GFIA

GLOBAL FEDERATION OF INSURANCE ASSOCIATIONS

Global Federation of Insurance Associations

Annual Report 2013–2014

About the GFIA

The Global Federation of Insurance Associations (GFIA), established in October 2012, represents through its 38 member associations the interests of insurers and reinsurers in 56 countries. These companies account for 87% of total insurance premiums worldwide, which amounts to more than $4.0 trillion. The GFIA is incorporated in Switzerland and its secretariat is based in Brussels.

www.GFIAinsurance.org

Contents

Foreword

Two years ago, when setting up the Global Federation of Insurance Associations (GFIA), few of us fully appreciated the breakneck pace at which global regulatory measures would emerge, and just how pervasive these changes would turn out to be.

This time last year, we had just begun to understand that the International Association of Insurance Supervisors' (IAIS) common framework for the supervision of internationally active insurance groups (ComFrame) project would have a "quantitative capital standard" component. Now, a year later we are on the verge of seeing the insurance industry's first fully developed capital measure for global systemically important insurers.

I do not believe anybody can question the wisdom of setting up the GFIA given the developments over the last two years. We now have the opportunity to present a unified voice for the global insurance industry in the face of rising waves of regulatory initiatives, which show no signs of abating anytime soon.

International regulation and supervision

The challenge that the worldwide industry and its regulators face is a difficult one: how do regulators ensure that all the benefits that come with a global insurance market are not unduly negated by the necessary monitoring and supervision, especially when there are multiple jurisdictions, approaches and interests?

There are many answers to this question, and all of them require honest and open discussions between regulators and the industry. This is where the GFIA needs to play a key part.

The role of the IAIS is significant in this respect. As it represents the universe of insurance regulators and supervisors, it has been tasked with the development of the majority of these global supervisory measures. As the pace of regulation has quickened, so the IAIS has also been compelled to grow and adapt to its more prominent role.

We witness this transformation in the IAIS' efforts to reorganise and restructure their processes of stakeholder input — effectively doing away with observership status. Needless to say, this is a momentous decision, as it fundamentally changes how industry stakeholders can contribute to the development of global policy. The GFIA will need to be at the forefront to ensure that the industry's voice is heard at the IAIS.

The importance of the G-20 in this landscape also cannot be overstated. Regulatory objectives that have been mandated by the G-20 carry compelling political clout, and the momentum behind them is tremendous, as we have seen in the development of capital measures. The GFIA must ensure that we continue to be active in addressing the G-20 decision makers, through our missions and other means, such as ongoing dialogue with the B-20 (the coalition of business representatives of the G-20 economies).

Developing and maintaining relationships with a broad network of global bodies will remain at the top of the GFIA agenda for the foreseeable future, as a wide diversity of bodies is increasingly taking an interest in insurance regulation. Beyond the G-20 and the IAIS, the Financial Stability Board (FSB) and the Organisation for Economic Co-operation and Development (OECD), the Joint Forum (who oversee the insurance, banking and securities supervisors), and many national governments all have increased their influence on the global insurance landscape, and we will need to stay abreast of them all. Similarly, we will continue to collaborate with bodies representing other cross-sections of the insurance industry, such as the Institute of International Finance (IIF) and the Geneva Association.

Building on our strengths

Though many things are in flux, some remain unchanged. As the GFIA's second operational year draws to a close, we see that the promising momentum of the first year has been maintained. The GFIA's representations continue in the areas of taxation, market conduct, trade and governance — in many cases we are the only voice that speaks for the global industry on these issues.

The multifaceted nature of the GFIA working groups has also shown strength in the form of exchanges of ideas, sharing best practices and enhancing communication amongst members. Examples of this include the natural catastrophe workshops and the efforts of the insurance research working group in compiling and making available the collected research reports of the GFIA members.

The GFIA's representation has also grown. We are proud to have 38 members, an increase from 32 members when we established just two years ago, and we expect the number to keep growing. In this regard I am very pleased by the recent decision of the General Assembly to make a special effort to attract the insurance trade representatives from developing markets, who would otherwise struggle to be represented in international discussions. This is good news for the diversity of the GFIA; one of its primary strengths.

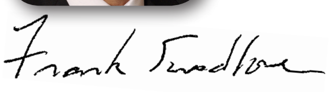
An exciting future

Just as we could not foresee a year ago where we would be now, we cannot be certain where we will be next year or beyond. In situations like this, it is imperative to remain focused on our core values and mission statement.

Whatever our global regulatory future looks like, the GFIA will strive to ensure policy development remains in touch with the reality and specificity of the insurance industry, in such a way that insurers can fully deliver on their promises to policyholders while being a major force for long-term growth and stability in the world economy.

