



Global  
Federation  
of Insurance  
Associations  
Annual Report  
2017–2018



# Annual Report 2017–2018

The Global Federation of Insurance Associations (GFIA), established in October 2012, represents through its 42 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

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

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GFIA vice-president  
**Recaredo Arias**  
Director general  
*Mexican Association of Insurance Companies (AMIS)*

## Foreword

One of the most rewarding activities for GFIA's Executive Committee has always been to liaise with the successive presidencies of the G20 global forum for financial and political collaboration. With our successful history of engagement in international fora and our well-earned reputation for providing valuable insights and expertise, our proactive engagement with the G20 has always been welcomed and encouraged. Our meetings with the current Argentinian presidency have been no exception.

Each G20 presidency has a unique impact on the global landscape. Argentina has chosen a people-centred agenda that targets development, fairness and sustainability. The presidency is focusing on three issues: infrastructure for development, the future of work and a sustainable food future.

It is with the first of these — infrastructure — that the global insurance industry is best placed to help the G20 achieve its objectives and I am pleased to serve on the B20 Taskforce on Financing Growth and Infrastructure.

The G20 has identified a global infrastructure investment gap from now to the year 2035 of an estimated \$5.5trn (€4.5trn), despite institutional investors around the world having \$80trn in assets under management. Insurers account for almost a third of that total — \$26trn. With \$4.6trn to invest annually and mostly long-term liabilities, insurers need long-term assets to match and we are ideally placed to support long-term investment in infrastructure. Argentina warmly welcomed the industry's engagement, as demonstrated by its organisation of an event entirely dedicated to insurance (see p6 and p8).

Our wide-ranging discussions with the Argentinian G20 presidency have gone well beyond just infrastructure, as it seeks to build on the legacy of past presidencies in many other areas. These include improving financial regulation, working towards a strong and sustainable financial system, improving the fairness of the global tax system, cooperating on trade and investment, financial inclusion and tackling the pension gap.

Here I will focus on just the last item in that long list — the challenges of an ageing global society — and draw your attention to the fine work done this year by the GFIA ageing society working group to produce its publication "Older and wiser: Solutions to the global pension challenge". You can read more about this timely report on p26.

GFIA's footprint is, of course, seen in a range of different contexts, not just in our liaison with the G20. As ever, we have made contributions in the last year to events and stakeholder sessions organised by other international bodies, foremost among them the IAIS. And while this year has seen fewer formal consultations from those bodies and hence fewer GFIA responses issued, our growing depth of expertise has enabled us to explore areas beyond such consultations.

One area has been the challenges ahead for motor insurers as technological developments transform transport. We held a dedicated workshop, "Gear change for motor", alongside our General Assembly in May 2018, during which members shared

*Introducing a session on promoting long-term and sustainable investment in infrastructure at the G20 Insurance Forum in September 2018.*



experiences from their home markets and discussed the challenges and opportunities ahead. Also alongside our General Assembly in May was a first meeting organised by our Spanish host association, UNESPA, specifically to share views, projects and good practices on key issues. It is at such events that the benefits of expertise-sharing that members gain as part of a global federation truly shine through.

Those benefits have been recognised this year by the Luxembourg Insurance and Reinsurance Association and the Financial Services Council of New Zealand, which have both been welcomed into the GFIA fold in the last 12 months, taking our membership to 42 associations.

I would like to briefly recognise the professional and dedicated work being done by all GFIA's working group members. To highlight only one of many great pieces of work, I will just mention the joint paper by our cyber risks and disruptive technology working groups — led by Stephen Simchak of the American Insurance Association and Don Forgeron of the Insurance Bureau of Canada respectively — which provides a valuable insight into the cyber risk implications of emerging innovations and connectivity, and their effects on the business of insurance. You can read more about it on pages 20 and 22.

For myself, I greatly appreciate working with my highly dedicated and exceptionally talented colleagues in the world's insurance associations. It is with great pleasure that I reflect on just how much we have achieved together in the six short years since GFIA was founded. Most importantly, I take pleasure in being able to look ahead knowing that GFIA is firmly established at the highest level on the world stage and that its *raison d'être* is clear and its future is secure.

And finally, I am not able to finish without recognising the leadership and great contributions to GFIA of our former president, Dirk Kempthorne, who stepped down in August 2018. He was a superb ambassador for our industry and served GFIA with energy and passion. We express to him our gratitude and recognition for his service and wish him continued success and happiness.

Recaredo Arias

Vice-president



**Juan Pazo**  
Superintendent of insurance  
*National Superintendence of Insurance (SSN), Argentina*

## Ambitious aims

Juan Pazo explains the impetus behind the Argentinian G20 presidency's recent Insurance Forum

**You were a key driver in organising the September 2018 G20 Insurance Forum. Why should the insurance industry be a focus for the G20?**

Insurance should be a focus because of the relevant role it can play across the G20 agenda. The insurance sector, in its role as institutional investor as well as as an instrument of protection for individuals, plays a critical role in supporting the resilience and stability of the real economy.

Discussions related to sustainable development, barriers to long-term investment in infrastructure, technological innovation and financial stability cannot be fully addressed without the voice of the insurance sector. We believe insurance can provide creative responses to many of the challenges faced by the G20 leaders, not only through the

development of innovative products to improve economic resilience, but also as a supplier of resources for long-term goals.

Our role as regulators is to lead the way by listening to, responding to and assisting the insured population as well as the industry, providing protection to consumers and creating safe and stable environments for business to develop.

**Would you like to see the event replicated by future G20 presidencies?**

Yes, absolutely.

We want to leave a legacy for future G20 meetings. Continuity is essential if we want to position insurance at the table of global conversations of the leading countries of the world. For that to happen, insurance supervisors, regulators and industry stakeholders of future G20 presidencies must pick up where we left off. We are confident Japan and Saudi Arabia, the next two G20 presidencies, will provide continuity.

Another aspect we would like to see replicated is the joint nature of this effort. This Forum has been the result of the government and private sector working together. We hope this is an example for other sectors of the economy as well. We are proud of what we have accomplished through mutual respect and understanding between regulators and the industry.

**What are you hoping will be the impact of the Forum, both for Argentina and globally?**

The Insurance Forum will aim to issue a final summary that will consolidate the main conclusions emerging from our





**“I would say that the long-term goal of the Forum is to position the insurance sector — government and business — in global talks on the challenges of future policy-making.”**

discussions. This summary of discussions will be conveyed to the Finance Track leaders of the G20.

The impact we aim to make both locally and globally is to convey a message of awareness to leaders, both from the industry and the regulators, of the risks arising from an increasingly volatile world in terms of financial stability, natural events, health and technological advancements, and how insurance can be an instrument of social and economic resilience to cap the potentially negative consequences of such volatility.

In short, I would say that the long-term goal of the Forum is to position the insurance sector — government and business — in global talks on the challenges of future policy-making.

**Focusing on one of the Forum themes — long-term investment in infrastructure — how vital is it for Argentina and the world to encourage such investment? And why is the insurance industry an appropriate provider of it?**

I think it is essential to continue encouraging legal and business environments that favour long-term investments in infrastructure. Not only because such investments have a positive impact on the real economy, by creating jobs and improving the living standards of the population, but also in

**“I think it is essential to continue encouraging legal and business environments that favour long-term investments in infrastructure.”**

terms of providing opportunities for insurers to allocate assets to match the diverse nature of their liabilities. Promoting this is also a way of protecting policyholders and promoting safe and stable markets.

However, we also recognise there is a lot of work to be done in terms of quality and quantity:

- In terms of quality, there is much to be done to improve the data tracking of such projects in order that investors can make sound financial evaluations.
- And in terms of quantity, we — as government — need to increase the supply of investable projects to attract such investors.

Argentina is on the right track. The new administration has created a much more reliable environment for business, as well as adopting new legislation on a public-private partnership (PPP) regime for infrastructure financing. We believe we will supply many and good opportunities for those interested in investing. ➤





GFIA vice-president  
**Recaredo Arias**  
*Association of Mexican Insurance Companies*

## In Patagonia

There was lively debate at the G20's Insurance Forum in Bariloche

GFIA was delighted to sponsor the Argentinian G20 presidency's three-day Insurance Forum in September 2018 in the beautiful Patagonian setting of San Carlos de Bariloche.

### A day for regulators

The Argentinian Superintendence of Insurance held a Regulators Insurance Forum on the first day. This gave the world's insurance regulators, G20 members and international organisations the opportunity to discuss the crucial role (re)insurance plays in world economies, focusing on infrastructure investment, economic resilience and innovation.

In a statement afterwards, the Superintendence reported that regulators had agreed that the promotion of fair, safe and stable insurance markets was important for the benefit and protection of the population. It said that the regulators had also discussed how the insurance industry can contribute significantly to the real economy as an institutional investor "especially in high quality infrastructure projects that can create jobs, improve the living standards of the general population and build resilience and promote sustainable growth in our countries".

### And two days for all

On the next two days, attendance was expanded to include industry and other stakeholders. GFIA's treasurer, Toyonari Sasaki, spoke on building resilient economies and Pilar González de Frutos, president of the Spanish Association of Insurers, moderated a panel on digitalisation, which included French Insurance Federation president Bernard Spitz.

I had the honour of moderating a session on promoting long-term and sustainable investment in infrastructure, on which I had representatives from Japan, Europe, the US and Latin America. As I said in my introduction, it would have been impossible to have a G20 event on insurance without

discussing the industry's role in infrastructure investment. Insurers are very much in the business of making long-term and sustainable investments, and this corresponds to the needs of governments around the world, who are increasingly seeking to attract private infrastructure investment to relieve pressure on public resources. As Anna Maria D'Hulster, secretary general of the Geneva Association, said during the panel: according to the OECD, \$95trn (€82trn) is needed between 2016 and 2030 to upgrade global infrastructure.

Yet, insurers in most jurisdictions believe the supply of suitable infrastructure assets is weak and that political-level policymaker action is needed to create a stable supply. Policymakers must minimise political risk by making firm commitments not to change investment rules retroactively and must address prudential barriers to infrastructure investment, such as unnecessarily high capital requirements.

I believe the Forum and the statement transmitted afterwards to G20 Finance Ministers are a positive step towards increasing the awareness of G20 leaders and the Financial Stability Board about the fundamental role of efficient risk transfer and the opportunities that partnership with insurers can provide in meeting societal needs. We look forward to Japan continuing this when it takes leadership of the G20 in 2019.

In Bariloche, GFIA also met with IAIS secretary general Jonathan Dixon, who expressed his commitment to continuing to build a more collaborative relationship with the industry, especially on emerging market issues.

