GLOBAL FEDERATION OF INSURANCE ASSOCIATIONS

Annual Report 2014 2015

Contents

The Global Federation of Insurance Associations (GFIA), established in October 2012, represents through its 39 member associations the interests of insurers and reinsurers in 59 countries. These companies account for 87% of total insurance premiums worldwide, which amounts to more than $4.0 trillion. GFIA is incorporated in Switzerland and its secretariat is based in Brussels.

Foreword

This has been a significant year for GFIA and the global insurance industry. GFIA has represented insurers and reinsurers on the global stage by leveraging our collective regional and national experience and influence.

Perhaps the best example of GFIA's growing significance was our 29 July event, "Insurance and the G-20 Agenda," co-hosted with the Turkish G-20 presidency and the Insurance Association of Turkey. The Turkish Treasury requested the event and asked GFIA to elaborate on the crucial economic and social role that insurance plays in national and global economies. Our full-day session demonstrated the value of GFIA providing a unified voice for the broad-based and representative global insurance industry, which can speak to policymakers and help them understand the benefits that our industry offers to economies, businesses and individuals. We are currently reaching out to the Chinese G-20 Presidency in order to arrange a similar event in 2016.

In addition to building our relationships with government policymakers around the globe, GFIA continues to engage with the International Association of Insurance Supervisors (IAIS), the body that develops the bulk of the international standards for our industry. The IAIS is developing the basic capital requirement (BCR), a higher loss absorbency (HLA), and the global insurance capital standard (ICS). These measures could have a significant impact on the global insurance industry, as well as on our respective national markets. GFIA engages with the IAIS on these and other issues by responding to public consultations and by encouraging exchanges between the IAIS and industry.

These exchanges are part of GFIA's larger vision. We have the opportunity and obligation to increase our engagement with thought leaders around the world, from policymakers and supervisors to business leaders and academics. We form part of the solutions to many of the world's greatest problems. Some of those problems are apparent today. Others are just around the corner. Political risk, aging populations and decaying infrastructure are just some of the challenges that our products and services can address. A healthy and sustainable insurance industry is essential so that governments can concentrate on helping those with the greatest needs.

Insurers around the world are also working to ensure that the benefits of growth and prosperity are accessible to all segments of society. One of the most effective tools for this is microinsurance. Microinsurance products already cover more than 260 million people in developing countries. It is an affordable way to cover a range of risks, such as death, disability and property damage. Microinsurance can provide vital security for families and help to ensure continued and sustainable economic growth and stability for societies. It will also introduce our products to the world's three billion citizens who do not currently have risk protection experience.

Insurers provide a vital service in the global economy by alleviating volatility and diffusing risk. The industry looks to GFIA to contribute to sensible and appropriate regulation in all jurisdictions through its leadership and engagement with governments, regulators and standard-setters. I feel privileged to be supported by GFIA's members, executives and the secretariat in meeting this challenge.

Dirk Kempthorne

Governor Dirk Kempthorne
Chair


GFIA
GLOBAL FEDERATION OF INSURANCE ASSOCIATIONS

G-20

GFIA develops closer links with global policymakers

The Group of 20 (G-20) is the highest forum for governments and central bank governors of developed economies to discuss global economic governance. As such, it sets the tone for global discussions on economic issues and shapes the path of the world's largest economies. The world's insurers closely follow the G-20 agenda and seek to support it in achieving many of its ambitious economic and social objectives.

The G-20 presidency for 2015 is held by Turkey and GFIA has engaged with representatives from both the Turkish G-20 presidency and its business advisory group, the Business 20 (B-20), on a number of occasions.

Inclusiveness, implementation and investment

In April 2015, GFIA's executive committee met officials from the Turkish G-20 presidency for a series of introductory meetings.

The Turkish G-20 presidency has organised its priorities into three "I"s: inclusiveness, implementation and investment for growth. The GFIA delegation outlined the role that insurers play in furthering this agenda. The Turkish counterparts welcomed GFIA's views and committed to engage with the working bodies of the G-20 presidency to make sure that insurance is appropriately represented.

GFIA fulfils G-20 request

While meeting with the Turkish treasury, GFIA was asked to elaborate on its messages in the form of a regulatory dialogue or conference to ensure that the role of insurers was adequately underscored.

To fulfil this request, GFIA and the Turkish Insurance Association (TSB) co-organised a day of panel discussions in a regulatory dialogue called "Insurance and the G-20 goals". A broad range of speakers from the regulatory community and the insurance industry addressed topics such as infrastructure investment, longevity risk, financial inclusion and the recommendations of the B-20 to the G-20. The event was well attended and received significant media coverage, as it had been endorsed officially by the G-20 and featured prominently on its website. Looking ahead to the Chinese G-20 presidency in 2016, a similar event has been proposed.