A personal note

It has been a great honour and privilege to have been the first Chair of the GFIA during its first two years of operation. While there have been a few growing pains, the number has been remarkably small due to the quality of those who have dedicated themselves to the GFIA's success. While this includes many, I would note particularly the hard work and continued support of the GFIA executive committee and of the secretariat. They have been always available and committed to supporting the GFIA. To them, and to all those who were willing to embrace the vision of a new international organisation that will only grow and prosper in the future, I offer my most heartfelt appreciation.



Frank Swedlove
Chair

G-20

A focus on Australia

Following on from the success of last year's GFIA delegation meeting with the Russian G-20 Presidency, in March 2014, a delegation from the GFIA travelled to Australia to meet with key bodies and individuals involved in the Australian G-20 Presidency.

These included the Australian Treasury, the Department of Foreign Affairs and Trade, the Parliamentary Secretary to the Treasury and the Governor of Reserve Bank. The delegation also met with the chair of the Australian Securities and Investments Commission (ASIC), who is also chair of the International Organisation of Securities Commissions (IOSCO), the board of the Insurance Council of Australia, the Australian Prudential Regulation Authority (APRA) and the Australian B-20 (the coalition of business representatives of the G-20) advisory council members.

The priorities identified by the Australian G-20 Presidency of strengthening economic growth and building global economic resilience provided the GFIA delegation with many opportunities to highlight the important role the insurance sector could play in helping them meet their objectives.

A key area of discussion was the Australian G-20's focus on increasing private sector investment in infrastructure. The insurance industry business model is one of a long-term liability approach to investment and despite insurers currently holding less than 1% of assets in infrastructure, the GFIA was keen to point out that the insurance sector is well placed to be an even more important private sector source of infrastructure investment in the future. This is, of course, subject to the right framework conditions being in place.

G-20 realising the global importance of insurance

These broad themes were presented by the GFIA delegation:

- The insurance sector plays an important social and economic role in both local and global economies. This includes the supply of capital and long-term funding to the broader economy, providing financial security by indemnifying risks faced by individuals and businesses, and supporting governments by providing retirement savings and dealing with challenges posed by an ageing population.
- The insurance sector is well placed to play a significant role in the Australian G-20 Presidency's key objectives, namely in delivering global growth and making the global economy more resilient. However, this role can be damaged by inappropriate regulation.
- It is important that regulatory reform allows time for impact assessments and cost benefit analysis.

One of the most interesting points of learning from the meetings was the lack of knowledge about the insurance sector within many of the bodies that the GFIA met, despite the influential role they play in international policymaking.

This underlined the importance of delegations such as this to raise awareness of insurance industry concerns amongst key decision makers.

It also became apparent during the meetings that the Australian G-20 Presidency is looking to the B-20 as the voice of industry. Therefore, the GFIA sought to engage more closely with B-20 to ensure the messages they provide to G-20 leaders include key issues of importance to the insurance sector.

In this regard the GFIA provided input to the position papers being developed by three of the B-20 working groups of most relevance to the insurance sector; namely financing growth, trade and infrastructure, and investment.

In addition Rob Whelan, CEO of the Australian Financial Services Council, attended the B-20 summit in July on behalf of the GFIA, where he continued to deliver the GFIA's key messaging regarding insurers' role as providers of stability through the products they offer, the investments they make, and their underlying business model which serves as countercyclical in times of economic downturn.

Looking forward

The GFIA will continue to work to intensify its engagement with both the G-20 and B-20. It will also draft a letter to Australian G-20 Presidency in advance of the G-20 Summit in November 2014, to continue to reinforce many of the key messages raised earlier in the year.

Capital standards

Three new international capital standards in three years

The GFIA capital taskforce was established at the GFIA's general assembly meeting in Taipei in October 2013, following an International Association of Insurance Supervisors (IAIS) announcement of its intention to develop an international capital standard (ICS) within three years as part of the common framework for the supervision of internationally active insurance groups (ComFrame).

This followed other recent announcements made by the Financial Stability Board (FSB) and IAIS, in which the IAIS committed to develop a basic capital requirement (BCR) and higher loss absorbency requirements (HLA) by the end of 2014 and 2015 respectively.

Or in other words: three new international capital requirements within the space of three years.

In December 2013, the GFIA ComFrame working group responded to an IAIS ComFrame consultation, stressing that the new risk-based ICS should not delay improvements with respect to supervisory cooperation and coordination. However, the IAIS has committed to making the ICS part of ComFrame. This sits uneasily with many stakeholders who have repeatedly questioned the ICS' ambitious timeline.

