GFIA

GLOBAL FEDERATION OF INSURANCE ASSOCIATIONS

Global Federation of Insurance Associations

Annual Report 2012–2013

About the GFIA

Through its 35 member associations, the Global Federation of Insurance Associations (GFIA) represents the interests of insurers and reinsurers in 56 countries. These companies account for around 87% of total insurance premiums worldwide. The GFIA is incorporated in Switzerland and its secretariat is based in Brussels.

www.GFIAinsurance.org

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Foreword

If any industry can be said to be truly global it is insurance. The largest companies operate across the world and a significant amount of insurance — and particularly reinsurance — business is international. Risk pooling is, of course, a key component of the (re)insurance business model. The ability to pool uncorrelated risks and to pay claims on a global scale not only enables (re)insurers to achieve the most effective risk management and the most efficient allocation of their capital and resources, it also fosters financial stability and stimulates economic growth. All insurance companies, large and small, are affected in some way by what is happening globally.

And yet the world's insurers never had one global trade body to represent them.

I and many others in the industry had long felt one was needed, and what finally prompted its creation was the global financial crisis of 2008, which changed the face of financial regulation forever. It brought into sharp relief the interconnectedness of markets and shifted the regulation of the financial sector to the global agenda, with the G-20 taking the lead. In insurance, this meant a greater role for the Financial Stability Board and the International Association of Insurance Supervisors (IAIS), which are tasked with carrying out the G-20 mandate. They needed a trusted industry counterparty to talk to, representing all regions of the world and large and small companies alike.

It became even clearer that we insurers needed more formal cooperation between our national and regional associations in order to provide a unified voice for the industry and to create a single point of contact for global policymakers and regulators.

A global voice in insurance

And so, the Global Federation of Insurance Associations (GFIA) was founded in Washington, DC in October 2012 by 32 life and health, property and casualty, and reinsurance associations. Since then, three more associations have joined the federation and we now represent an impressive 87% of all the world's insurance premiums. A global voice indeed.

That figure demonstrates just how representative we are. But that is not the only reason; our rigorous decision-making processes require an extremely high level of consensus. For the GFIA to issue a policy position, a 90% consensus is required among our members. I confess that initially I had concerns about this high threshold, but — pleasingly — they have proved unfounded. Instead of being an obstacle, this high threshold has become an advantage. Policymakers and regulators know that when the GFIA takes a position it is supported by essentially the entire global industry.

The GFIA was founded in Washington, DC in October 2012

Despite that high hurdle for consensus, in its first 12 months the GFIA has produced a significant number of high-quality, detailed positions, papers and letters on topics that are of major concern

Frank Swedlove, GFIA chair, at the GFIA General Assembly, Rome, June 2013

to the global insurance industry (see list on p22). Through 10 working groups, it has covered issues that include the efforts by regulators to tackle systemic risk in the financial sector; the IAIS work to develop a common framework for international groups (ComFrame); work on policyholder protection schemes; and involvement in a number of trade issues. On many of the topics that the GFIA has already covered — such as the intergovernmental Financial Action Task Force's anti-money laundering Recommendations and the work of the IAIS on third-country branch operations — it has been the sole voice representing the global industry's views.

We have engaged face-to-face and in writing with all the key international bodies dealing with insurance-related topics. Of particular note this year was our GFIA delegation to meet the Russian G-20 presidency in March. We held meetings with Russia's Deputy Minister of Finance and representatives of its central bank and we saw those discussions bear fruit in the welcome G-20 Summit declaration in September on facilitating and encouraging institutional investors to finance long-term investment.

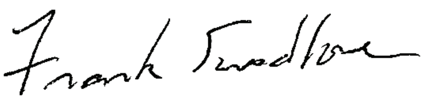
Research coordination

One of the exciting areas that the GFIA is also developing is research coordination. We have set up a working group that will not seek to carry out primary research but rather consolidate the considerable amount of research and statistics that our associations conduct in various benchmarking exercises and in response to government proposals and regulatory requests. This exchange of data will increase our collective knowledge base for the benefit of all members.