Delegates gather for the "Insurance and the G-20 goals" dialogue in Turkey

Doing business with the B-20

The B-20 brings together business representatives to make formal policy recommendations to the G-20. Its working groups focus on topics such as stimulating growth, infrastructure investment and trade.

In the last year, representatives of GFIA and its member associations participated in B-20 working groups, where financial services are overwhelmingly represented by banks. GFIA representatives provided feedback on B-20 draft recommendations and were pleased to see that the B-20's final recommendations to the G-20 contained several significant insurance-related measures, including commissioning a cost-benefit analysis to assess the unintended consequences of insurance capital standards on infrastructure investment. B-20 working group representatives also took part in the panels of the GFIA/TSB "Insurance and the G-20 goals" event.

GFIA has already begun meeting the Chinese Center for the Promotion of International Trade, which will be leading the work of the B-20 during the Chinese presidency of the G-20 in 2016.


Insurance and the
G20 GOALS
Sigorta ve G20 Hedefleri
29/07/2015
İSTANBUL

Capital standards

It will take time to achieve balanced capital rules for global insurers and reinsurers

One of the main focuses of GFIA activity over the last year has been its engagement with the International Association of Insurance Supervisors (IAIS) regarding the development of a global insurance capital standard (ICS) for insurers.

This work has had two main components. The first was a written response to the initial consultation on the ICS, which was sent to the IAIS in February 2015. The second was to engage with the IAIS directly during its stakeholder meetings.

In order to ensure that its messages were communicated effectively, GFIA also took a rounded approach to engaging with the IAIS. This meant that, as well as communicating directly with the IAIS, GFIA also engaged with the main jurisdictions that make up its executive committee.

In both its consultation response and representations to the IAIS, GFIA had three key messages:

- The originally scheduled deadline of 2016 for development of the ICS was an unnecessarily tight restraint, and that developing a well-functioning ICS should take precedence over hitting an arbitrary date.
- The ICS should take account of the fact that many jurisdictions already have in place functional capital standards and that any design for an ICS should accommodate them, for instance by acknowledging existing local standards as an acceptable implementation of the ICS.
- Clarity was needed on whether the ICS would be a "hard" measure — where, if a company went below a certain capital level, there would be automatic supervisory consequences — or whether it was a "soft" measure, where the same occurrence would spark discussion in supervisory colleges.

In June 2015, the IAIS announced a new timetable for the development of the ICS. This included the decision that the development would be split into two stages: "Version 1.0" and "Version 2.0". Version 1.0 would consist of confidential reporting for internationally active insurance groups (IAIGs) and would be implemented in 2017. Version 2.0 would be fully part of the common framework for the supervision of IAIGs (ComFrame) and would be open for implementation when ComFrame comes into effect in 2019. Following this there will be a process of further refinement to achieve a fully comparable ICS, by an undefined date.

This decision was explicitly welcomed by a majority of stakeholders, GFIA included, as it was evidence that the IAIS acknowledged the scale and complexity of what the ICS project must achieve. The updated timeline also indicated that the IAIS will be taking an iterative approach to global convergence, which seems more realistic given the large variance between jurisdictions around the world. The status quo is that many jurisdictions account for the specific characteristics of their local markets in various ways and that reaching consensus on some areas — most notably valuation — will remain a significant challenge.

In September 2015, GFIA wrote to the IAIS welcoming the updated timeline for the development of an ICS. The letter also highlighted the need for a clear articulation of the purposes and consequences of the various stages, accompanied by rigorous field-testing to ensure unintended consequences are avoided.

In terms of whether the ICS will be a "hard" or a "soft" measure, the IAIS has indicated that ICS Version 1.0 will now be a reporting standard, which, as GFIA advocated, is the basis for a discussion within the supervisory colleges. That said, recent indications by the IAIS suggest that later iterations of the ICS may be "hard" measures, but it is still unclear when these will come into force.

Looking ahead

The IAIS announcement on the ICS in June 2015 marked an inflection point, both for the IAIS itself and for how GFIA interacts with it. So far, GFIA has engaged with the IAIS at a very high level, providing feedback on design and conceptual points. In the future, this engagement will need to be at a far more detailed level on technical issues.

The ICS and Basel Accords: Similar aims, different industries

The objectives of the ICS appear to be largely linked to the initial objectives of the Basel Accords for banking; namely to have a "measure of capital adequacy" and for "minimum standards to be achieved" across the global insurance industry. However, the starting point of this work in insurance differs significantly from that in banking.

Discussions on the first Basel Accord began in the 1970s and came at a time when local supervisory authorities had only done a comparatively small amount of work in building up their own regulatory frameworks. Progress was then incremental, with jurisdictions implementing changes and rules in parallel over many years, making it more straightforward for an international standard to be adopted by different jurisdictions at the same time.