After some preliminary data collection exercises the IAIS published a first draft consultation of its proposed BCR at the start of 2014, which the GFIA responded to in February 2014.The response supported the proposed factor-based approach, provided that the BCR would only apply to global systemically important insurers (G-SIIs). Given the compromises needed to achieve a measure quickly, the GFIA response expressed that the proposed trade-off between simplicity and accuracy would be a challenge to get right but could work as a base for the HLA. This is, of course, if field testing could provide a high enough level of confidence in the effectiveness of the measures.

Concerns with the IAIS work on capital also constituted part of the GFIA's key messages when meeting with delegates of the Australian G-20. It was stressed that new regulatory measures, especially in the area of capital, must be carefully assessed to ensure they do not have a negative impact on the ability and willingness of insurers to invest long-term.

In addition, concerns were raised with respect to the cost of capital being pushed up as a result of an overly conservative approach being taken which ultimately would lead to higher costs for the insured, lower levels of competition and higher barriers to entry, as well as having an impact on the availability and affordability of socially critical insurance products, especially with respect to long-term savings products. The GFIA highlighted the importance of impact assessments being carried out early in the process to ensure unintended consequences are identified well before new measures are adopted.

In July 2014 the IAIS released a second consultation on the BCR, which was a more concrete proposal than the first consultation and the GFIA anticipates that it more closely resembles what will be approved by the G-20 in November. The GFIA pointed out that the BCR was designed with many simplifications and therefore does not take into consideration some key risk mitigating techniques which are core to an insurer's business model. As a result the BCR will, therefore, not accurately reflect an insurers' capital adequacy. This further underscored the importance of the final calibration and design of the HLA, as well as the need for stress testing and empirical evaluation of how the measure would perform in various economic conditions. In addition, the GFIA expressed its concern with the reference in the BCR consultation to G-SIIs needing to hold a “higher” level of capital. This reference, it was noted, could be misunderstood to imply that G-SIIs should automatically be required to hold more capital than required under their local requirements. This, it pointed out, is not a valid objective in its own right rather it should be that the BCR/HLA framework provides additional reassurance that the G-SIIs hold enough capital.

Looking forward

Looking to the future, the IAIS' ambitious timeline for developing all three new capital requirements look set to keep the GFIA capital taskforce extremely busy. Many important decisions will need to be taken against tight deadlines, if the IAIS is indeed going to meet its ambitious deadlines. The GFIA capital taskforce intends to keep track of these developments and continue to represent the views of the international insurance industry on this important topic.

IAIS ComFrame

Avoiding highly prescriptive standards

During the past year, the GFIA ComFrame working group initially focused on preparing a GFIA response to the third consultation by the International Association of Insurance Supervisors (IAIS) on its proposed common framework for the supervision of internationally active insurance groups (ComFrame), which was submitted in December 2013.

The GFIA's comments, while applauding the IAIS for eliminating some of the more detailed elements from earlier drafts, recognised that further improvements were still required. Indeed, a central theme of the comments was the need for ComFrame to avoid highly prescriptive standards that would add new layers of regulation for internationally active insurance groups (IAIGs) under ComFrame.

More specifically, the GFIA expressed concern with the rigid definition of capital resources, which would not be capable of either accommodating different jurisdictional regimes or accurately reflecting the business of insurance.

The GFIA also indicated that a firm capital definition was premature, in the absence of consensus on ComFrame's valuation approach. Instead, the GFIA underscored its support for ComFrame as a principles-based initiative.

Following the December 2013 consultation, the ComFrame working group turned its attention to the IAIS work on capital standards, contributing to the work of the GFIA capital taskforce in advance of the first consultation on the basic capital requirement (BCR), the GFIA's more recent response to the second BCR consultation and engaging with the IAIS on the development of an insurance capital standard (ICS) for IAIGs under ComFrame.

Looking forward

The ComFrame working group will continue to monitor the evolution of ComFrame. It will work closely with GFIA's capital taskforce as the BCR is finalised and the IAIS initiates its first ICS consultation early in 2015.

Systemic risk

Ensuring policymakers understand the insurance industry

The GFIA responded to a consultation on the FSB's key attributes of effective resolution regimes dealing with the resolution of insurers. The GFIA raised several concerns.

One observation was that the annex did not adequately take into account the specificities of the insurance industry. Insurers have a unique business model that differs considerably from that of banking; the GFIA noted that this was not currently reflected in the guidance.

Another observation was that the scope of the FSB's proposal was ambiguous. The language used would have allowed the guidance to apply to all insurers, rather than only to those deemed systemically important. The GFIA pointed out that this would have gone outside of the FSB's remit.