Looking ahead

It has been a busy year establishing the federation and setting up its working groups and the secretariat. We have also achieved much since October 2012 in terms of building positions, establishing contacts and launching our advocacy work. More work, of course, remains to be done. The international regulation of insurance is at a key point in its evolution. For the first time, international capital standards are being discussed and the ComFrame framework for internationally active companies is taking shape. The industry must be ready to speak clearly and responsibly on these issues. We will also need to strengthen our relationships with other groups that represent parts of the insurance sector, such as the Geneva Association and the International Institute of Finance (IIF). Together we can be stronger in supporting positions that are vital to our industry.

Exciting, but challenging, times lie ahead.



Frank Swedlove
Chair

Anti-money laundering action

Contributing to the work of the FATF

The GFIA supports efforts to combat money laundering and the financing of terrorism. Its predecessor, the International Network of Insurance Associations, therefore contributed to the consultations and stakeholder meetings organised by the Financial Action Task Force (FATF) before its adoption of its revised Recommendations in February 2012. Currently, the FATF is updating its related guidance papers on various topics, such as those on a risk-based approach and on politically exposed persons, to bring them into line with the new Recommendations.

In April 2013 the FATF organised a meeting with private sector companies to discuss the impact of the revised Recommendations and challenges in implementing the requirements, and to seek input on updating its guidance papers and/or the need to develop guidance on new subjects. The GFIA prepared key messages that were stressed by the insurance sector's participants at the meeting. These included calls for the FATF to check that jurisdictions correctly implement a risk-based approach; for consistency between data protection and anti-money laundering requirements; and for the measures to identify politically exposed persons or beneficial owners to be realistic and to be the shared responsibility of financial institutions and public authorities.

What is the FATF?

The Financial Action Task Force (FATF) is an intergovernmental organisation whose Recommendations are recognised as the global standard for combatting money laundering and terrorist financing, endorsed by more than 180 countries and jurisdictions. The Recommendations set out a framework of criminal justice and regulatory measures that countries should implement, and the international cooperation and preventative measures that financial institutions and others should undertake. The FATF has no direct authority over financial institutions but does conduct detailed assessments of countries' compliance with its Recommendations and the level of effectiveness of their systems to combat money laundering and terrorist financing. Those evaluation reports are available on its website.

The FATF Recommendations have been revised in a way that reflects many insurance characteristics. For example, the FATF has recognised that the term "beneficiary" in a life insurance policy has a different meaning to the term when used in other sectors. Because the beneficiary can also change multiple times during the duration of a life policy, the FATF included a statement for the life insurance sector in its Recommendations, highlighting that verification of the beneficiary should only be carried out at the time of pay-out.

As well as updating its guidance paper on a risk-based approach, the FATF also plans to update its 2009 paper "Risk-Based Approach: Guidance for the Life Insurance Sector". In July 2013 the GFIA responded to an FATF questionnaire on the updating of this paper and it will continue to seek to ensure that the revised guidance paper reflects insurance-specific characteristics.

Risk-based approach is vital

Looking ahead, a key objective of the GFIA will be to maintain the prominent role of the risk-based approach. This fundamental and essential approach allows insurers to allocate their resources in the most effective way, addressing identified and prioritised risks in the right order and with the most appropriate response.

The International Association of Insurance Supervisors (IAIS) has undertaken a project similar to that of the FATF. The IAIS has observer status with the FATF and supports its Recommendations. It considers, however, that more specific information for insurers and insurance intermediaries is needed that is consistent with, and supplements, the Recommendations. The IAIS guidance also addresses the non-life sector more prominently than the FATF Recommendations.

In line with the FATF Recommendations, the GFIA has stressed that non-life should not be included in the IAIS guidance unless countries determine through their risk assessments that there are such businesses that are at risk of money laundering and terrorist financing and that do not fall under the definition of financial institution. Otherwise, including the non-life sector would result in a waste of compliance resources, with no benefit to the fight against money laundering.

Corporate governance

Different structures can still produce good outcomes

The need for effective corporate governance was one of the major lessons drawn from the financial crisis. The Organisation for Economic Co-operation and Development, the Financial Stability Board, the International Association of Insurance Supervisors (IAIS) and some individual supervisors have focused on the issue since then and have issued guidance, reports or new standards.