Work on an international standard for insurance, however, was only announced in 2013. By then some jurisdictions, including major markets like the US and EU, had already gone through an in-depth revision of their local solvency regimes. This means it is far more difficult for a top-down global standard to be implemented across such diverse regulatory regimes.

IAIS ComFrame

Cooperation between supervisors is vital

Largely triggered by the financial crisis, the ComFrame project to create a common framework for supervising international insurance groups was launched in 2010. One of its key aims is to help national insurance supervisors to cooperate and coordinate more efficiently and effectively.

There has been significant support from the industry for the ComFrame project to promote and ensure enhanced coordination and cooperation among insurance supervisors in overseeing internationally active insurance groups. In addition, ComFrame's focus on ensuring all groups have a lead supervisor — and a well-functioning college of supervisors ensuring supervisory oversight for all group-wide activities — has also been welcomed.

Such supervisory cooperation is seen as vital to ensure there are no gaps in oversight and to address the growing burden that international groups have been experiencing due to multiple uncoordinated requests from different supervisors for similar group information.

The initial objectives of ComFrame have, however, been changed, with a new focus placed on developing a global risk-based insurance capital standard (ICS) (see p8). This change in direction has meant that over the past year GFIA's ComFrame working group has been providing support to the capital working group in its work to address issues regarding the development of the ICS.

There remains, however, a considerable amount of work to be done to establish how ComFrame will work in practice. A consultation on ComFrame is, therefore, expected in May/June 2016, to which GFIA will respond.

Systemic risk

Insurers' business model presents low risks

For several years now, the International Association of Insurance Supervisors (IAIS) has been working with the Financial Stability Board (FSB) on the issue of systemic risk in insurance, seeking to achieve the G-20 objective that no financial institution should be "too big to fail".

In December 2014, GFIA responded to an FSB consultation on the identification of critical functions and critical shared services in the context of recovery and resolution planning for companies identified by the IAIS as global systemically important insurers (G-SIIs).

GFIA emphasised that critical functions should be identified exclusively according to their potential ability to materially affect the financial system globally and the real global economy. Given the limited capacity for insurers to have functions that are critical to the global financial system, GFIA argued that the identification process should not be overly time-consuming or take up too many resources.

GFIA supported a transparent supervisory approach based on international standards. However, GFIA highlighted that when applying a common understanding of critical functions, the differences between various business models should be fully taken into account. GFIA felt that this was not always the case in the FSB's proposal. For example, the FSB focuses, among other things, on the risk of sudden failure and the abrupt withdrawal of services by an insurer in a local market, and it also assumes high level of interconnectedness between insurers and reinsurers. GFIA also urged that insurers should be treated differently than banks.

Further consultations due

The IAIS is expected to conduct a public consultation in November 2015 on the definition of non-traditional, non-insurance (NTNI) activities, potentially together with an additional consultation on the methodology for designating G-SIIs. The GFIA systemic risk working group will respond to those consultations.

Taxation

Engaging to develop appropriate taxation rules

In recent years, there has been a significant push by policymakers to tackle tax avoidance and evasion. Insurers support these broad objectives and GFIA has been engaging with governments and the Organisation for Economic Co-operation and Development (OECD) to ensure that tax rules are measured and effective, without creating unintended consequences and imposing unnecessary administrative burdens on insurers and reinsurers.

As part of this work, GFIA has been active over the past year on two main issues: the initiatives of the OECD on base erosion and profit shifting (BEPS) and the OECD work on the automatic exchange of tax information. It has also monitored developments on two others: the US Foreign Account Tax Compliance Act and the European financial transaction tax (see box opposite).

Fast progress on BEPS

As mandated by the G-20, the OECD has been moving quickly to complete its two-year BEPS action plan, and finalise the plan's 15 action items by the end of 2015.

Over the past year, this work included the publication of a number of discussion drafts on various action items that could have potentially negative implications for insurance and affiliate reinsurance. The action items to which the GFIA responded were:

- Action 3: Strengthening controlled foreign corporation (CFC) rules.
- Action 7: Preventing the artificial avoidance of permanent establishment status.
- Action 7: Revised discussion paper.
- Actions 8, 9 and 10: Revisions to transfer pricing guidelines.

In its responses, GFIA highlighted the many unique characteristics of the insurance industry that need to be considered by the OECD when developing its recommendations. These include the highly regulated nature of the industry, the importance of capital levels and capital management, and the significant role of affiliate reinsurance, which is fundamental to risk management.