The third main concern was that the FSB guidance would overlap with existing insolvency regimes at a local level, which have already proven to be adequate for the resolution of insurers. An alignment of existing insolvency regimes with the FSB guidance would raise a number of complex issues and would require extensive legislative change across jurisdictions.

Looking forward

The GFIA working group will analyse and, if relevant, comment on the final text of the annex later in 2014. It will also follow closely, and contribute when possible, to the work of the IAIS resolution working group, which is understood to be in the process of developing new supervisory materials on insurance resolution. This includes the development of guidance for the resolution of global systemically important insurers, relevant parts of ComFrame and revision of resolution-related ICPs, all by the end of 2015.

The working group will also continue to monitor relevant global regulatory issues, representing the interests of the industry where appropriate.

Taxation

Reducing compliance burdens and aligning global standards

The taxation working group had a busy and varied agenda over the last 12 months. Topics such as the US Foreign Accounts Tax Compliance Act (FATCA), the EU financial transaction tax, proposals by the Organisation for Economic Co-operation and Development (OECD) to tackle base erosion and profit shifting (BEPS) as well as the OECD's global standard for automatic exchange of tax information continued to dominate the agenda.

Tax evasion through use of offshore accounts

Proposals to target tax evasion by individuals using offshore accounts were first developed by the US authorities in the form of FATCA, however, more recently a similar initiative largely modelled on FATCA is now nearing completion at the OECD.

Despite FATCA becoming effective on 1 July 2014 and now being implemented across the world, the GFIA has continued to engage on this issue developing solutions to lower compliance burdens on insurers.

The OECD has been working on a very ambitious schedule to finalise a proposed global standard (and related commentary) for the automatic exchange of tax information. The proposal, while similar in some ways to FATCA, has a number of significant differences which could increase compliance costs for insurers. The GFIA provided comments to the OECD advocating the use of a risk-based approach, consistent with FATCA and suggested a number of changes to reduce the cost of compliance, a number of which were adopted by the OECD in the final standard and commentary.

The OECD global standard for the automatic exchange of tax information to encourage cooperation between tax administrations is expected to be approved by the G-20 in autumn 2014, with many European countries committed to adoption by 1 January 2016. The working group will continue to share information as local guidance is developed, to help minimise compliance burdens on insurers ensuring local laws are consistent and therefore creating consistency for those insurers working across borders.

Base erosion and profit shifting

As part of its initiatives to combat tax avoidance, the OECD has also continued to develop proposals to address BEPS. References to captive insurance and affiliate reinsurance in its BEPS action plans led to concerns that it may propose restrictions on some kinds of affiliate reinsurance. In response, the GFIA wrote to the OECD explaining the importance of affiliate reinsurance from a business perspective in managing risk and capital. Representatives of the taxation working group also took part in a meeting with the OECD in September about affiliate reinsurance and the GFIA has contributed to a package detailing its benefits, which is due to be sent to the OECD in the last quarter of 2014.

Transfer pricing

In February 2014, the GFIA also provided comments to the OECD on its discussion draft on transfer pricing documentation and country-by-country reporting. The OECD has been tasked with developing rules to enhance transparency for tax administration, including information on multinationals' global allocation of income. The GFIA advocated that rules should be flexible and minimise unnecessary compliance burdens on insurers.

Financial transaction tax

The proposal by 11 European Union member states for a Financial Transaction Tax (FTT) resulted in a number of serious concerns raised by the GFIA and others. Following these concerns, it appears that initial FTT proposals are being scaled back. The proposal first sought to include all financial transactions in its scope, however only equities and some derivatives have been included in it to date. When this annual report went to press, the jurisdictions involved were still developing consensus on a number of other significant issues surrounding the proposed tax.

Looking forward

The working group will continue to monitor progress around the FTT, as well as the other key issues mentioned. Once there are revised proposals it will analyse the impact on members and provide recommendations to minimise the impact of a FTT on pension, retirement and life insurance products, as well as continuing to stay abreast of the developments with FATCA and at the OECD.

Trade

Delivering a common set of free trade commitments

Dismantling and discouraging new barriers to free trade across the world's major economies has been a continued theme this year for the trade working group.

Trade In Services Agreement

With respect to multilateral efforts to liberalise cross-border trade in services, the GFIA was pleased to observe progress in the form of the Trade in Services Agreement (TISA). This trade agreement was negotiated with the 23 members of the World Trade Organisation (WTO), which together account for 70% of world trade in services. It was considered, that if the TISA was suitably ambitious, it could provide a valuable blueprint for increased trade and economic growth.