These developments pose the fundamental challenge to insurers of how to maintain the flexibility they need in their corporate structures to be able to respond to their markets and local supervisory mandates but at the same time assure supervisors that they have effective corporate governance systems, consistent with international norms.

IAIS activities

The IAIS's Insurance Core Principles (ICPs), which its members use when developing their supervisory regimes, contain some important references to corporate governance matters.

For example, ICP 7 requires all insurers to "establish and implement a corporate governance framework which provides for sound and prudent management and oversight of the insurer's business and adequately recognizes and protects the interests of policyholders". The key elements of such governance are policies, risk strategy and appetite, appropriate allocation of oversight and management functions, appropriate control systems and reliable financial reporting.

For insurance groups, ICP 8 and related standards and guidance state that they should implement group-wide governance. And the current version of ICP 23 references group-wide governance.

Requirements under ComFrame

The latest draft of ComFrame, the IAIS's common framework for supervising international groups (see p10), has much to say about corporate governance. The current ComFrame draft requires a group-wide remuneration policy, a group-wide communication policy, a group-wide enterprise risk management (ERM) policy and a group-wide policy on intragroup transactions. With regard to functions, there are provisions for a group chief risk officer (or equivalent position), a group chief compliance officer, a group-wide actuarial function and an internal audit function. The group-wide ERM policy that is required includes measurement and reporting of group-wide risk and a group-wide ORSA (own risk and solvency assessment).

GFIA stresses dialogue

The GFIA corporate governance working group has submitted several formal comments on IAIS governance developments. The main point the GFIA has sought to make with its comments to the IAIS is that good governance is achievable with a variety of corporate structures and thus corporate governance supervision should not be a one-size-fits-all exercise.

Supervision should instead be based on a dialogue with the company, using such tools as supervisory colleges — where appropriate — to understand the company's operations, risks and governance structures, what corporate governance policies are in place, how the policies are set, and how the company carries out those policies at group and legal-entity levels. Supervisors need to be comfortable that the governance policies are consistent with applicable law and that the company has structures in place to ensure that the policies are carried out in practice.

The GFIA is working with the IAIS on an issues paper that illustrates how different structures perform governance and what supervisors should consider in assessing the governance of groups with very different structures. It is hoped that the result will be a free-standing paper that will help inform ComFrame.

A paper from the Financial Stability Board

In addition, the GFIA working group has commented on a paper produced by the Financial Stability Board, which is entitled "Principles for an Effective Risk Appetite Framework". The paper sets out the elements of an effective risk appetite framework, risk appetite statement, risk limits and the roles and responsibilities of the board and corporate officers. The GFIA believes the paper should take greater account of the diversity of insurance business models, include statements on proportionality and confidentiality, and avoid being overly prescriptive.

Cross-border branch operations

A campaign for freedom of form of establishment

When financial institutions enter the market in a new jurisdiction, the most common approaches they take are to establish either a branch, a subsidiary or a joint venture with a local partner. The process of setting up a branch or subsidiary can be similar in many regards, except that subsidiaries are legal entities separate from the parent group and branches are legally indivisible from the parent undertaking.

The GFIA advocates that institutions should have freedom to choose their form of establishment. Maintaining a variety of options for setting up overseas operations ensures that insurers that operate cross-border are able to provide well diversified, competitive protection to local policyholders in the most efficient and effective manner. This is especially relevant in the case of developing markets, where political risks and high set-up costs may otherwise deter foreign insurers from providing coverage.

Many factors determine legal form

When entering a new market, the decision on legal form depends on many factors. In most jurisdictions, branches are not required to establish a board of directors and are exempt from certain local reporting requirements. This significantly lowers entry costs and allows insurers to service markets that might otherwise remain underserved. In reinsurance, branches are very common, as the restrictions on accessing a branch's capital are often lower, given that they work off the parent company's balance sheet. This enables reinsurers to pool risk optimally across their portfolio. Conversely, the establishment of subsidiaries creates a more autonomous company, which has limited ties to the parent in terms of governance and fungibility of capital.