The revised Action 7 discussion draft, which was published in May 2015, incorporated many of GFIA's recommendations and, from the industry's perspective, was a substantial improvement on the previous draft. In October, the OECD released its final BEPS reports which were recently approved by the G-20 Finance Ministers.The final reports, which include several of GFIA's recommendations, will now be presented for approval by the G-20 leaders at their annual summit in mid-November. The OECD is planning further work in 2016 with respect to Action 4 — interest deductions and other financial payments — focused on identifying targeted rules for banks and insurance. GFIA plans to respond to this additional consultation, which is expected to include references to reinsurance.

GFIA will continue to work to ensure that the OECD understands the unique nature of the insurance industry and that its final recommendations on Action 4 are appropriately designed and do not unnecessarily negatively impact insurers.

Tight timing for automatic exchange of tax information

The other initiative that the OECD has been moving very quickly on is a global model for the automatic exchange of tax information. While the model is loosely based on FATCA, there are some important differences that will result in additional implementation efforts for insurers.

The common reporting standard (CRS) model and commentary, which are a key component of FATCA, were endorsed by the G-20 in September 2014 and many European countries have committed to adopt them by 1 January 2016, with the automatic exchange of information beginning in 2017. This is a very short timeframe, especially given that detailed guidance has not yet been issued in most jurisdictions. Firms in the "early adopter" jurisdictions have indicated to their tax authorities that they will have great difficulty in meeting the 1 January 2016 deadline, but will employ their best efforts. To date, tax authorities have stated that there will be no extensions of the implementation date and, given the current political climate, it appears unclear that any transitional relief will be provided.

GFIA will continue to share information among the members of its taxation working group as local guidance is developed. This will help to ensure that local laws are consistent and as favourable as possible for insurers. In early August 2015, the OECD released its CRS implementation handbook to assist financial institutions and jurisdictions in implementing the CRS. GFIA is in the process of reviewing the handbook and will provide the OECD with any comments it has.

Keeping an eye on FATCA and the FTT

GFIA continues to monitor a number of long-term taxation issues. Two such issues are the US Foreign Account Tax Compliance Act (FATCA) and the proposed European financial transaction tax (FTT). FATCA has been effective for some time and GFIA members continue to look at ways in which to reduce the compliance burden for insurers. The FTT is currently at a standstill until a revised proposal is put forward, at which point GFIA will offer recommendations to minimize the impact on life insurers and their policyholders and ensure the FTT does not have unintended consequences, such as having a negative impact on investment returns and, implicitly, policyholders' long-term benefits.

Trade issues

Positive and negative news in the pursuit of free trade and open markets

Working to combat barriers to free trade has again been the focus of the GFIA trade working group this year. There have been major positive free-trade moves in the last 12 months; towards further opening the Indian insurance and reinsurance market and relaxing reinsurance restrictions in Brazil. These have unfortunately been offset by new restrictions to free and fair cross-border reinsurance provision in Ecuador, and GFIA remains concerned that this trend will spread to other markets, in particularly Indonesia.

Increased market access in India

Since its inception, GFIA has been urging successive Indian governments to present to Parliament an amendment to the Insurance Law. In numerous communications addressed to the Indian authorities, GFIA focused on two of the changes proposed to the law.

Firstly, GFIA pointed out that increasing the foreign direct investment (FDI) cap would strengthen India's insurance industry, increase the availability of insurance products and services and generate employment.

Secondly, it highlighted that allowing foreign reinsurers to open branches would be an important step towards an open reinsurance market, which would be an important element in a competitive Indian insurance market, creating opportunities for the diversification of risk and bringing significant positive consequences for local reinsurance capacity. Previously the state-owned General Insurance Corporation of India was the only active local reinsurer.

In its most recent intervention in December 2014, GFIA wrote to the Indian prime minister, Narendra Modi, to express its hope that the Select Committee, a body that was completing a report on the insurance bill, would support it and would encourage the adoption of the foreign equity increase.

The much-delayed bill was finally enacted in March 2015. It increases the level of possible FDI in joint insurance company ventures from 26% to 49% and allows the establishment of branches by foreign reinsurers. Currently 22 of India's 24 life insurers and 18 of its 27 general insurers have joint ventures. Indian media reports suggest that the liberalisation may lead to an injection of up to US$12bn into the Indian insurance market in the next two years.

Since the bill was passed, GFIA has been monitoring its implementation. GFIA provided comments to the Insurance Regulatory Development Authority of India, which is in charge of promulgating the rules to enact the reinsurance provisions of the new law. GFIA has also raised concerns with its members' national governments over possible constraints on insurers' freedom to access reinsurance support due to the way the regulations appeared in the first draft. The establishment of reinsurance branches in India needs to work as intended in the bill.

Brazil relaxes reinsurance restrictions

In July 2015, Brazil announced that it would phase in the easing of its restrictions on the intra-group transfer of reinsurance to overseas-based companies from 20% to 75% by 2020 and reduce the mandatory cession to local reinsurers from 40% to 15% over the same period. GFIA welcomed this as a step in the right direction, although it considers the implementation timeframe too long and would like to see foreign reinsurers receive the same treatment as local reinsurers at the end of the process.