The GFIA has used the opportunity presented by the TISA to produce an ambitious liberalisation agenda which goes beyond simply reaffirming commitments made under the General Agreement on Trade in Services (GATS). In its paper, amongst other things, the GFIA expressed its support for TISA participants becoming signatories to the WTO's Understanding on Commitments in Financial Services, as well eliminating limitations on equity caps in their markets and extending areas covered by national treatment commitments. The paper also provided the GFIA with a firm common basis on which to build future positions on cross-border liberalisation, and it was shared with the ambassadors of all the countries involved in the negotiations.

G-20 communication

The Australian G-20 Presidency's parallel objectives of stimulating economic growth and building global economic resilience resulted in reducing barriers to trade being a key priority. The GFIA used the opportunity presented by its G-20 delegation in Sydney to emphasise its commitment to trade liberalisation and also highlight a number of emerging trends of particular concern to the insurance industry, including limitations on cross-border reinsurance, restrictions on cross-border data flows and reversal of private account pensions.

The equity stake in India

Raising the equity stake in India is the subject of repeated GFIA advocacy initiatives and it became the new Indian government's top priority in its first session last August. Through letters and respective government negotiations, the working group and members supported the raise in equity stake from 26% to 49% with the Indian government.

However the Bill's approval was stalled in the upper-house, where the Government lacks a clear majority, and the Insurance Bill has been referred to a Select Committee tasked to deliver a report to the parliament by the end of the first week of the 2014 winter session. The GFIA will monitor progress and work with our Indian allies on the equity increase, as well as continuing to advocate that reinsurers be allowed to establish branches in India to meet the growing demand for reinsurance.

Unintended consequences further afield

The working group defined and delivered a unified expression of concern from the GFIA to the governments of Indonesia and Ecuador, who proposed the elimination and/or closure of their cross-border reinsurance market.

Working with ministers, and in the case of Ecuador, the President, the working group were pleased to see the proposal that all reinsurance must be placed through local reinsurers removed from the draft insurance law before adoption. However, this relief was short lived, with a circular issued by the Ecuadorian Superintendent less than a month later requiring all insurers to retain at least 95% of certain reinsurance contracts. The GFIA intends to continue to raise awareness with Ecuadorian officials of the unintended consequences that this high level of concentration risk in the local economy may result in.

With respect to Indonesia, the GFIA awaits the formation of the new government (planned for the end of October) to know whether its efforts have been successful.

Looking forward

The working group will continue to monitor these areas as well as identify key priorities for the coming year. These are likely to include incorporating additional objectives into the TISA priorities and to begin discussions with the government of China to encourage the removal of market access restrictions.

Market conduct

Shaping a global approach

The market conduct working group has been working with global bodies, such as the International Association of Insurance Supervisors (IAIS) and the Joint Forum who oversee the insurance, banking and securities supervisors, to help define how they approach the regulation of global insurance market conduct.

The last year has kept the group busy, with its work focussing on two key areas.

The first was to provide a response to the Joint Forum regarding its point of sale (POS) disclosure in the insurance, banking and securities sectors consultation paper. The second key area was responding to the IAIS application paper on approaches to conduct of business supervision.

While supporting the overall aims of the Joint Forum's POS paper, the working group had a number of concerns around the difficulties of trying to set common standards across three very different areas of business.

Comparing apples with oranges

One of the concerns was in relation to the paper's recommendation that POS disclosures include the same type of information to facilitate a comparison of competing products in the insurance, banking and securities sectors. The concern was that due to the significant differences of the products being offered by the three sectors, a "one-size-fits-all" approach towards disclosure of information would not be suitable.

The GFIA noted that while the aim of providing such a comparison is theoretically admirable, it is not always practical and could potentially be confusing and misleading for consumers. In addition it appeared to go against the Joint Forum's earlier observation for the need for recognition of the significant differences, objectives, product specificities and regulatory regimes involved.

The GFIA's response advocated a risk-based approach to allow product specificities to be taken into account when deciding what kinds of POS disclosures should be provided.

This engagement constituted part of a much wider dialogue with the Joint Forum on this project, which has delivered some very tangible results, such as the clarification in its final paper that there is a need for flexibility in POS disclosures to capture product specificities.

Keeping the customer informed

The second focus was a response provided in August 2014 to the IAIS application paper on approaches to conduct of business supervision. The working group agreed with many points in the paper, in particular its recognition of differing regulatory regimes in different jurisdictions and was pleased to note that the IAIS did not try to suggest that all jurisdictions adopt a single model or that one approach is better than another.