In practice, this means that branches are supervised by the parent's home supervisor, while subsidiaries are supervised by their local supervisor (the host supervisor). Supervisors have found, from their perspective, that both branch and subsidiary structures can have advantages, as long as the home and host supervisors communicate and cooperate sufficiently to ensure that appropriate measures can be taken if required.

Possible IAIS standards

To identify differences as well as similarities in the supervision of foreign branches, and to consider (possible) challenges in their supervision, the insurance groups and cross-sectoral issues subcommittee of the International Association of Insurance Supervisors (IAIS) developed an issues paper that may form part of the preparatory work for developing related standards.

In preparation for its issues paper, the IAIS sent an in-depth survey on possible problems with the supervision of branches to its more than 100 members, receiving 35 responses. The survey was then complemented by a literature review, which drew heavily on two studies from the banking sector.

In four rounds of comments, the GFIA pointed out a significant bias against branches in the paper, both in the general tone of its findings, the lack of a clear empirical basis for its conclusions and the way in which it portrayed forced subsidiarisation of branches as an acceptable supervisory tool. The paper's balance did improve noticeably from draft to draft. The GFIA responded to the one-month public consultation on the paper that ended in August 2013.

Despite the drafting improvements, the GFIA still has concerns about the paper. It believes strongly that the freedom to choose the legal form of establishment should be kept intact and that no supervisory incentives should be proposed that would undermine national governments' binding commitments not to impose barriers to trade in financial services. These include the General Agreement on Trade in Services (GATS), the Organisation for Economic Co-operation and Development's Code of Liberalisation of Current Invisible Operations and the European Economic Area's Freedom of Establishment.

The IAIS has stated publicly that its issues paper, which is expected to be approved at the IAIS annual conference in Taiwan in October 2013, may form part of preparatory work for standards. The GFIA believes that all work informing such a standard must be of the highest quality if unintentional harm to the insurance industry is to be avoided.

Financial inclusion

Promoting access for vulnerable groups

A large proportion of the world's population remains excluded from formal financial services, and in particular from insurance. Internationally there is increased awareness of the need to promote affordable and appropriate insurance products for vulnerable groups, thereby mitigating poverty without compromising consumer protection.

A GFIA working group seeks to promote financial inclusion and an environment conducive to all sectors of society having access to financial services. It supports regulation that is appropriate and effective, as well as efforts to improve consumers' financial education and literacy.

In June 2012 the executive committee of the International Association of Insurance Supervisors (IAIS) demonstrated its support for the mandate from the G-20 that standard-setting bodies should engage in financial inclusion efforts by establishing a financial inclusion subcommittee. This move is welcomed by the GFIA, which backs collaboration between supervisors and international standard-setters to support financial inclusion in emerging and developing economies. The GFIA supports IAIS initiatives to encourage access to insurance in underserved markets under a formalised, appropriate supervisory framework and to support consumer financial education.

Supporting inclusive insurance

In its first year, the GFIA has monitored several financial inclusion initiatives, including the IAIS application paper on regulation and supervision supporting inclusive insurance, which had been published for comment in June 2012 and which was adopted by the IAIS at its annual conference in October 2012.

The paper provides guidance to supervisors and gives examples of how relevant principles and standards can be applied in practice. It seeks to ensure that the IAIS's Insurance Core Principles (ICPs) are implemented in a manner that protects policyholders, contributes to local and global financial stability, and enhances inclusive insurance markets.

In April 2013 the Access to Insurance Initiative (A2ii) — a partnership between the IAIS and international development agencies and donors — launched a self-assessment and peer review to assess supervisors' support for achieving and enhancing inclusive insurance markets.

The review's aims are threefold: establishing a baseline of the supportiveness of supervisors; generating incentives for regulatory change; and supporting the implementation and promotion of the G-20 Principles for Innovative Financial Inclusion. The self-assessment furthermore aligns with the IAIS mission to promote effective and globally consistent regulation and supervision and the A2ii mission to promote inclusive and responsible insurance. A final report on the review is expected at the IAIS annual conference in October 2013.