Indonesia and Ecuador: reinsurance concerns

In mid-2014, GFIA began voicing its concerns to the government of Ecuador over proposed restrictions to its cross-border reinsurance market. As the government has implemented a 95% local primary retention rate for certain classes of reinsurance, GFIA has continued to seek to secure the maximum use of regulatory exceptions allowed under the final regulations.

Similar concerning developments have emerged in Indonesia. In January 2015, GFIA commented on a draft regulation that would see the creation of a state-owned reinsurer to which 100% of all non-catastrophe insurance should be ceded.

While GFIA recognised Indonesia's intention to strengthen its domestic reinsurance market and increase its domestic capability to mitigate insurance risks, it warned that forfeiting the extensive experience of international reinsurers in favour of nascent local reinsurance would create a less resilient market in the short-term and restrict economic growth in the longer term. It also recommended that — instead of revamping the regulations on own retention and reinsurance support — the government should strengthen insurers' risk management by issuing modern regulation on risk management systems, actuarial requirements, internal controls and corporate governance. GFIA is hopeful that delays in issuing the final regulation in 2015 indicate that the government is carefully analysing the potentially harmful effects of its draft proposals.

As a result of concerns over increases in such cross-border reinsurance restrictions, GFIA has asked the International Association of Insurance Supervisors (IAIS) to undertake an analysis of the inconsistencies with IAIS Insurance Core Principles that such restrictions create. The IAIS responded positively and GFIA understands that the IAIS is considering potential action.

GFIA has likewise alerted the World Bank and the International Monetary Fund to its country-specific concerns in Indonesia and Ecuador, highlighting the inconsistencies with the IAIS standards that the two bodies use in the in-depth country analyses in their Financial Sector Assessment Program and Article IV reviews.

Progress on TiSA

Multilateral efforts to liberalise cross-border trade in services through a Trade in Services Agreement (TiSA) between several members of the World Trade Organization have advanced over the last 12 months. This progress has attracted new countries, such as Uruguay and Mauritius, bringing the total number of countries involved to 25. Participating countries are now discussing ambitious commitments in areas that include cross-border reinsurance and the right of establishment.

GFIA members have a common position on TiSA, calling for ambitious liberalisation that goes beyond reaffirming General Agreement on Trade in Services (GATS) commitments. GFIA hopes to see the TiSA signatories eliminate all market access and national treatment barriers in their markets.

Solvency modernisation in China

In China there have been significant steps to modernise the insurance solvency regime to align with the global trend towards risk-based capital frameworks. GFIA welcomed the improvements in policyholder protection promised by the drafts of the China Risk Oriented Solvency System (C-ROSS). However, in a letter to the president of the Insurance Association of China, GFIA raised concerns about the excessive capital and collateral requirements that would be placed on foreign reinsurers.

Corporate governance

Seeking balance in governance supervision

As the global insurance industry becomes subject to ever greater regulatory scrutiny, corporate governance has grown in importance. As a result, it has become a significant focus for GFIA's engagement with supervisors.

As part of its self-assessment and peer review, the International Association of Insurance Supervisors (IAIS) regularly revises its Insurance Core Principles (ICPs). In mid-2015, the IAIS completed a public consultation on the review of six ICPs. GFIA responded to the consultation by emphasising the need for the ICPs to incorporate sufficient flexibility, be proportionate and give due consideration to jurisdictional regulations.

Aside from the IAIS, the Organisation for Economic Cooperation and Development (OECD) has carried out a revision of its guidelines on insurer governance and it discussed governance extensively at the June meeting of its Insurance and Private Pensions Committee, at which GFIA provided comments.

GFIA was also represented at an IAIS/Financial Stability Board (FSB) session on remuneration in May 2015. It was one of the few stakeholder groups that were permitted to take part alongside invited companies.

Looking ahead

Continued activity on corporate governance issues from organisations like the IAIS, FSB and OECD can be expected, as well as work by local supervisors to revise their governance requirements. Consequently, GFIA will continue to be engaged in these discussions.

“Financial consumer protection should be an integral part of the legal, regulatory and supervisory framework, and should reflect the diversity of national circumstances and the global market.”

Source: “Effective approaches to support the implementation of the remaining G-20/OECD high-level principles on financial consumer protection”, OECD, 2014

Market conduct

A commitment to fair treatment for consumers and the industry

GFIA is committed to ensuring that consumers are treated fairly and that the regulatory environment strikes the correct balance between guaranteeing the right level of protection and not stifling innovation by being overly burdensome for insurers.