It also praised the paper's approach of using examples drawn from an IAIS member survey, as an excellent way to demonstrate the range of regulatory tools and measures that can prove effective, given the regulatory, structural, historical and cultural differences that exist from one jurisdiction to the next.

The GFIA suggested that each regulator should assess both the effectiveness of its current approach, and the risks and benefits of possible changes, to ensure that consumers continue to be well served. For instance, industry structural changes imposed by some jurisdictions could prove both unnecessary and counterproductive in other jurisdictions. The response pointed out that a lack of insurance has negative implications for society and supervisors should be cognisant of not creating any unnecessary barriers to access to insurance.

Looking forward

The GFIA market conduct working group hopes to continue to engage with the IAIS market conduct working group under the IAIS's new working arrangements and further build on the constructive relationship that the GFIA has established in this area.

The working group will also be seeking to better understand how different regulatory jurisdictions approach market conduct issues around the world, in order to better educate and inform its own work.

Corporate governance

Flexible supervision approaches

Corporate governance failings were seen by many to be one of the underlying causes of the financial crisis, and therefore, along with financial regulation and market conduct it has come under increased scrutiny in recent years.

In this regard, international regulators have continued to undertake major initiatives to understand how to best approach supervision of group corporate governance structures in the insurance industry, and the potential impact they have on control functions.

Working with the IAIS

The GFIA corporate governance working group has provided substantial input to the International Association of Insurance Supervisors (IAIS), both through its involvement in discussions at IAIS corporate governance subcommittee meetings as well as through responding to the IAIS consultation on its issues paper on "approaches to group corporate governance; impact on control functions".

This IAIS issues paper examines the different approaches which insurance groups take in terms of governance structures. It classifies insurance group structures broadly as centralised, decentralised or hybrid models, acknowledging that most insurers are some form of hybrid model. It then analyses the challenges that these structures face and explores the potential for developing tools for supervisors and organisations to address these challenges.

> "... this issues paper should not be read as advocating any preference for a specific model. Instead, the analysis undertaken is designed to identify how, within the possible variables that can prevail in these models, good governance standards can be effectively achieved."
>
> "Approaches to group corporate governance; impact on control functions"
> IAIS, March 2014

In corporate governance supervision it is fundamental that a flexible supervisory approach is taken and insurance groups are able to structure themselves in the way that best suits their business model, as long as key characteristics of good governance are achieved. The GFIA was therefore pleased to see this reflected in the IAIS issues paper.

Throughout the development process the GFIA's input has helped underscore the importance of taking an outcomes-focused approach, which looks at the results of various corporate governance structures, rather than how and where the corporate governance functions are being performed in a given organisation.

In response to comments made by the GFIA and other observers, the IAIS amended the issues paper to emphasise that it is an exploratory document that doesn't seek to propose specific standards, and also to acknowledge the limitations that local law can put on certain governance arrangements in some jurisdictions.

The involvement of the FSB

The Financial Stability Board (FSB) has also become much more involved and influential in the area of corporate governance.

In January, the GFIA responded to the FSB consultation on its draft guidance on supervisory interaction with financial institutions on risk culture. The GFIA response welcomed the FSB's high-level approach and believed it had captured the key elements of an effective risk culture well.

The GFIA also highlighted the importance of the FSB's statement (see box), emphasising the necessity for supervisors to strike the right balance between taking a more intensive and proactive approach without improperly influencing financial institutions strategic management decisions. It therefore suggested that it should receive a more prominent position in the document.

Looking forward

The GFIA will continue to interact with and support the IAIS, FSB and other organisations as they continue to develop their views and next steps in the area of corporate governance over the coming year.

Anti-money laundering

Combatting money laundering and terrorist financing

In October 2013 the International Association of Insurance Supervisors (IAIS) revised its Insurance Core Principle (ICP) 22 on anti-money laundering and combatting financial terrorism and published an application paper on the topic. The GFIA responded to the IAIS consultations and this, alongside industry involvement and participation in the IAIS meetings, contributed to ICP 22 being more practical and clearer in a number of areas.

The GFIA welcomes the IAIS' objective to have a central role for the risk-based approach, in line with the Financial Action Task Force's (FATF) Recommendations. The revised ICP 22 and guidance paper will, therefore, provide useful insurance-specific guidance for supervisors and regulators in FATF member countries and will be particularly instructive for those non-FATF jurisdictions who follow FATF standards through membership in regional anti-money laundering bodies.

One area that the IAIS did not take on board was the GFIA's recommendation to exclude non-life products from the core principle and guidance paper. This was disappointing, as in general, these products do not carry money laundering and financial terrorism risks. Therefore inclusion of these areas in the scope only serves to add compliance costs whilst providing limited corresponding benefits.