I thank Argentina's Juan Pazo, the other regulators and the OECD, World Bank and international organisation officials who engaged with insurers at the Forum on their current societal role and investigated ways in which they can do more. ➤



**Jonathan Dixon**  
Secretary general  
*International Association of Insurance Supervisors*

## Inside track from the IAIS

The IAIS prepares to embark on a new strategic direction

For the IAIS, 2019 will clearly be a watershed year. We will move from finalising our current commitments to the post-financial crisis reform agenda — the ComFrame project (including the Insurance Capital Standard version 2.0 for confidential reporting) and a holistic framework for the mitigation of systemic risk — to launching a five-year strategic plan with a new statement of priorities for the period 2020–24.

Work on this new strategic focus began in earnest early in 2018. It has been a very comprehensive, transparent and inclusive process. We have actively invited and incorporated input from both our broader membership and stakeholders.

While IAIS members look to finalise the new strategy, there is a clear sense that there is no need to overhaul IAIS core functions — namely, the cycle of monitoring global insurance market trends and developments, considering a policy response (either new/amended regulatory standards or enhanced supervisory practices) and assessing the consistent implementation of these standards and practices. Rather, there will be a shift in the focus or emphasis of these activities to take into account the fast-changing global context in which we operate. Digital innovation, cyber risk, climate change, the protection gap ... these are all fundamental market developments and challenges requiring the attention of insurance supervisors.

### Strands to the strategy

Out of this process, several key messages have emerged:

- First, going forward, we expect IAIS standard-setting activities to be less intensive, more targeted and specific to any new risk identified through our surveillance and implementation work that cannot be addressed through enhanced supervisory practices alone.

- Second, as we finalise our part of the post-financial crisis framework, our focus will necessarily shift to more of an emphasis on good supervisory practices (applying our comprehensive set of standards), rather than setting new rules.
- Third, we will move to more robust assessment of the implementation of the agreed standards that have been developed, recognising that IAIS standards are only meaningful if they are consistently implemented and effective in practice.

The promotion of financial stability will remain a primary strategic focus of the IAIS, and our holistic approach to the mitigation of systemic risk will allow for: a structured cycle of global monitoring of potential systemic risk at individual insurer and at sector-wide level; the collective consideration of appropriate supervisory responses, including enhanced macroprudential policy measures; and a transparent process of assessment to help ensure consistency of implementation.

The future period will also likely see a more integrated approach to prudential and market conduct workstreams, reflecting the fact that many of the risks to policyholder protection emerging from trends and developments such as digital innovation relate to the fair treatment of customers.

Lastly, delivering on these goals — in particular helping all our members to proactively respond to emerging trends and developments — will require a change in how we work and communicate to become more agile and responsive. Likewise, an effective response will also require continued engagement and collaboration with our stakeholders on these shared challenges. We look forward to the exciting next chapter and the important conversations to come. ▶



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

## Technical checks

Technical arguments are needed now, if the global Insurance Capital Standard is to be improved

Since the announcement in 2013 that the IAIS intended to develop a quantitative capital standard as part of a group supervisory framework, GFIA has been closely following the development of the global Insurance Capital Standard (ICS). As well as keeping track of developments and representing the views of the international insurance industry, following the ICS has also entailed numerous trips to far-flung IAIS member countries to engage with the IAIS. This year has been no exception, but with the air-miles stacking up, the pilots of the IAIS have taken significant steps to bring ICS version 2.0 in to land.

**“The pilots of the IAIS have taken significant steps to bring ICS version 2.0 in to land.”**

### Preparations for landing

GFIA's journey in the past year began at the IAIS's Annual Conference in Kuala Lumpur, Malaysia in November 2017. There the IAIS announced its “unified path to convergence of group capital standards” and published its plans for the implementation of the ICS. GFIA has long called for details as to how the IAIS planned to implement the ICS, and the two-phase approach announced by the IAIS provides a more realistic timetable for its monitoring and implementation. It includes a five-year monitoring period, allowing the IAIS to continue to test and refine the ICS; necessary given the work required ahead of planned adoption by the IAIS in November 2019.

The IAIS announcement has certainly increased the prospect of the IAIS dream of a common methodology coming true, but it has also raised a good number of questions. GFIA members travelled to Basel, Switzerland to ask the IAIS some of those questions in December 2017. This was followed by a trip to an unexpectedly snowy Nashville, USA in January 2018 where the IAIS heard the views of a wide range of stakeholders, including a number of members of GFIA's capital working group. GFIA

appreciated the IAIS's question and answer sessions following these stakeholder events, which provided further details on its development plan for the coming years. We look forward to continuing to work with the IAIS as it fills in the remaining gaps in this plan.

### Final descent

The announcement of the implementation plan in Kuala Lumpur highlighted just how little time the IAIS has left for the development of an implementable standard. Significant work is required to ensure it properly reflects and measures insurers' underlying business models, and many questions remain unresolved about the final shape of the ICS.

Landing an adequate framework in such a short time would be a challenge for a single jurisdiction, yet only one consultation and one field test remain ahead of the standard's planned adoption in 2019. GFIA's global membership has given me an insight into the challenges of arriving at a global consensus, which leaves me feeling that, for a global standard, this is a very short runway indeed. Nor is it clear that all air traffic controllers fully understand what kind of aircraft is trying to land. Will it be driven by a GAAP engine or an MAV (market-adjusted valuation) one?

GFIA's next stop was Moscow, Russia for the IAIS's Global Seminar in July 2018, hosted by the Central Bank of Russia. The IAIS shared some insights into ICS version 2.0 and GFIA was pleased to see details of the IAIS's proposals for the five-year monitoring period. The IAIS again held its usual Executive Committee dialogue session, and GFIA took part, submitting a number of questions. Unfortunately, this turned out to be a heavily-scripted session, with questions pre-screened and answers pre-prepared — so a rather frustrating “dialogue”, highlighting how uneasy the IAIS's global consensus is.



“Landing an adequate framework in such a short time would be a challenge for a single jurisdiction ... for a global standard, this is a very short runway indeed.”

**Version 2.0 has landed**

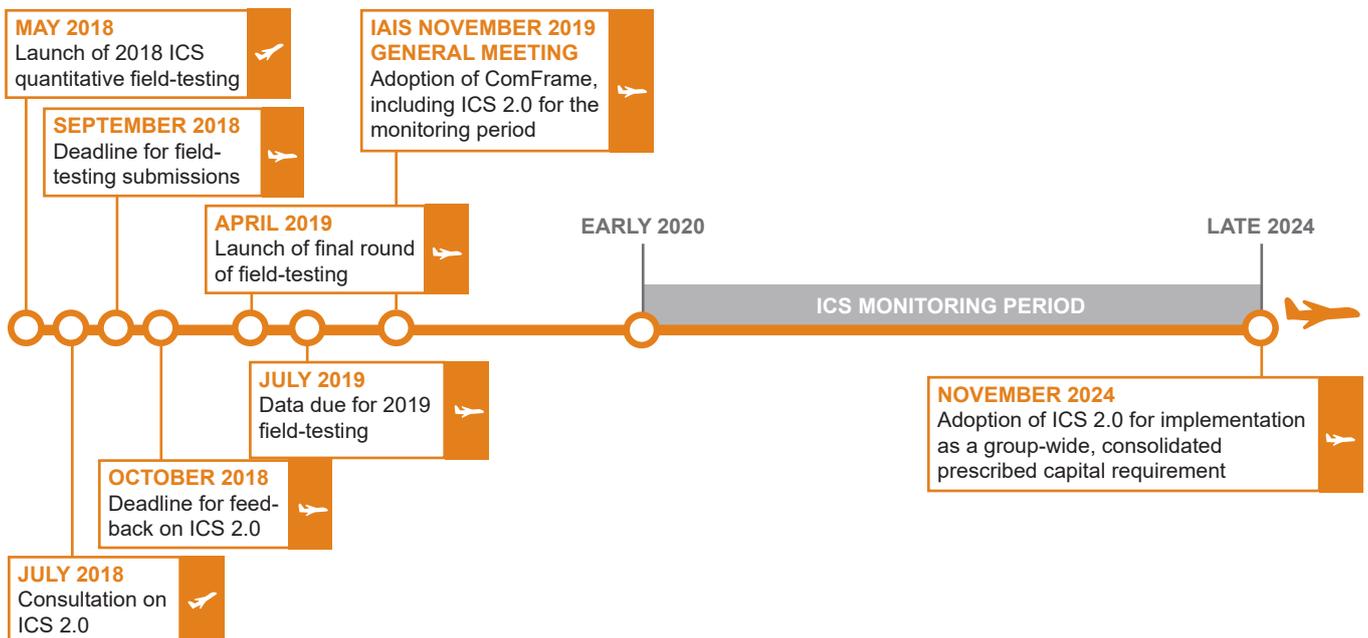
Shortly after the Global Seminar, and true to the IAIS’s ambitious timeline, ICS version 2.0 landed for a 90-day consultation. Once again, we have a technical consultation that glosses over the uncertainty of purpose and design flaws that GFIA has outlined in its responses to previous consultations. From the perspective of my own market, the UK, the margin over current estimate is a case in point, where a clear explanation of its function and necessity remains elusive, and multiple options continue to be tested, even at this late stage.

Many times it has been suggested to me that these issues will

be easier to address when more is known about the technical detail. I have my doubts: technical solutions without a clear purpose tend in my experience to go wrong. As the ICS begins its taxi down the runway toward the implementation gates, we have now received as much technical detail as we are going to get. It is time for GFIA to engage with the technical detail to back up our arguments, born of the experiences of our own jurisdictions, if we wish to see improvements.

GFIA must now make those technical arguments if ICS version 2.0 is to arrive at the right gate and satisfy the immigration authorities. We have at least obtained a five-year period of quarantine to test the ICS for infectious diseases. ➤

**ICS and field-testing flight plan**





Chair, GFIA ComFrame working group  
**Stef Zielezienski**  
*American Insurance Association*

## Seeking a flexible framework

GFIA calls for flexibility, proportionality and materiality in the IAIS's ComFrame project

The IAIS reached a noteworthy milestone in the development of its common framework for supervising international insurance groups (ComFrame) in July 2018.

It released drafts of the overall ComFrame (which contains ComFrame material in Insurance Core Principles (ICPs) 5, 7, 8, 9, 10, 12, 15, 16, 23 and 25 and ICS version 2.0 (see p10) for consultation. While there are some positive developments in the materials, GFIA continues to have concerns about some details and the project's ultimate direction.