GFIA engages with the two main organisations drafting guidance on these issues on the international stage: the International Association of Insurance Supervisors (IAIS) and the Organisation for Economic Co-operation and Development (OECD).

The IAIS developed principles for conduct of business in its Insurance Core Principles (ICPs), in particular ICP 19, and by publishing papers on issues related to business conduct. The OECD added to the discussion principally by publishing non-binding guidelines for the financial sector. For example, the G-20/OECD Principles on Financial Consumer Protection and the OECD guidelines on insurer governance explicitly touch on market conduct in insurance.

In mid-2015, the IAIS released a draft issues paper on conduct of business risk and its management, setting out observations on the place that conduct of business risk has within corporate risk management frameworks for insurers. In response to the consultation on the paper, GFIA raised concerns that the paper could lead to regulators taking measures that are devised based on single examples of misconduct rather than widespread structural problems. It also warned that regulators might apply measures without adequate analysis of market practices in their local market, the legal environment and existing powers to deal with issues that arise. GFIA, however, noted that, if the final draft takes these factors into account, then the paper would be a very useful resource for all financial supervisors.

Inconsistencies on conflict of interest

In July 2015, the OECD also produced a background report on conflicts of interest in financial advice for retirement. GFIA found that the OECD work was inconsistent with the G-20/OECD Principles on Financial Consumer Protection and could potentially have a knock-on effect on insurance regulation.

In the comments that it sent to the OECD, GFIA broadly supported the goal of managing conflicts of interest when it comes to financial advice, but pointed to inconsistencies in the report and underscored that commission-based structures do not inevitably lead to conflicts of interest, which seemed to be an underlying assumption of the report. GFIA also noted that there are a wide range of tools available to manage conflicts of interest in the context of treating customers fairly.

The GFIA market conduct working group will continue to monitor current and future initiatives on market conduct and remuneration in order to make sure that they appropriately reflect the insurance business model and contribute to a fair and safe regulatory environment.

Anti-money laundering

Supporting the fight against financing crime

In the last 12 months, GFIA has given ongoing support to international efforts to combat money laundering and the financing of terrorism by providing an industry perspective to the work of both the International Association of Insurance Supervisors (IAIS) and the intergovernmental Financial Action Task Force (FATF).

Recently, the FATF has explicitly shifted its focus away from developing new anti-money laundering rules in favour of reviewing their adoption and implementation at national level. To monitor this new approach, GFIA attended the FATF's Private Sector Consultative Forum in March 2015, where the challenges and threats to this approach were discussed.

Debate on de-risking

The problem of "de-risking" was a subject of much debate at the FATF Forum and is a topic of direct relevance for GFIA members. De-risking is the process whereby whole categories of customers are going unserved by financial institutions because their risks are perceived as being too high, due to their location and/or the activities they undertake.

The FATF is concerned that shedding business in this way could give rise to more risk and opacity, as customers move into unregulated banking and insurance channels, and that de-risking should not be a substitute for proper assessment of the risk of money laundering or terrorism financing.

The FATF is expected to release risk-based guidance that is specifically tailored to the insurance sector. GFIA will follow the FATF discussion papers and provide input where necessary.

GFIA will continue to monitor the output of the IAIS and the FATF and respond to consultations. It will seek to ensure that the measures proposed are proportionate, balanced and appropriately risk-sensitive.

In Latin America and the Caribbean 48.6m people were covered by at least one microinsurance policy in 2013. This represents 7.9% of the total population.

Source: “The landscape of microinsurance in Latin America and the Caribbean – preliminary briefing note”, Microinsurance Network, 2014

Financial inclusion

A strategy for promoting microinsurance

GFIA was pleased to see the current Turkish G-20 Presidency highlighting inclusion as one of its top three priorities. The GFIA financial inclusion working group focuses on promoting the delivery of financial services to disadvantaged and low-income sectors of society.

Over the past year it has worked with the Microinsurance Network and other regional and global financial inclusion experts to develop a strategic plan for promoting sustainable microinsurance market development. The key objective of this work is to make insurance products available to a broader cross-section of society through both existing and innovative distribution channels, and ultimately expand access to all citizens.

In August 2015, the GFIA financial inclusion working group commented on two consultation papers from the International Association of Insurance Supervisors (IAIS).

The first was on the regulation and supervision of microtakaful insurance — the Islamic, Shariah law-compliant counterpart to conventional insurance for people on low-income. GFIA welcomed the IAIS paper and supported its principles-based approach.

Balancing consumer protection and regulation

The second IAIS paper was on issues of conduct of business in inclusive insurance. In its response, GFIA stressed that to increase the provision of insurance to those excluded from or underserved by traditional insurance products, there must be a very careful balance between measures to protect often vulnerable consumers and measures that promote and facilitate the development of inclusive insurance. This is to ensure that regulation does not discourage market development but that products are still safe and appropriate.