In August 2014 the GFIA submitted its comments to the IAIS' draft issues paper on anti-bribery and corruption. The GFIA broadly supports the IAIS' intention to provide guidance in this area. However, it believes that the existing ICPs are sufficient to combating bribery and corruption, and that there is no need to have a separate ICP or an application paper.

Looking forward

The working group expects to concentrate on the planned revision of the FATF guidance paper for the life insurance sector. The GFIA hopes that this work will result in guidance that truly reflects the specificity of this sector.

Financial inclusion

Embracing emerging economies

While the issue of financial inclusion is not just one for emerging economies, the group felt that it could be more representative if it had more emerging economies as members.

The working group has also noted that the GFIA membership of associations in emerging economies is quite limited. This issue was discussed at the GFIA's general assembly meeting in June 2014, and a motion was adopted to reduce the annual membership cost for associations located in low premium jurisdictions.

From an international standard-setting point of view, the work of the working group was stalled by the resignation of the chair and vice-chair of the IAIS working group on financial inclusion at the beginning of 2014 and therefore there were no new initiatives for which industry input was sought.

In February 2014, the financial inclusion working group discussed developing insurance markets with Craig Churchill, a team leader in the micro-innovation facility at the International Labour Organisation. This provided an opportunity for the working group to look at the evolution of micro-insurance, including barriers to market development. The group were able to share their first-hand experiences in this area to further understand developing insurance markets.

Looking forward

The working group will be engaging in a training programme with insurance supervisors from emerging markets, which is based on a curriculum developed by the Access to Insurance initiative, in cooperation with the IAIS.

In addition, a new chair and vice-chair have also now been appointed to the IAIS financial inclusion subcommittee so the working group stands ready to contribute to the IAIS' work in this area under its new structure.

Natural catastrophes

Collaboration with governments to reduce economic impact

Studies have suggested that the volume and severity of natural catastrophes are increasing and as a result so are the financial, economic and social costs of those disasters.

Since 1970, the average number of natural disasters worldwide has grown by almost 250%. Research shows that disasters raise government expenditures by an average of 15% and lower revenues by an average of 10%, leading to a 25% increase in budget deficit.

Insurers play a crucial role in providing economic support following a natural catastrophe. They can help mitigate the burden of natural catastrophes by allowing governments to transfer risk to the private sector, ensuring fast and efficient indemnification as well as promoting faster disaster recovery.

In addition, the insurance sector plays an important role in disaster risk management, mainly through its expertise and promotion of loss prevention measures to reduce the risk of loss.

In 2011, global insured catastrophe losses were the highest ever recorded, at $105 billion. In the IAIS’ 2011 paper “Insurance and Financial Stability” it is estimated that 45% ($47.5 billion) of the global catastrophic losses were ceded to reinsurers.

When it comes to the “mega events” from 2011, such as – the Australian flooding and windstorms, the New Zealand earthquakes, Japanese earthquakes and Thai flooding – the incurred losses were heavily reinsured. The share of the 2011 “mega event” catastrophic losses that were reinsured ranged from 40% to 73%. The 2010 Chilean earthquake had a reinsured share of 95%. This underlines the importance of maintaining efficient access to global reinsurance.

There is no “one-size-fits-all” solution with respect to natural catastrophes. Different nations have different natural catastrophe risks, different economic, political and institutional systems and therefore differing views on how post-disaster funding should be provided.

GFIA natural catastrophes working group workshop

A workshop was held in June 2014, as part of the GFIA general assembly, to share knowledge across different markets. Presentations from the Canadian, French, German and US markets included:

- Managing disaster costs through insurance.
- The role of insurers and governments in natural catastrophes.
- Natural catastrophes and insurers: finding allies and common ground.
- Addressing the issue of high-risk properties.

However, what seems to be increasingly witnessed, at an international level, is a growing trend of national governments and insurers working together with the aim of reducing the financial, fiscal and economic impact of such disasters.

As identified through the GFIA’s information exchanges, dialogue and cooperation between governments and stakeholders seems to be increasing, notably for the establishment of prevention measures and the introduction of efficient and effective crisis responses.

The highlight of the natural catastrophes working group’s activity was a workshop at the GFIA general assembly meeting in June. It provided insurers with an opportunity to look more closely at the financial management of risk and national responses to insuring high risk properties against water damage.

Looking forward

The working group will continue to draw country-by-country comparisons. In addition, it will monitor the activities of major economies and organisations on resilience promotion and post-disaster management in light of the increase of natural catastrophes.