Encouragingly, the ComFrame consultation stresses — as GFIA has previously advocated — the importance of cooperation and coordination among insurance supervisors across multiple jurisdictions. Developing ComFrame around this objective will help avoid supervisory gaps as well as duplicative and unduly burdensome regulation.

GFIA is pleased with the IAIS's recognition that ComFrame must provide flexibility to supervisors in applying these standards to fit within varying corporate structures and legal regimes, and we look forward to seeing that principle borne out in all final ComFrame products. Similarly, GFIA is encouraged by the IAIS's statement that ComFrame standards are "outcome-focused" requirements for supervisors. Taken together, the overarching principles of flexibility and outcome-driven standards are critical to achieving the IAIS's ultimate goal of designing risk-focused supervisory guidance that can be applied throughout differing jurisdictions.

That said, portions of the proposed ComFrame material are not clearly flexible and outcome-focused. In these instances, GFIA will suggest additional explanatory or clarifying text to ensure ComFrame can be applied within the existing regulatory framework of each jurisdiction as intended.

GFIA members have continued to stress that proportionality is another important, overarching ComFrame principle for supervisors to consider in developing standards. The consultation document states that proportionality is essential to applying ComFrame standards effectively and efficiently, while avoiding unnecessarily burdensome regulation. Moreover, proportionality also promotes a level playing field because the principle dictates that insurance groups that are similar in nature, scale and complexity must be treated consistently by supervisors. The importance of proportionality will continue to guide our interactions with the IAIS.

### Materiality is important

However, another critical concept — materiality — is not included in the section of the consultation discussing the overarching principles of ComFrame. Although the consultation mentions materiality in the context of corporate governance in ICP 7, the materiality of risks is an overarching concept that should inform ComFrame as a whole. Therefore, GFIA will encourage the IAIS to include materiality with the other overarching concepts in the ComFrame Introduction.

With these ComFrame objectives in mind, GFIA's ComFrame Working Group submitted feedback to the IAIS in October 2018. GFIA also submitted feedback on the IAIS's proposed changes to ICP 6 (Changes in control and portfolio transfers) and ICP 20 (Public disclosure) in August 2018. In response to both consultations, GFIA stressed the importance of the principle of proportionality and protecting confidential information. The ICP 20 proposal, however, was particularly problematic. We noted that portions of the changes were overly prescriptive, unduly burdensome and duplicative of existing financial regulatory requirements. Because of these concerns, GFIA asked the IAIS to release an additional ICP 20 consultation for stakeholder feedback. ➤



Chair, GFIA systemic risk working group  
**Nicolas Jeanmart**  
*Insurance Europe*

## In on the action

GFIA provides feedback as the IAIS starts an activities-based approach to systemic risk

Over the last year, the IAIS has continued its work on systemic risk in insurance and on recovery and resolution-related issues under the G20 mandate to the FSB to ensure that no financial institution is “too big to fail”.

As anticipated in its 2017 Work Plan, the IAIS has begun the process of reassessing what constitutes systemic risk in insurance and, in late 2017, it launched a first consultation on an activities-based approach (ABA) to systemic risk. An ABA looks at common exposures and at activities at a sector-wide level.

GFIA responded in February 2018 to the IAIS consultation,

### ComFrame elements in ICPs

In July 2018, the IAIS launched a consultation on its draft common framework (ComFrame) for the supervision of internationally active insurance groups (see also opposite). A subset of the new ComFrame provisions published by the IAIS relates to and expands on Insurance Core Principle (ICP) 12, which covers exits from the market and resolution, whereas other provisions relate to recovery planning and expand on elements of ICP 16 (Enterprise risk management for solvency purposes).

GFIA has responded to the IAIS consultation. Consistent with its long-held views, it argued in favour of resolution tools and preventive measures that are appropriately tailored to the insurance business model and proportionate to the resolution objectives, which should be clearly defined.

noting that traditional insurance is not systemically risky and that systemic risk from individual insurers can only originate from a very limited number of activities undertaken on a large scale and in the wrong conditions. In GFIA's view, the IAIS's work is still at too early a stage — with many aspects in need of clarification — for it to be possible to provide a definitive view of the new approach proposed.

Nonetheless, GFIA believes that a proportionate and properly-designed ABA could correctly focus on both the failure of individual insurers and the potential knock-on effects, as well as on how firms (even if individually solvent) may, through their collective risk exposure, propagate or amplify shocks to the rest of the financial system and the real economy. Because the ABA could consider counterparty exposures by analysing the nature of underlying activities, a separate entity-based approach (EBA) to systemic risk would be redundant.

In its response, GFIA also reiterated that an EBA was simply not appropriate for assessing systemic risk in insurance because this risk should always be determined holistically rather than through the use of EBA indicators, which are overly biased towards measuring the size of an insurance group.

Importantly, GFIA highlighted that any new assessment of systemic risk should go beyond merely identifying whether activities exist that give rise to potential vulnerabilities. It should also consider:

- whether the risk stemming from those activities can actually be transmitted to the global financial system and clearly identify the transmission channels; and,
- the materiality of the potential systemic risk transmitted to the financial system. In the assessment of materiality, additional factors that may mitigate systemic risk should be considered to ensure the accuracy of the assessment. ➤



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

## Taking centre stage

The problem of financial exclusion is finally getting the recognition it deserves

Insurance policies, savings, investments, loans, pensions — there are many different types of financial services that allow individuals and enterprises to function and maximise their opportunities. Financial literacy and financial awareness are therefore important skills in the modern world. And in an ever more complex world, those skills are crucial.

GFIA is keen to play its part in helping to find innovative ways to boost financial literacy and bring financial products and services to excluded or underserved individuals, whether they are in emerging or developed markets. The mission of its financial inclusion working group is to enhance the ability of member associations to develop and maintain an effective programme of financial inclusion in their markets.

### Inclusion in the spotlight

Financial inclusion, and specifically inclusive insurance, is an undeniably international issue and one that GFIA is honoured to contribute to in international fora. In May 2018, I had the pleasure of speaking at Insurance Europe’s International Conference in Madrid. It was very reassuring to see that the theme of financial inclusion ran through the conference. This is a highly positive development.

Traditionally, financial inclusion was viewed as an issue for developing countries. However, there is an increasing awareness of the implications for consumers in developed countries of a lack of financial education. In terms of insurance, for example, either these consumers do not have sufficient risk coverage, as has been demonstrated by the natural catastrophes of the last 12 months, or they have a lack of awareness about their coverage. One example of this is when consumers purchase products that include an insurance aspect and are either unaware of what is covered or are even unaware that they are covered at all.

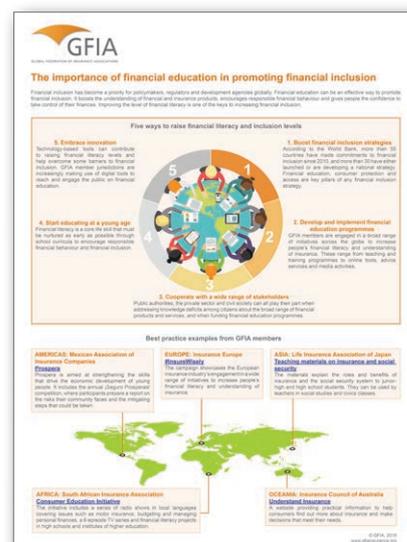
**“There is an increasing awareness of the implications for consumers in developed countries of a lack of financial education.”**

Insurers need to ensure that they are taking a consumer-centric approach. It is of paramount importance that companies design a business model that has this focus. This is a question of balance. We have to make sure product design serves the needs of individuals. And we must ensure that products are accessible and can be brought to the public. Designing products that fit the real needs of consumers is the most crucial element.

### Best practice

In August 2018, GFIA published an infographic setting out the importance of financial education in promoting financial inclusion around the world. It contains examples of best financial education practices among GFIA members and sets out five ways to increase levels of financial literacy and inclusion:

- **Boost financial inclusion strategies** — According to the World Bank, more than 55 countries have made commitments to increase financial inclusion since 2010, and more than 30 have either launched or are developing a national strategy.



*Recaredo Arias (centre) participating on behalf of GFIA in the "Including the excluded" panel debate at Insurance Europe's May 2018 International Conference.*



- **Develop and implement financial education programmes** — GFIA members are engaged in a broad range of initiatives around the world to increase people's financial literacy and understanding of insurance.
- **Cooperate with a wide range of stakeholders** — Public authorities, the private sector and civil society can all play their part in addressing knowledge deficits among citizens about financial products and services, and in funding financial education programmes.
- **Start educating at a young age** — Financial literacy is a core life skill that must be nurtured as early as possible

through school curricula to encourage responsible financial behaviour and financial inclusion.

- **Embrace innovation** — Technology-based tools can contribute to raising financial literacy levels and help overcome some barriers to financial inclusion.

With the Argentinian G20 presidency goal of “unleashing people's potential” (see box), alongside workstreams at both the IAIS and the OECD, education is set to remain on the international agenda. GFIA will continue to play a key role in supporting this work, sharing its expertise through outreach and engagement. 🏹

### G20: unleashing people's potential

For 2018, Argentina has taken on the rotating presidency of the G20. As this marks the first time a South American nation has held the presidency, Argentina is in the unique position of being able to set global goals from a South American perspective. One of the three key priorities it has set relates to the future of work. Within this broad topic, Argentina is aiming to “unleash people's potential”. It is seeking to provide individuals with the tools and skills necessary to prosper in the modern world. Education is clearly at the heart of this.

In December 2017, I had the pleasure of being part of a GFIA delegation that met key representatives of the Argentinian G20 presidency. Naturally, financial inclusion was one of the key issues we covered in our discussions. GFIA has the knowledge and expertise to support the G20 goal of enhancing financial inclusion and we were pleased to be able to share our views and insight.

The Argentinian representatives were very supportive of GFIA's engagement, in particular the presentation of different jurisdictional experiences, and they were clearly aware of the need for jurisdictions to learn from each other. The importance of trust was underlined as key — among investors and consumers alike — in promoting the uptake of insurance and other financial services.

The insurance industry is well placed to support efforts to raise financial awareness and has, at the same time, positioned itself at the forefront of innovation, with insurers taking a pioneering approach to embracing technology. Through facilitating access, financial services are being made available to those who would normally be excluded.



Chair, GFIA extreme events working group  
**Dennis Burke**  
 Reinsurance Association of America

## Double hit

This year, GFIA has worked on both the physical and the regulatory impacts of climate change

There is no doubt that the number of extreme events and the economic losses they cause are increasing. Data collected by Munich Re shows an increase of 52% when the number of natural catastrophes during the period 2007–2017 is compared with the number in 1987–1997. A comparison of economic losses in the two periods shows a rise of 82%.