In the past year, GFIA has spoken at microinsurance events in South America (Mexico, Bolivia and Nicaragua) and North Africa (Morocco), addressing the importance of regulation to promote the development of healthy microinsurance markets.

There were a record 189 natural catastrophe events in 2014. Globally, total losses from all disaster events were US$110bn in 2014, while the insured losses were US$35bn.

Source: "Sigma No.2/2015: Natural and man-made disasters in 2014: convective and winter storms generate most losses", Swiss Re, 2015

Natural catastrophes

Knowledge-sharing and cooperation

In the past year, GFIA's natural catastrophes working group has continued to coordinate its efforts with the federation's trade working group to advocate to policymakers that restrictions on natural catastrophe risks being covered on the global insurance and reinsurance market are counterproductive and put economies unnecessarily at risk.

As societies around the world continue to develop and grow more complex, so does the effect of natural catastrophes upon them. As populations grow, so does the percentage of people who live in areas that are affected by natural catastrophes. This means that the role of insurance in protecting those people when the worst happens will also continue to expand.

Insurers play an important part in advising policymakers on how to enable their citizens to adapt to and mitigate the effects of natural disasters. This work can be multifaceted, such as advising about the need to avoid building in known natural catastrophe danger zones or helping to develop adaptive measures for those communities who already sit in harm's way.

To provide cover, insurers work within the context of very different societal needs and regulatory environments, with the aim to diversify and spread risk as widely as possible to those who are most able to bear it. In some countries, property owners insure directly. In others, governments engage in partnerships with insurers to serve the needs of particular markets.

Unfortunately, however, in certain jurisdictions, regulators set limits on insurance and reinsurance premiums leaving the country, creating a barrier to the pooling of risk and increasing what is known as concentration risk. While the regulators' intention is to promote their local insurance and reinsurance markets, it also means that when a natural catastrophe does strike, all of the financial impact will be felt within the country, rather than being spread across the global reinsurance market, where it is more easily absorbed. This can be disastrous, not only for the local insurance and reinsurance markets, but also for the country's economy.

The GFIA natural catastrophes working group will continue to monitor and respond to regulatory issues when they arise, and will also serve as a hub for insurance associations worldwide to share knowledge and best practices with regards to the often very idiosyncratic solutions that various markets have developed to handle natural catastrophes.

Member associations

Africa

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Chilean Insurance Association (AACH)
www.aach.cl
seguros@aach.cl

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

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

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

Property Casualty Insurers Association of America (PCI)
www.pciaa.net
steve.broadie@pciaa.net

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

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

General Insurance Association of Korea (KNIA)
www2.knia.or.kr/eng
cjh@knia.or.kr

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

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

Non-Life Insurance Association of the Republic of China (NLIA)
www.nlia.org.tw
admi_dept@nlia.org.tw

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

Association of British Insurers (ABI)
www.abi.org.uk
info@abi.org.uk

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

Association of Spanish Insurers (UNESPA)
www.unespa.es
relaciones.internacionales@unespa.es

Dublin International Insurance & Management Association (DIMA)
www.dima.ie
executive@dima.ie

Dutch Association of Insurers (VVN)
www.verzekeraars.nl
m.van.duijvenbode@verzekeraars.nl

French Federation of Insurance Companies (FFSA)
www.ffsa.fr
c.pierotti@ffsa.fr

German Insurance Association (GDV)
www.gdv.de
berlin@gdv.de

Insurance Europe
www.insuranceeurope.eu
info@insuranceeurope.eu

Insurance Ireland
www.insuranceireland.eu
info@insuranceireland.eu

International Underwriting Association of London (IUA)
www.iua.co.uk
info@iua.co.uk

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

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

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

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

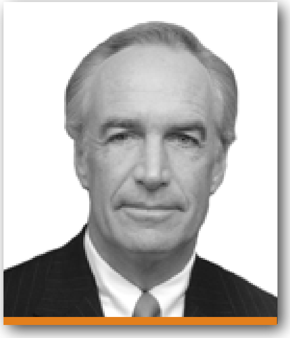
Financial Services Council of Australia (FSC)
www.fsc.org.au
info@fsc.org.au

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

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

Executives

Chair



Governor Dirk Kempthorne
President & CEO
American Council of Life Insurers

Vice-chair

Recaredo Arias
Vice-president
Interamerican Federation of Insurance Companies (FIDES)

