chair: Don Forgeron
Insurance Bureau of Canada

8. Extreme events working group

Chair: Tracey Laws
Reinsurance Association of America

9. Financial inclusion working group

Chair: Recaredo Arias
Association of Mexican Insurance Companies

10. Market conduct working group

Chair: Deirdre Manna
Property Casualty Insurers Association of America

11. Taxation working group

Chair: Peggy McFarland
Canadian Life and Health Insurance Association

12. Trade working group

Chair: Brad Smith
American Council of Life Insurers

The Global Federation of Insurance Association's Annual Report 2016–2017 is available on the GFIA website:
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