And 2017 itself was a record year for the wrong reasons: insured catastrophe losses — overwhelmingly natural but also man-made — were the highest ever recorded at \$144bn (€125bn), according to Swiss Re (see chart opposite). This was largely as a result of the damage caused by Hurricanes Harvey, Irma and Maria in the Caribbean and the US, but also due to record wildfire losses in California.

Economic losses were well over twice the insured losses, totalling \$337bn (see table below). This means that the global catastrophe protection gap was a massive \$193bn.

**“GFIA acknowledged the appropriate role of supervisors in evaluating whether changes in climate create a solvency risk for one or more insurers.”**

Whether geophysical, meteorological, hydrological or climatological, extreme event risks are complex and need to be tackled in an integrated way by various parties, including governments, regulators, financial sector players, other sectors and, more generally, by society as a whole.

As far as public authorities are concerned, it is vital that they enhance resilience and focus on the implementation of adaptation measures through effective prevention planning. The insurance sector, for its part, has long-standing experience in providing protection against natural catastrophes and is therefore well placed to provide advice to public authorities on adaptation projects in the context of a changing climate.

### Economic losses from catastrophes — 2017

Region	in \$bn	as % of GDP
North America	244	1.17%
Latin America & Caribbean	32	0.59%
Asia	31	0.11%
Europe	24	0.12%
Africa	3	0.14%
Oceania/Australia	3	0.22%
<b>Total</b>	<b>337</b>	
World total		0.44%
10-year average*	190	0.25%

\* inflation-adjusted

Source: Swiss Re Sigma No. 1/2018

### Adaptation and regulation

This year, the GFIA extreme events working group considered the impacts of climate change on both the physical environment and also on insurance regulation.

First, the group expressed support for improved, effective, risk-appropriate building codes and for infrastructure construction that take into consideration changing conditions. The group also agreed to share ideas on how to increase the use of private insurance to close the economic protection gap, particularly for flood risk, and how to increase the use of technology to model and communicate risk in order to help consumers understand their exposure.

*Hurricane Irma inflicted \$67bn (€58bn) of losses across many Caribbean islands and in the USA in September 2017.*



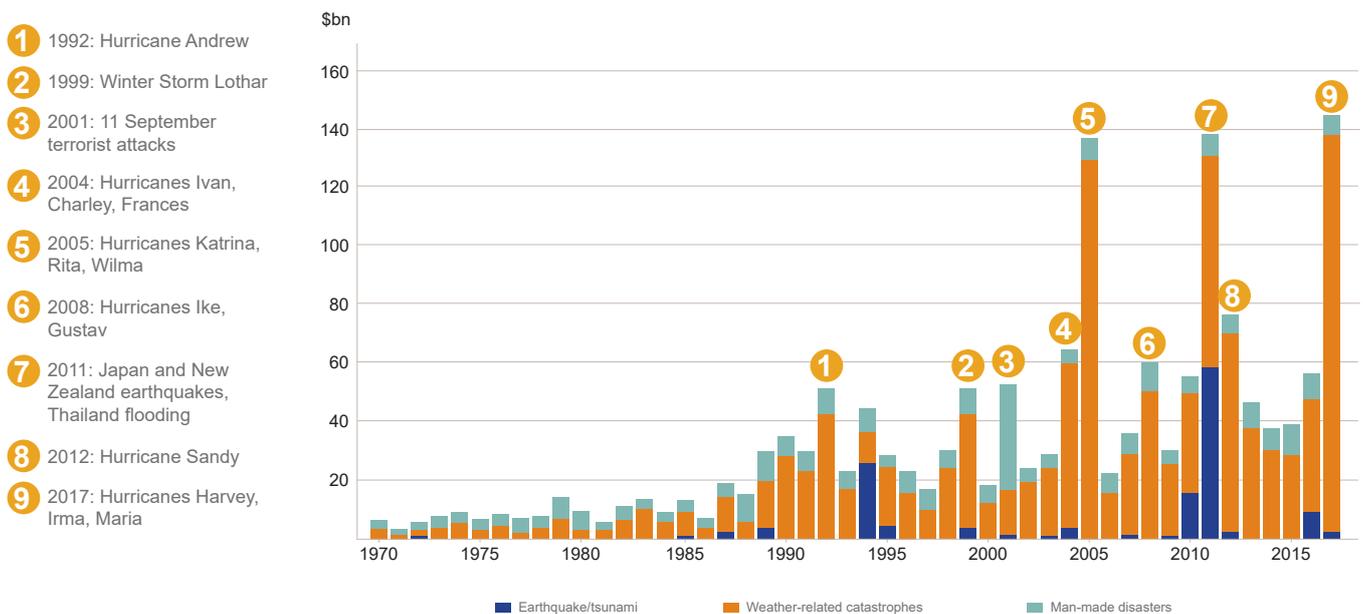
Then, in response to the March 2018 draft of the IAIS and Sustainable Insurance Forum (SIF) “Issues Paper on Climate Change Risks to the Insurance Sector”, the group developed a global consensus on the appropriate role of regulation in an environment affected by climate change. Despite differences in national and regional politics around climate change, its causes and ways to address it, common ground was found.

GFIA's extreme events working group acknowledged the appropriate role of supervisors in evaluating whether changes in climate create a solvency risk for one or more

insurers. However, the group called for the IAIS/SIF draft to be amended to avoid blanket assumptions about the expected risk of carbon-intensive investments.

GFIA also called on the IAIS/SIF to investigate and acknowledge existing, proactive responses by insurers to climate change issues in key areas such as investment, underwriting and (transition risk) management. It further noted that a number of issues related to climate change may require a jurisdictional response, as opposed to global initiatives. ➤

Insured catastrophe losses — 1970–2017 (\$bn at 2017 prices)



Source: Swiss Re Sigma No.1/2018



**Masamichi Kono**  
Deputy secretary-general  
OECD

## Building a vibrant cyber insurance market

As concerns increase over cyber attacks, challenges to growing the insurance market must be addressed

The growing reliance on digital technologies — while creating significant opportunities for innovation, convenience and efficiency — comes with digital security and privacy protection risks. Managing these risks is clearly a top priority for businesses.

In the World Economic Forum's most recent "Global Risks Report", for example, cyber attacks were identified as the risk of greatest concern for doing business in 11 OECD member countries — ranking above extreme weather events, terrorist attacks and other risks that have traditionally kept risk managers and insurance underwriters awake at night.

The potential role of the nascent cyber insurance market in enhancing cyber resilience is increasingly recognised. As it does in other business lines, insurance can play an important role not only in providing policyholders with financial protection against cyber risks that cannot be fully prevented but also in putting a price on cyber risk and sharing expertise on how best to reduce it.

### Small but growing market

While there have been insurance products to protect against certain cyber risks for close to 20 years, the cyber insurance market remains underdeveloped. Across OECD countries, cyber insurance accounts for less than 0.5% of gross written premiums in the non-life segment and no more than 1% of the premiums collected for general liability and property coverage. Insurance limits offered for cyber risks tend to be much lower than those offered for property or liability losses,

**“[There is] a level of accumulation risk that limits the ability of insurance companies to construct a pool of uncorrelated and independent risks.”**

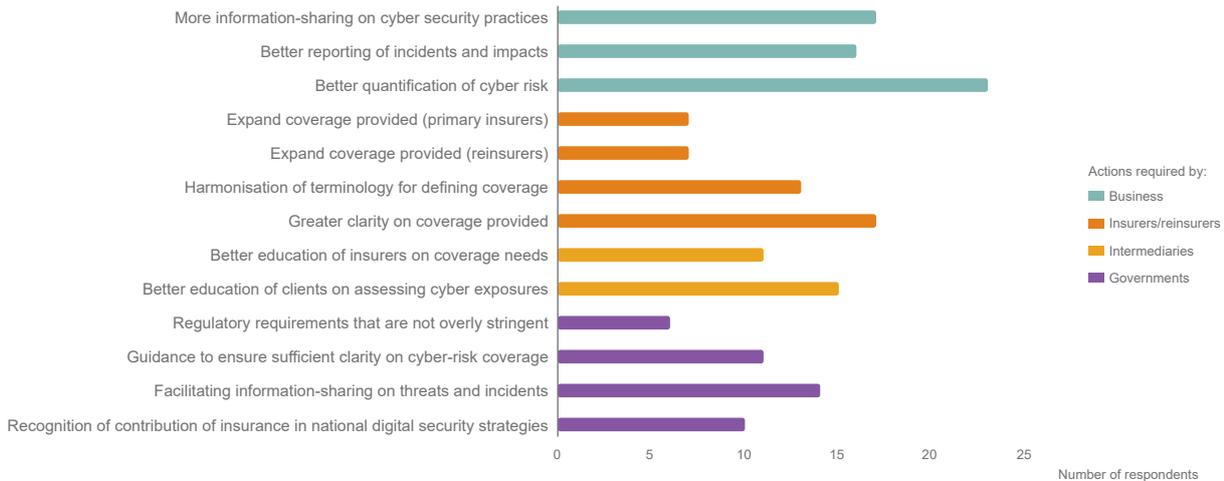
while the take-up rate is a fraction of the take-up rate for other commercial insurance policies.

This is changing. Recent high-profile incidents (and losses) and the expanding scope of privacy protection legislation are clearly increasing awareness of the potential costs of cyber incidents, resulting in greater demand for insurance coverage.

However, many challenges to the market's development still need to be addressed:

- The cost of cyber risk remains exceptionally difficult to quantify, limiting both the demand for cyber insurance coverage and insurance companies' willingness to provide coverage. Targets, attack methods and vulnerabilities are constantly evolving — as is the legal framework that governs compensation practices — creating an underwriting and modelling challenge that is unlikely to be overcome in the foreseeable future.
- The pervasiveness of commonly-used hardware and software applications across geographical and sectoral lines — and the scalability of many types of attack methods — create a level of accumulation risk that limits the ability of insurance companies to construct a pool of uncorrelated and independent risks, driving up the cost of insurance coverage.
- Insurance coverage for cyber risks remains relatively complex, with significant differences in definitions used across different policies, different triggers, different coverages and different exclusions. Coverage for cyber risks can also be found in different types of policies — both stand-alone cyber coverage and traditional property, fidelity and liability policies — which, while providing choice and innovation, has also led to significant confusion among corporate buyers.

**What actions would make the most important contribution to developing a vibrant cyber insurance market?**



Source: Online voting at OECD “Unleashing the potential of the cyber insurance market” conference, in collaboration with Marsh & McLennan Companies, February 2018

**OECD examines insurance contribution**

The OECD, through its Insurance and Private Pensions Committee and the High-Level Advisory Board on the financial management of catastrophic risks, has been examining the contribution of insurance to managing cyber risks since 2016.