Treasurer

Shizuharu Kubono
Vice-chairman
Life Insurance Association of Japan

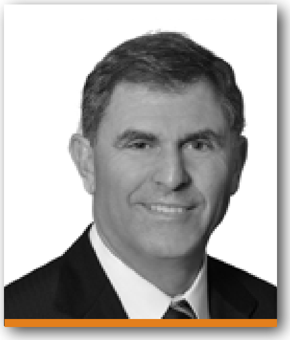
Secretary

Michaela Koller
Director general
Insurance Europe

Membership

Robert Whelan
Executive director & CEO
Insurance Council of Australia

Past chair



Frank Swedlove
President
Canadian Life & Health Insurance Association

Secretariat:

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Tel: +32 2 89 43 081
mihai@GFIAinsurance.org

Oscar Verlinden
Tel: +32 2 89 43 083
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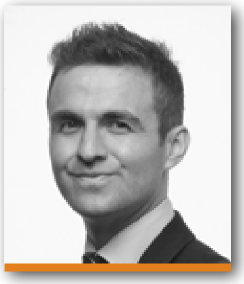


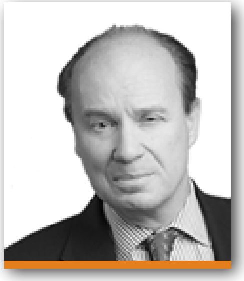
Richard Mackillican (press)
Tel: +32 2 89 43 082
mackillican@GFIAinsurance.org

Working groups

Anti-money laundering/countering terrorism financing

Chair: Ethan Kohn
Canadian Life and Health Insurance Association

Capital

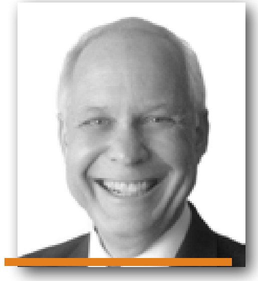


Chair: Hugh Savill
Association of British Insurers

ComFrame

Chair: Stef Zielezienski
American Insurance Association

Corporate governance



Chair: David Snyder
Property Casualty Insurers Association of America

Financial inclusion

Co-chair: Recaredo Arias
Interamerican Federation of Insurance Companies (FIDES)

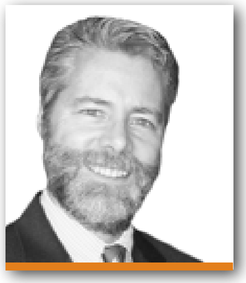
Financial inclusion

Co-chair: Leila Moonda
South African Insurance Association

Market conduct

Chair: Leslie Byrnes
Canadian Life and Health Insurance Association

Natural catastrophes



Chair: Dennis Burke
Reinsurance Association of America

Systemic risk

Chair: Nicolas Jeanmart
Insurance Europe

Taxation

Chair: Peggy McFarland
Canadian Life and Health Insurance Association

Trade

Chair: Brad Smith
American Council of Life Insurers

Position papers

October 2014

- Letter to Australian G-20 Presidency
- Position paper for International Association of Insurance Supervisors (IAIS) observer hearing on the international capital standard (ICS)
- Letter to International Monetary Fund (IMF) on Ecuadorian financial and monetary code
- Letter to Indian government on the inclusion of foreign direct investment (FDI) in the Insurance Amendment Bill

December 2014

- Letter to Indian Prime Minister on the Insurance Amendment Bill
- Response to Financial Stability Board (FSB) consultation on the identification of critical functions and critical shared services
- Response to IAIS on updated draft procedures

January 2015

- Comments on Organisation for Economic Co-operation and Development (OECD) discussion draft on base erosion profit shifting (BEPS) action 7 on permanent establishment
- Letter to chairman of the Indonesian regulator regarding own retention and domestic reinsurance

February 2015

- Comments on OECD discussion draft on BEPS actions 8, 9 and 10 on transfer pricing guidelines
- Response to IAIS consultation on the ICS

April 2015

- Letter to Insurance Regulatory and Development Authority of India (IRDAI) on draft regulations for the registration and the operations of branch offices of foreign reinsurers (excluding Lloyd's)

May 2015

- Comments on OECD discussion draft on BEPS action 3 on the strengthening of controlled foreign company rules

June 2015
- Letter to IRDAI on the second draft regulations for the registration and operations of branch offices of foreign reinsurers (excluding Lloyd's)
- Comments on revised OECD discussion draft on BEPS action 7 on permanent establishment
- Letter to IAIS technical committee on reinsurance restrictions

July 2015
- Comments on various OECD BEPS discussion drafts

August 2015
- Comments on IAIS issues paper on conduct of business risk and its management
- Response to IAIS on microtakaful insurance
- Response to IAIS on conduct of business in inclusive insurance
- Comments on OECD paper on conflicts of interest
- Comments on IAIS review of its insurance core principles (ICPs) 4, 5, 7, 8, 23 and 25

September 2015
- Letter to IAIS on ICS timeline

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

The Global Federation of Insurance Association's Annual Report 2014–2015 is available on the GFIA website:
www.GFIAinsurance.org

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