- Member associations
- Executives
- Working groups
- Position papers

Member associations

Africa

Association for Savings and Investment of South Africa (ASISA)
www.asisa.org.za info@asisa.org.za

Insurers Association of Zambia (IAZ)
www.iaz.org.zm iazsecretariat@iaz.org.zm

South African Insurance Association (SAIA)
www.saia.co.za info@saia.co.za

Americas

American Council of Life Insurers (ACLI)
www.acli.com contact@acli.com

American Insurance Association (AIA)
www.aiadc.org l.pusey@aiadc.org

America's Health Insurance Plans (AHIP)
www.ahip.org ahip@ahip.org

Association of Bermuda Insurers and Reinsurers (ABIR)
www.abir.bm bradley.kading@abir.bm

Association of Mexican Insurance Companies (AMIS)
www.amis.org.mx contacto@amis.com.mx

Brazilian Insurance Confederation (CNseg)
www.cnseg.org.br presi@cnseg.org.br

Canadian Life and Health Insurance Association (CLHIA)
www.clhia.ca jhilchie@clhia.ca

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

Federación Interamericana de Empresas de Seguros (FIDES)
www.fideseguros.com rda@fideseguros.com

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

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

Asia

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

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

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

Australia

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

Europe

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

Members by region

Executives

Chair

Frank Swedlove
President
Canadian Life & Health Insurance Association

Vice-chair

Recaredo Arias
Director general
Association of Mexican Insurance Companies

Treasurer

Shizuharu Kubono
Vice-chairman
Life Insurance Association of Japan

Secretary

Michaela Koller
Director general
Insurance Europe

Membership

Leigh-Ann Pusey
President & CEO
American Insurance Association

Secretariat contacts

Hannah Grant
Tel: +32 2 89 43 081
Oscar Verlinden
Tel: +32 2 89 43 083
David Bishop (press)
Tel: +32 2 89 43 082
E-mails: [surname]@GFIAinsurance.org

Working groups

Anti-money laundering/countering terrorism financing

Chair: Lisa Tate
American Council of Life Insurers

Corporate governance

Chair: David Snyder
Property Casualty Insurers Association of America

Insurance research

Co-chair: Andrew Melnyk
American Council of Life Insurers

Market conduct

Chair: Leslie Byrnes
Canadian Life and Health Insurance Association

Systemic risk

Chair: Nicolas Jeanmart
Insurance Europe

Trade

Chair: Brad Smith
American Council of Life Insurers

ComFrame

Chair: Stef Zielezienski
American Insurance Association

Financial inclusion

Chair: Suzette Strydom
South African Insurance Association

Insurance research

Co-chair: Lapo Calamai
Insurance Bureau of Canada

Natural catastrophes

Chair: Gregor Robinson
Insurance Bureau of Canada

Taxation

Chair: Peggy McFarland
Canadian Life and Health Insurance Association

Capital Taskforce

Chair: Olav Jones
Insurance Europe

Position papers

2013	
9 October	Response to Organisation for Economic Co-operation and Development (OECD) on the automatic exchange of financial account information between countries
16 October	Response to OECD on base erosion and profit shifting
18 October	Letter to the Joint Forum on point of sale disclosure
21 October	Response to Financial Stability Board (FSB) consultation on draft implementation guidance on resolution of insurers
28 November	Position paper on Trade in Services Agreement
28 November	Letter to the Indian Prime Minister on the Insurance Amendment Bill
29 November	Comments on International Association of Insurance Supervisors (IAIS) restructuring
16 December	Response to IAIS ComFrame consultation

2014	
31 January	Comments on FSB guidance on supervisory interaction with financial institutions on risk culture
3 February	Response to IAIS basic capital requirement (BCR) consultation
21 February	Response to OECD on transfer pricing and country-by-country reporting
14 March	Letter to OECD on insurer representation in system of national accounts
23 April	Comments on IAIS issues paper “Approaches to group corporate governance”
21 May	Comments on OECD draft commentaries on the common reporting standard for the automatic exchange of financial account information between countries
11 June	Letter to Indian Minister of Finance on the Insurance Amendment Bill
11 June	Letter to Indonesian government on Indonesian reinsurance cessions
8 August	Response to second IAIS BCR consultation
8 August	Letter to IAIS on application paper on supervisory approaches to conduct of business
15 August	Comments on IAIS draft issues paper on anti-bribery and corruption
2 September	Response to IAIS draft procedures on participation and consultation of stakeholders

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

The Global Federation of Insurance Association's Annual Report 2013–2014 is available on the GFIA website:
www.GFIAinsurance.org

Design: GFIA

GFIA secretariat
rue Montoyer 51
B-1000 Brussels
Belgium

www.GFIAinsurance.org