In May 2017 in Italy, the OECD presented an initial analysis of the market and the challenges to its development to G7 finance ministers and central bank governors. It then published a more comprehensive report on “Enhancing the role of insurance in cyber risk management” in November of that year.

**Identifying priorities for action**

In February 2018, the OECD brought together leading experts from the industry and governments around the world to identify the priority areas for action to better leverage the contribution of insurance to managing this complex risk. There was a — surprisingly — high-level of consensus about what needs to be done to better leverage the contribution of insurance to cyber-risk management:

- Businesses need to improve their understanding of the cyber risks that they face, the potential financial consequences and how to best reduce those risks. Greater information-sharing on incidents and cybersecurity practices would make an important contribution to better risk management but will only occur if businesses also benefit from sharing that information.
- Intermediaries have an important role to play in educating their clients on how to assess their financial exposure and in advising insurers on better aligning their coverage with client needs.
- Insurance companies need to provide greater clarity

on the coverage that they are providing for cyber risks and where that coverage can be found — particularly as cyber insurance take-up increases among smaller companies and even individuals. Continued innovation will be critical to close the remaining gaps between client needs and the coverage offered (eg in areas such as reputational impacts and first-party intellectual property theft).

- Governments need to recognise the potential for cyber insurance to contribute to better risk management and should encourage the further development of the market by sharing information and expertise on threats and vulnerabilities and establishing supervisory and regulatory requirements that take into account the need to support a more efficient and resilient cyber insurance market.
- The continued development by governments of guidance on good cybersecurity practices can also make an important contribution to supporting the insurability of cyber risks, particularly among smaller companies and individuals.

**“Businesses need to improve their understanding of the cyber risks that they face, the potential financial consequences and how to best reduce those risks.”**

**Joint effort to find solutions**

Increasing digitalisation will ensure that this risk remains at the top of the agenda for the foreseeable future. At the OECD we look forward to continued collaboration with GFIA and its members, as we believe these challenges will only be overcome if all stakeholders — policymakers, (re)insurers, intermediaries and companies — work together in identifying potential solutions. ➤



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

## Into the breach

To serve our ever more interconnected world, GFIA has increased its focus on cyber risks

As cybersecurity threats evolve and remain an ever-present reality for society and business operations, GFIA has expanded the scope and volume of its work on cybersecurity and cyber insurance. Over the past year, it has explored the operational and product implications resulting from the intersection of innovation and cybersecurity, has finalised a paper of “Observations on cybersecurity” and has continued to provide global insurance industry views on cybersecurity and insurance to the OECD and other international organisations.

### **An agenda-setting paper**

Setting the agenda for global work on cybersecurity and insurance, in March 2018 GFIA released its “Observations on cybersecurity”. The paper set out the insurance industry’s preferred approaches to cybersecurity and highlighted some of the challenges to the development of cyber insurance products.

In the paper, GFIA called on governments to harmonise the baseline data security expectations in regulation, legislation or guidance documents. There should be coordination at international level to avoid multiple, inconsistent regulations for international businesses. It also pointed to the importance of flexible, risk-based approaches to cybersecurity and the need for greater sharing of information about threats and incidents, as well as advocating public-private partnerships to leverage the expertise of all parties with a stake in cybersecurity.

The paper highlighted the main challenges to the growth of cyber insurance. These challenges are applicable to both the currently most developed market (the US, see charts opposite) and nascent markets. They include the lack of data and risk modelling, the problem of risk aggregation and the lack of awareness of cyber risks. GFIA also suggested ways in which markets can be encouraged to grow organically to meet the needs of consumers.

The paper was well received by industry, government and civil society representatives from around the world at an OECD conference on unleashing the potential of the cyber insurance market in Paris, France in February 2018. GFIA’s involvement in the OECD conference was no coincidence — it has been providing substantial feedback to the OECD over the last year, as OECD governments grapple with how to best coordinate their efforts on cyber insurance lines. GFIA members had likewise previously provided feedback throughout the drafting of the OECD’s report “Enhancing the role of insurance in cyber risk management”, which was published in December 2017. The OECD’s insurance and private pensions committee is currently planning its next steps on cyber insurance, on which GFIA is providing support.

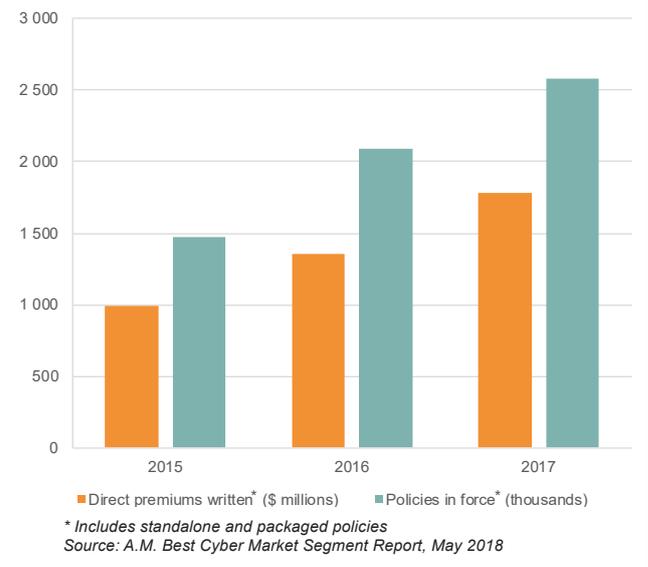
### **Addressing emerging risks**

GFIA has also sought to address emerging technology issues related to cybersecurity. Emerging vehicle technologies, smart homes and advancements in medical devices underscore the pervasiveness of cyber risks in our evolving society. Insurers have to be part of the discussions and the solutions to emerging risks.

**“Emerging vehicle technologies, smart homes and advancements in medical devices underscore the pervasiveness of cyber risks in our evolving society.”**

At the GFIA General Assembly in May 2018 in Madrid, the cyber risks and disruptive technology working groups led a discussion on the cybersecurity threats that emerging technologies pose, how insurers can respond to protect their own operational risks and the need for vigilance in understanding how these risks impact product offerings. The two groups also focused on the best ways for the insurance industry to interact with supervisors,

US cybersecurity premiums and policies — 2015–2017



including the IAIS, to ensure that insurtech is approached in a way that is conducive to technological developments and also takes into account cybersecurity issues.

**IASB and FSB consultation responses**

GFIA is strengthening its position as the industry’s voice on cyber issues for international bodies such as the IAIS and the FSB, as well as for governments around the world. In recent months, it has commented on both an IAIS and an FSB consultation.

The IAIS consultation was on additional guidance to supervisors seeking to develop or enhance their approach to supervising

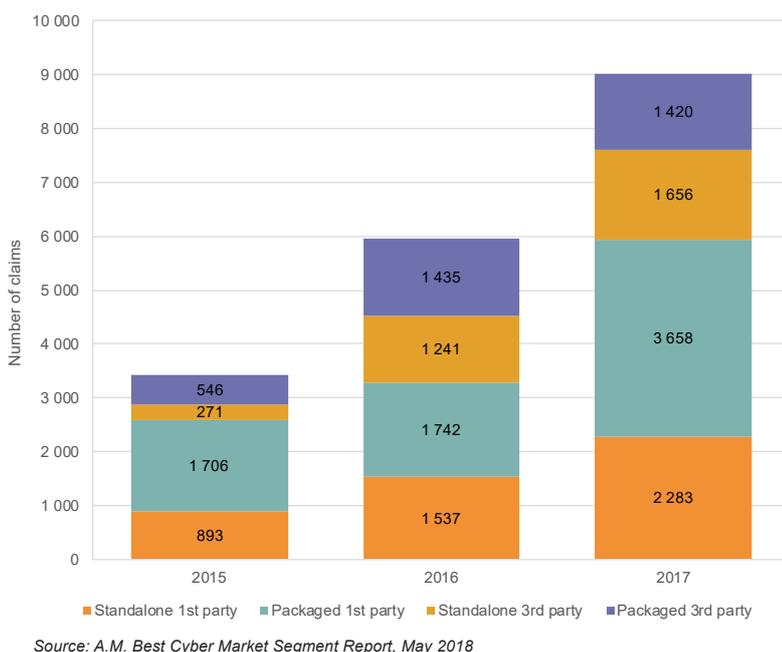
the cyber risk, cybersecurity and cyber resilience of insurers. GFIA supports harmonisation and coordination between supervisors to the extent possible, but cautions against any restrictions on the ability of insurers and supervisors to adapt in the face of rapidly changing cyber threats, supporting instead outcome-focused, risk-based and proportional guidance.

**“GFIA cautions against any restrictions on the ability of insurers and supervisors to adapt in the face of rapidly changing cyber threats.”**

The FSB consultation, meanwhile, was on a cyber lexicon that the FSB is developing to provide consistency for its workstreams, such as information-sharing and cross-border guidance. While welcoming the FSB’s efforts, GFIA believes that forcing the standardisation of terminology could hamper innovation in the development of insurance products and that alignment of terminology is already occurring organically.

GFIA is also continuing to promote information-sharing between its members to aid in the global understanding of cyber risks and to enhance its role as a resource for supporting a comprehensive examination of the risks. Importantly, in the aftermath of a breach, understanding and sharing global reactions is invaluable for increasing awareness and developing responses. Looking ahead, to better understand how the cyber insurance market is developing internationally, GFIA will be surveying its members about the types of coverage being offered in each jurisdiction. ➤

US cybersecurity claims by policy and type of claim





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

## Up to speed

Emerging technologies require nimble responses from insurers and their regulators

As technological advances and innovations transform social and economic realities, it is crucial that policy and regulations keep pace with the speed of change. Implementing innovations should be a business decision for individual insurers but regulatory barriers often inhibit even the most rudimentary modernisations. For insurers to be on the frontline of innovation, regulatory frameworks must reflect modern-day realities.

Insurers are taking every opportunity to promote regulatory environments that support innovation and benefit consumers. This includes promoting the “Principles for Innovation and Insurance” drafted last year by the GFIG disruptive technology working group to steer the discussion with government and regulators on the implications for public policy of innovation and disruption in the insurance market. These principles stress the need for proportionate, principle-based and technology-agnostic regulatory frameworks that continue to protect consumers without stifling innovation. In turn, this will allow insurers to meet customer demands.

### Connections create challenges

The obligation of industry associations does not end with advocating better regulatory supervision — in fact, it is just the beginning. Things are becoming increasingly complex, and that is a trend we can expect to continue. The emergence of interconnected digital ecosystems that transcend traditional industrial and national boundaries creates new opportunities but also leads to new risks for which preparation is difficult. This was illustrated through a joint exercise by GFIG’s disruptive technology and cyber risks working groups to explore the cyber-risk implications of emerging innovations and connectivity, and their effects on the business of insurance.

While the supervisory response to innovation may vary from one jurisdiction to the next, the integration and complexity

of the ecosystem is leading to calls for greater cooperation among supervisors. International bodies such as the IAIS are showing increasing interest in issues related to innovation, disruption and consumer protection. The work of some of these international bodies will likely influence the policies of domestic regulators, who may be grappling with the fast-paced, borderless nature of innovation and the limitations of supervision in domestic silos.

### Innovation facilitators required

At their May 2018 General Assembly meeting, GFIG members discussed the joint findings of the disruptive technology and cyber risks working groups and agreed that more work was needed to explore the regulatory challenges that hinder insurance innovation. GFIG will then seek to proactively engage with the IAIS on the impact of emerging technologies, innovation and other disruptors on insurance. A closer GFIG–IAIS working relationship may help to encourage IAIS members to create regulatory environments receptive to incumbent insurer innovation. More specifically, GFIG will encourage national supervisors to use innovation facilitators to help strike the right balance between innovation and consumer protection, while at the same time allowing them to identify regulations that hinder innovation.

As technology ushers in an era of uncertainty, it is imperative that regulators incorporate flexibility into their frameworks to allow insurers to adapt to changes in risk and demands for new products. Supervisors will need to maintain the delicate balance between encouraging socially useful innovations and ensuring consumers remain protected. As the pace of change quickens, supervisors will need to be nimble, making their own supervisory adjustments accordingly. GFIG can play a role as a meaningful stakeholder as supervisors adapt regulatory responses to the rapidly changing insurance landscape. ➤



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

## The same but different

GFIA seeks proportionality and sufficient flexibility in international governance rules

The past year has proved to be very busy on international governance issues, once again demonstrating the importance of having a global insurance body to coordinate industry responses. In the last 12 months, the federation has provided comments on an IAIS application paper on the role of boards and on various IAIS Insurance Core Principles (ICPs). The corporate governance working group also provided input into a response to a draft IAIS climate change paper (see p16).

Overall, we were pleased with the recognition by supervisors of the reality that companies have different, but still successful, corporate structures. The IAIS likewise continued to reiterate the importance of proportionality. GFIA supported these concepts when they appeared in IAIS documents.

### Blurring boards and supervisors

Despite this, there was a strong supervisory push towards increasing the oversight of day-to-day company activities. For example, the IAIS application paper on the role of the board would grant supervisors the right to attend board meetings, to oversee the recruitment of new board members and to interview individual board members. These provisions seemed to be overreaching and a dangerous blurring of the line between the role of the supervisor and the role of the company board and management.

**“These provisions seemed to be a dangerous blurring of the line between the role of the supervisor and the role of the company board and management.”**

The supervisory papers also seem not to adequately recognise existing corporate governance regimes, some of which — in whole or in part — are applicable to all publicly traded companies, including insurers. Governance

supervision is also being used increasingly as an aspect of conduct of business, to ensure the undefined “fair treatment” of consumers. And governance supervision will likely play a larger role in supervisory enforcement of social or political agendas. Accordingly, governance issues will take on even greater importance and will become of greater interest in the future.

On the climate change paper, GFIA members came together with a strong global consensus that companies should be allowed to manage their own risks, subject to applicable supervision, and that supervisors should avoid mandating investment practices (forced investing or disinvesting) that might weaken a company’s financial position.

For next year, we are already working on the ComFrame-related (see p12) changes to ICPs 5 (Suitability of persons), 7 (Corporate governance), 8 (Risk management and internal controls) and 16 (Enterprise risk management for solvency purposes). We also expect to see international governance supervisory activity outside the IAIS, possibly at the FSB and OECD.

### Let’s talk

Based on this and prior years’ experience, it would be mutually beneficial for the IAIS to provide more opportunities for dialogue at the working group level. While the stakeholder sessions at the beginning and end of consultations are appreciated, they fall far short of the mutually beneficial dialogue there once was on many issues, including governance supervision. A greater degree of dialogue with supervisors would better position GFIA to respond positively to supervisory concerns, while avoiding some of the overly intrusive elements in some of the recent supervisory documents. ➤



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

## Operating on uncertain ground

Some small victories for free trade in a difficult global environment

The success of GFIA's December 2017 outreach to the Argentinian G20 presidency in Buenos Aires (see Foreword) was in contrast to the comparative failure of the WTO's 11th Ministerial Conference, which occurred at the same time. The WTO trade ministers failed to achieve any multilateral outcomes to reinvigorate multilateral trade talks. Since then, many GFIA member governments have focused more on regional and bilateral negotiations which, along with some unilateral reforms in China, may create meaningful commercial opportunities for GFIA member companies in the absence of a more viable advancement of any multilateral framework.



### CBIRC makes energetic start

As President Xi of China announced at the October 2017 National Congress of the Communist Party, China has begun a fundamental reform of financial services regulation focused on improving regulation and service to Chinese consumers. As part of this, China has merged the China Insurance Regulatory Commission with the China Banking Regulatory Commission to form the new China Banking and Insurance Regulatory Commission or CBIRC. The merged commission began operation in April 2018 and in June it published draft revised regulations to further open the life insurance sector by raising the cap on foreign ownership to 51%.

GFIA provided substantive comments to the CBIRC on these draft Revised Administrative Regulations on Foreign-

Invested Insurance Companies and draft Implementation Rules for the Administrative Regulations on Foreign-Invested Insurance Companies. As the draft regulations were general in nature and the 51% cap was only intended to be temporary, GFIA urged the CBIRC to remove the equity cap in its entirety now rather than wait several years. Full removal would promote the development of an insurance sector that can better serve Chinese consumers and support sustainable growth in foreign long-term investment.

Despite the fact that some significant barriers remain for foreign players in the Chinese insurance market, such as the higher counterparty risk charge for cedants transferring risk to offshore reinsurers under China's solvency regulation C-ROSS (China Risk Oriented Solvency System) or restrictions on international data flows, the steps taken by the Chinese authorities are highly encouraging. China's steadily growing market makes it one of the most interesting for the sector and the proposed market-modernisation measures are a promising sign that international insurance and reinsurance trade will increase in the future.



### Indonesia under scrutiny

Another large Asian market on GFIA's radar is Indonesia. The IMF published the results of its assessment of Indonesia's observance of the IAIS Insurance Core Principles in early 2018. While not covering the area of trade per se, it showed where Indonesia's supervisory framework falls short of full observance of the IAIS framework. Full observance would,



*GFIA's trade focus this year has been to promote open and competitive markets in China, India and Indonesia.*

in GFIA's view, at least reduce some of the practical market-entrance barriers in place in many countries. Indonesia, for example, continues to have an elaborate regime of (re)insurance retention limits in place, eg compulsory cessions of certain risks to domestic Indonesian reinsurers only, including to Indonesia Re, the state reinsurer.

Additionally, GFIA is concerned about restrictions on international data transfer in Indonesia, thus requiring companies to establish data and disaster recovery centres in the country. Encouragingly, draft amendments to the regulations governing this were published in February 2018 and foresee a relaxation of the data-localisation regime. These amendments, although they do not cover all the transactions relevant for the insurance sector, would allow certain data to be stored and processed outside Indonesia. Again, this may only be a small win, but it is certainly something to build on in the future.



#### Overlooked in India

Despite the partial success of GFIA members' efforts last year to convince the Insurance Regulatory and Development Authority of India (IRDAI) to eliminate the first tier of its "order of preference" regime, which allows GIC Re, the state-owned reinsurer, the right of first refusal of all local reinsurance risks, it currently looks as though the IRDAI is only willing to move ahead with removing restrictions for life reinsurance and not for non-life reinsurance. While this is not the hoped-for outcome, GFIA will continue to advocate

that the requirement be lifted for all lines and the corrected regulations finalised and announced.



#### OTHER DEVELOPMENTS

##### EU/US following through on commitments

Taking a short step away from the political trade arena, results appear to be more promising at the technical level. After the successful conclusion of the bilateral ("covered") agreement between the EU and the US on prudential measures for (re)insurance in early 2018, regulators on both sides of the Atlantic have now rolled up their sleeves to start implementing the commitments made in the agreement. It is encouraging that the US National Association of Insurance Commissioners has under way a transparent, inclusive and considered process to amend its Credit for Reinsurance Model Law/Regulation in a timely manner in order to implement the agreement.

##### Swimming against the tide

Today's political environment is not only halting progress on negotiations in which GFIA has invested significant effort in recent years, such as the Trade in Services Agreement (TISA) between 23 members of the WTO, but it is also jeopardising long-established relationships and threatening the multilateral trading system in general.

In times like these, it is more critical than ever that like-minded international organisations, such as GFIA, do not rest in calling on policymakers to work towards free trade to the benefit of all. 🏹



Chair, GFIA ageing society working group  
**Nicolas Jeanmart**  
*Insurance Europe*

## Older and wiser

A new GFIA publication offers solutions to the global pension challenge

It is not only developed countries but also “young” ones that are — or soon will be — suffering from a rising old-age dependency ratio of retirees to workers, brought about by declining birth rates and rising life expectancies. In 2015, globally, there were 12.6 people aged 65 and over for every group of 100 working-age people. That figure is expected to double to 25.2 per 100 in 2050. Among OECD countries the figures are even more stark; there were 28 per 100 in 2015 and there are likely to be 53.2 in 2050.

This rapidly progressing demographic change leads to a widening gap between the social security contributions collected and the pension payments made, thus increasing the burden on public finances. Most governments have therefore engaged in pension reforms to increase the sustainability of their public pension systems. While these reforms have generally proved to be effective, they have also resulted in lower expected pension benefits (see chart).

### How can we be wiser?

Against the backdrop of this pension challenge, GFIA released its report “Older and wiser: Solutions to the global pension challenge” in May 2018. It urges policymakers to promote funded pensions alongside traditional pay-as-you-go systems to bolster multi-pillar pension systems.

**“Multi-pillar systems are the most effective way to ensure the sustainability and adequacy of pension systems.”**

Multi-pillar pension systems complement public pensions (the first pillar) with occupational (second pillar) and personal (third pillar) pensions. They are widely seen as the most effective way to ensure the sustainability and adequacy of pension systems because the factors that mostly affect the

first pillar are not fully correlated with those that affect the second and third.

In any multi-pillar pension system, life insurers have essential roles to play as major providers of occupational and personal pensions. Traditional insurance pension products play a key role in pension provision by offering minimum return guarantees, using risk-sharing mechanisms such as collective pooling and providing investment returns in line with the long-term market average. Insurers also cover biometric risks and they offer a range of options in decumulation, including lifetime annuities, regular drawdowns, lump sums or a combination of them all.

In its report, GFIA draws policymakers’ attentions to three areas: stimulating the uptake of private pensions, empowering consumers and fostering the efficiency of pension savings.

### Stimulating private pension uptake

First, to stimulate the uptake of private pensions, governments should implement or further improve enrolment systems. Among the enrolment systems in place, which have varied levels of compulsion, GFIA believes that auto-enrolment is best placed to overcome people’s inertia and to encourage participation. It is also likely to achieve the critical mass necessary for economies of scale, while still allowing individuals to opt out.

Another key factor is the configuration of the tax regime. GFIA believes that exempting contributions and investment income but taxing benefits (the exempt-exempt-taxed or EET configuration) has significant merits, notably as it encourages citizens to save early and also has the advantage of providing the government with tax revenue when it needs it most.

GFIA's pension publication is available to download at [www.GFIAinsurance.org](http://www.GFIAinsurance.org).



Governments should also provide every citizen with clear and accurate information about the expected value of their statutory pension benefits to encourage them to save more. This can be done by promoting national tracking services and dashboards.

**Empowering consumers**

The GFIA report also draws the attention of policymakers to consumer empowerment. An appropriate level of financial literacy must be ensured to empower individuals to plan for and

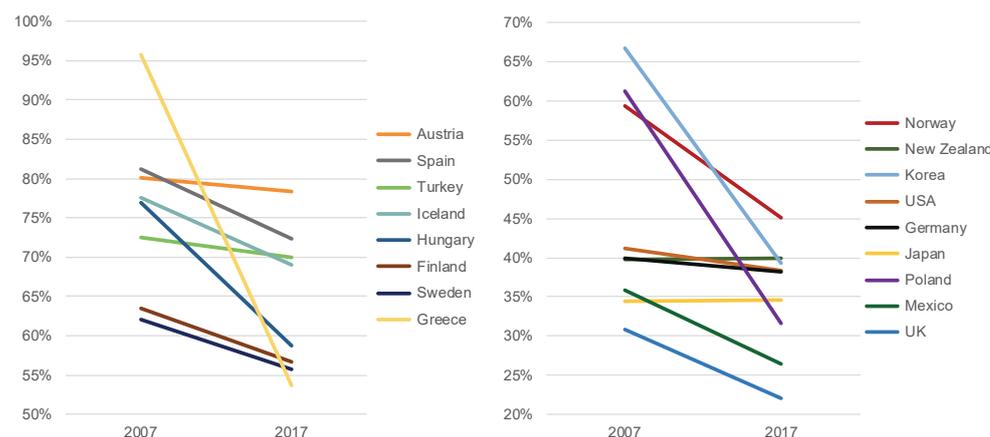
manage their financial future. To this end, national strategies are needed to promote financial education and support the work being done by insurers. Examples of industry initiatives include the development of educational materials, multi-year advertisement campaigns and consumer communications.

Another key objective for policymakers and the industry alike is to ensure that pre-contractual information about pension products is meaningful, fair, clear and not misleading. The information requirements applicable to providers should focus on the quality of the information provided, rather than quantity.

**Fostering efficient pension saving**

The level of pension returns depends also on the mix of assets in which savings are invested. In light of this, consumers should be informed of the importance of the asset

**Gross replacement rates\* for workers on average earnings in selected OECD countries — 2007 and 2017**



\* Percentage of pre-retirement income paid out by pension system  
Sources: "Pensions at a Glance 2007" and "Pensions at a Glance 2017", OECD

mix and insurers must not be discouraged from investing in illiquid assets such as infrastructure and green projects, with consumer protection ensured through the appropriate prudential treatment of long-term liabilities.

Pension decumulation plays a key role in ensuring that individuals have a decent life in retirement. The right balance must be struck between protection against the risk of outliving pension pots and flexibility to access funds if needed.

The insurance industry is a key source of the investment needed for economic growth and to fund the retirement of present and future generations. If insurers can fulfil their role in the right conditions, there is clear potential for a "triple win": a win for citizens, a win for governments and a win for global growth. 🏹



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

## Duty bound

GFIA has a vital role to play when tax developments negatively affect insurers

GFIA seeks tax rules that are fair and effective and do not create unintended consequences for insurers or impose unnecessary compliance burdens on them.

### Uncertainty in the US

The federation has been monitoring the comprehensive US tax reforms that are one of the Trump administration's stated priorities. The reforms have resulted in major changes to the US tax system that affect all corporations, including insurers and reinsurers. Significant changes have been made to the international provisions affecting US subsidiaries, branches and foreign affiliates, as well as reinsurance.

**“The US tax reforms have resulted in major changes that affect all corporations, including (re)insurers.”**

There is still a great deal of uncertainty over a number of the provisions, particularly those affecting the taxation of international income. Some may only be addressed via legislation, others may be clarified when the US Treasury issues guidance and/or regulations. GFIA's taxation working group is continuing to digest the many changes and their impact.

### Active on US passive rules

One particular area of concern to the insurance industry is the US passive foreign investment company (PFIC) rules.

GFIA wrote to the US Treasury in July 2018 to request that guidance on the PFIC insurance exemption be issued by the end of the year, so that affected taxpayers can determine whether they will be able to maintain their favourable, non-PFIC status by meeting the qualifying insurance corporation

(QIC) test. Guidance is needed as soon as possible, so that affected companies have sufficient time to make structural and capital-related decisions. GFIA's letter included recommendations as to the areas of guidance that would be most helpful.

### One more BEPS paper

At a global level, GFIA supports the efforts of the OECD to tackle tax avoidance through its base erosion and profit shifting (BEPS) initiative, which targets tax avoidance strategies that exploit gaps and mismatches in tax rules to artificially shift profits to low- or no-tax jurisdictions.

The OECD published 15 action items in its ambitious plan to tackle BEPS. Since then, it has continued to fine-tune its proposals. In 2018, it issued for consultation a non-consensus paper of interest to the insurance industry on the transfer pricing aspects of financial transactions, which included a section on captive insurers. The GFIA taxation working group considered the paper and some of its members provided comments to the OECD.

### No developments on FTT

Elsewhere, negotiations are at a standstill between the 10 remaining countries involved in the proposal to create a European financial transaction tax (FTT). This is due to a shift in priorities that is partly due to the UK's expected departure from the EU.

Should a revised proposal be put forward, GFIA will reiterate recommendations to minimise the impact of an FTT on life insurers and their policyholders in order to ensure that it does not have unintended consequences, such as a diminishing of investment returns and policyholders' long-term benefits. ➤



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

## Guidance comes to life

GFIA works on and welcomes the Financial Action Task Force's life insurance guidance

The insurance industry is dedicated to fighting money laundering and terrorist financing, despite the sector's relatively low risk exposure. GFIA believes that a risk-based approach (RBA) is the correct one to take in any international framework to counter money laundering and the financing of terrorism, and in the last year it has continued to call for the RBA to underpin any regulatory action in this area.

GFIA has been continuing to liaise with the intergovernmental Financial Action Taskforce (FATF) as it updates its 2009 guidance on the RBA for the life insurance sector, following similar exercises for the banking sector and for money or value transfer services.

The draft updated life insurance guidance is the result of intense discussions in the FATF drafting group, which included GFIA representatives. It focuses primarily on risk assessment, risk mitigation and internal controls for the private sector, but also includes recommendations for supervisors. Indeed, the guidance is aimed at public authorities as well as insurance companies to support the effective implementation of measures against money laundering and terrorism financing by focusing on real risks and mitigation measures.

The preliminary outcome of this work was first discussed at the FATF's annual private sector consultative forum in Vienna in April 2018. The draft guidance was then published in July for stakeholder feedback.

In its response, GFIA commended the FATF for involving the private sector from the outset of the work — first by inviting representatives to join the drafting group and then seeking private sector input through the consultation. This has resulted in a pragmatic draft, suited to the reality faced by the insurance companies and authorities that will implement it.

Nevertheless, GFIA was critical of a number of aspects of the draft guidance, particularly the inclusion of an annex on non-life insurance. This runs counter to the very principle underpinning the RBA that resources should be allocated where they are most needed, ie where the risk of money laundering or terrorism financing is higher, since this risk is close to non-existent in non-life insurance. The only examples provided in the draft annex involve fraud. As the primary victims of fraud, insurers already have extensive mechanisms in place to fight it.

The FATF was at pains to point out that the FATF 2012 Recommendations on which this draft guidance is based still exclude non-life insurance, and that the annex was included for information only and at the request of certain markets whose anti-money laundering/countering terrorism financing regimes cover non-life insurance. GFIA nevertheless argues that FATF Guidance carries weight and the inclusion of an annex on non-life insurance might be interpreted in some markets as an encouragement to extend their regime to non-life insurance.

### Inappropriate reinsurance annex

GFIA similarly questioned the inclusion of an annex on reinsurance, as this sector is likewise not covered by the 2012 Recommendations. Reinsurers are actually one step removed from the original insurance transaction through which any money laundering or terrorism financing could potentially take place. Furthermore, reinsurance transactions are not initiated by the original customer, but by a regulated financial institution. Sending the signal that there is any purpose to checks on reinsurance is therefore very unhelpful and incompatible with the promotion of the RBA at international level.

Despite serious concerns about the non-life and reinsurance annexes, GFIA is highly supportive of the draft guidance, which reaffirms the importance of the risk-based approach. ➤

# Member associations



Association for Savings and Investment South Africa (ASISA)  
[www.asisa.org.za](http://www.asisa.org.za)



Insurers Association of Zambia (IAZ)  
[www.iaz.org.zm](http://www.iaz.org.zm)



Moroccan Federation of Insurance and Reinsurance Companies (FMSAR)  
[www.fmsar.org.ma](http://www.fmsar.org.ma)



South African Insurance Association (SAIA)  
[www.saia.co.za](http://www.saia.co.za)



Tunisian Federation of Insurance Companies (FTUSA)  
[www.ftusanet.org](http://www.ftusanet.org)



American Council of Life Insurers (ACLI)  
[www.acli.com](http://www.acli.com)



American Insurance Association (AIA)  
[www.aiadc.org](http://www.aiadc.org)



Association of Bermuda Insurers and Reinsurers (ABIR)  
[www.abir.bm](http://www.abir.bm)



Brazilian Insurance Confederation (CNseg)  
[www.cnseg.org.br](http://www.cnseg.org.br)



Canadian Life and Health Insurance Association (CLHIA)  
[www.clhia.ca](http://www.clhia.ca)



Chilean Insurance Association (AACH)  
[www.aach.cl](http://www.aach.cl)



Insurance Bureau of Canada (IBC)

[www.ibc.ca](http://www.ibc.ca)



Interamerican Federation of Insurance Companies (FIDES)

[www.fideseuros.com](http://www.fideseuros.com)



Mexican Association of Insurance Companies (AMIS)

[www.amis.org.mx](http://www.amis.org.mx)



National Association of Mutual Insurance Companies (NAMIC)

[www.namic.org](http://www.namic.org)



Property Casualty Insurers Association of America (PCI)

[www.pciaa.net](http://www.pciaa.net)



Reinsurance Association of America (RAA)

[www.reinsurance.org](http://www.reinsurance.org)



General Insurance Association of Japan (GIAJ)

[www.sonpo.or.jp/en](http://www.sonpo.or.jp/en)



General Insurance Association of Korea (GIAK)

[www.knia.or.kr/eng](http://www.knia.or.kr/eng)



Korea Life Insurance Association (KLIA)

[www.klia.or.kr](http://www.klia.or.kr)



Life Insurance Association of Japan (LIAJ)

[www.seiho.or.jp/english/](http://www.seiho.or.jp/english/)



Non-Life Insurance Association of the Republic of China (NLIA)

[www.nlia.org.tw](http://www.nlia.org.tw)





All Russian Insurance Association (ARIA)  
[www.ins-union.ru](http://www.ins-union.ru)



Association of Mutual Insurers and Insurance Cooperatives  
 in Europe (AMICE)  
[www.amice-eu.org](http://www.amice-eu.org)



Association of Spanish Insurers (UNESPA)  
[www.unespa.es](http://www.unespa.es)



British Insurance Group (BIG)  
 comprising:

Association of British Insurers (ABI)  
[www.abi.org.uk](http://www.abi.org.uk)



Corporation of Lloyd's  
[www.lloyds.com](http://www.lloyds.com)



International Underwriting Association of London (IUA)  
[www.iua.co.uk](http://www.iua.co.uk)



Dutch Association of Insurers (VVN)  
[www.verzekeraars.nl](http://www.verzekeraars.nl)



French Insurance Federation (FFA)  
[www.ffa-assurance.fr](http://www.ffa-assurance.fr)



German Insurance Association (GDV)  
[www.gdv.de](http://www.gdv.de)



Insurance Association of Turkey  
[www.tsb.org.tr](http://www.tsb.org.tr)



Insurance Europe  
[www.insuranceeurope.eu](http://www.insuranceeurope.eu)



Insurance Ireland  
[www.insuranceireland.eu](http://www.insuranceireland.eu)



Italian Association of Insurance Companies (ANIA)  
[www.ania.it](http://www.ania.it)



Luxembourg Insurance and Reinsurance Association (ACA)  
[www.aca.lu](http://www.aca.lu)



Polish Insurance Association (PIU)  
[www.piu.org.pl](http://www.piu.org.pl)



Portuguese Association of Insurers (APS)  
[www.apseguradores.pt](http://www.apseguradores.pt)



Swiss Insurance Association (ASA/SVV)  
[www.svv.ch](http://www.svv.ch)



Financial Services Council of New Zealand (FSC)  
[www.fsc.org.nz](http://www.fsc.org.nz)



Insurance Council of Australia (ICA)  
[www.insurancecouncil.com.au](http://www.insurancecouncil.com.au)



Insurance Council of New Zealand (ICNZ)  
[www.icnz.org.nz](http://www.icnz.org.nz)



# Executives



◀ **President**

Governor Dirk  
Kempthorne  
President & CEO  
*American Council of  
Life Insurers*  
*(Until August 2018)*



◀ **Vice-president**

Recaredo Arias  
Director general  
*Mexican Association of  
Insurance Companies*



**Treasurer** ▶

Toyonari Sasaki  
Vice-chairman  
*Life Insurance  
Association of Japan*



**Secretary  
general** ▶

Michaela Koller  
Director general  
*Insurance Europe*



◀ **Regional  
representative**

Bachir Baddou  
Director general  
*Moroccan Federation  
of Insurance &  
Reinsurance Companies*



◀ **Membership**

Robert Whelan  
Executive director  
& CEO  
*Insurance Council of  
Australia*



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Tel: +32 2 89 43 081



James Padgett  
Tel: +32 2 89 43 083



Richard Mackillican (press)  
Tel: +32 2 89 43 082

## Working group chairs



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### 1. Ageing society working group and Systemic risk working group

Chair: Nicolas Jeanmart  
*Insurance Europe*

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

Chair: Ethan Kohn  
*Canadian Life and Health Insurance Association*

### 3. Capital working group

Chair: Hugh Savill  
*Association of British Insurers*

### 4. ComFrame working group

Chair: Stef Zielezienski  
*American Insurance Association*

### 5. Corporate governance working group and Market conduct 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: Dennis Burke  
*Reinsurance Association of America*

### 9. Financial inclusion working group

Chair: Recaredo Arias  
*Mexican Association of Insurance Companies*

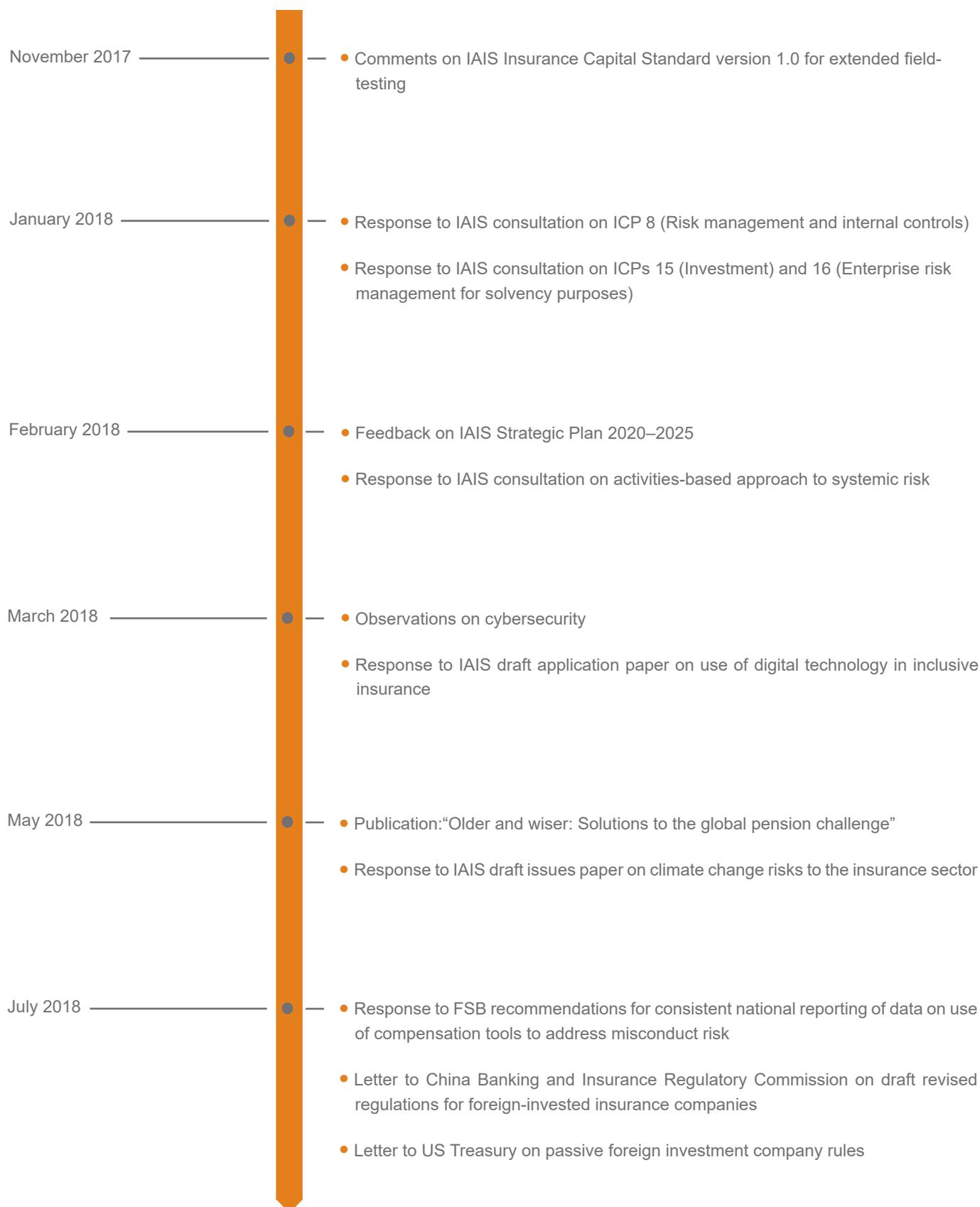
### 10. Taxation working group

Chair: Peggy McFarland  
*Canadian Life and Health Insurance Association*

### 11. Trade working group

Chair: Brad Smith  
*American Council of Life Insurers*

## Positions and publications



- August 2018
- Comments on IAIS draft application paper on composition and role of the board
  - Comments on IAIS application paper on supervision of insurer cybersecurity
  - Comments on Financial Action Task Force (FATF) draft risk-based approach guidance for life insurance sector
  - Response to FSB consultation on draft cyber lexicon
  - Response to IAIS consultation on ICP 6 (Changes in control and portfolio transfers)
  - Response to IAIS consultation on ICP 20 (Public disclosure)
  - Infographic: The importance of financial education in promoting financial inclusion
- October 2018
- Response to IAIS consultation on ICPs 5 (Suitability of persons), 7 (Corporate governance) and 8 (Risk management and internal controls)
  - Response to IAIS consultation on ICPs 9 (Supervisory review and reporting), 10 (Preventive measures, corrective measures and sanctions) and 25 (Supervisory cooperation and coordination)
  - Response to IAIS consultation on ICP 12 (Exit from the market and resolution)
  - Response to IAIS consultation on ICPs 15 (Investments) and 16 (Enterprise risk management for solvency purposes)
  - Response to IAIS consultation on ICP 23 (Group-wide supervision)
  - Response to IAIS consultation on Insurance Capital Standard version 2.0

All GFIA's public positions and publications are available on the GFIA website: [www.GFIAinsurance.org](http://www.GFIAinsurance.org)





The Global Federation of Insurance Association's Annual Report 2017–2018 is available on the GFIA website:  
[www.GFIAinsurance.org](http://www.GFIAinsurance.org)

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