Need to facilitate microinsurance

The GFIA used the occasion of an August 2013 letter to the Russian G-20 presidency to highlight the impact public policy and regulation has on the ability of (re)insurers to provide microinsurance products for the protection of low-income individuals. It highlighted the need for public policy to promote and facilitate access to microinsurance for those most in need; for example through subsidising the cost of insurance for certain risks. By working with the insurance sector in this way, governments can establish a mutually beneficial public/private partnership whereby the insurance industry supports the state in providing for its most dependent citizens, while at the same time the increased insurance take-up helps stimulate and support wider economic growth.

In the year ahead, the GFIA will focus on two IAIS papers: a proposed paper on market conduct, distribution and consumer protection relating to financial inclusion and further work on a paper relating to mutuals, cooperatives and community-based organisations (MCCOs). MCCOs play an important role in improving the provision of insurance services in some jurisdictions and to underserved population groups.

The paper on MCCOs, due in December 2014, will address MCCOs' key defining characteristics, together with their role in providing access to insurance services and their interaction with the IAIS's ICPs.

IAIS ComFrame

Initiative must remain consistent with original aims

The International Association of Insurance Supervisors (IAIS) is undertaking an ambitious initiative to develop a common framework for the supervision of international insurance groups (ComFrame). The development phase of ComFrame began in 2010 and is set to conclude with a third public consultation in late 2013, ahead of multi-year field testing and adoption in 2018. As the IAIS moves into the next phase it is important that it:

- Maintains an open and transparent consultation process
- Creates a regime that is principles-based, not rules-based
- Creates a regime that is proportionate to the risks presented by international groups
- Keeps the project distinct from workstreams focused on global systemically important insurers (G-SIIs)
- Respects the confidentiality of individual companies

Increasingly, many of the key discussions are taking place in the IAIS's field-testing taskforce. In March 2013 the GFIA requested industry inclusion in this work, which was initially closed to IAIS observers. Pleasingly, at least a portion of each of the more recent taskforce meetings has been opened to observers.

Given the significant influence of the IAIS's work and the ultimate applicability of the output of the field testing well beyond the 20 firms taking part, participation in the discussions should continue to be open. Concerns remain that in future only those groups participating in the field testing will be allowed to take part in the taskforce discussions.

No new layers of regulation

The GFIA has reminded the IAIS that ComFrame is primarily intended to provide a set of high-level principles from which supervisory best practice and a better understanding of insurers' group-wide operations can emerge. The intention should not be to design prescriptive, new regulatory requirements for international groups.

As the drafting process has continued, however, ComFrame has become increasingly detailed. If implemented, this would place unnecessary costs on groups and will fail to take into account that a group's business mix, risk appetite and management structure are unique and not conducive to a one-size-fits-all regulatory approach. It is important that where local regulatory regimes meet the ComFrame principles, no additional layer of regulation is applied.

It is not clear how the recent IAIS and Financial Stability Board (FSB) announcements on new capital requirements will affect ComFrame. In particular, the GFIA notes the announcement that the IAIS will develop a "quantitative capital standard" as part of a comprehensive group supervisory framework. It will be seeking clarification of this announcement over the next few months and its connection to the ComFrame initiative.

Resolution workstreams should be separate

Aside from capital, another example of where the ComFrame and G-SIIs initiatives seem to be overlapping is in the area of resolution. The GFIA has urged the IAIS to separate the two workstreams, since the G-SII project will involve enhanced prudential supervision and policy measures, while ComFrame should focus on supervisory cooperation and coordination.

With respect to recovery and resolution, although the FSB insurance annex to its key attributes of effective resolution regimes for non-bank financial institutions was only released as a consultation draft in August 2013, large sections have already been incorporated directly into the draft ComFrame text. Many questions exist about the key attributes' suitability for insurers, since the FSB's insurance annex is focused on "financial institutions that are potentially systemically significant or critical in failure" and the FSB's key attributes are largely copied from its work on banking.

Data must remain confidential

The GFIA has also expressed views about the confidentiality of data that is submitted by an international group to a supervisory college or in connection with ComFrame field testing. It has called for confidentiality agreements to be part of the ComFrame supervisory college process. While the IAIS has not yet resolved this issue, it has discussed possible memoranda of understanding on data confidentiality.

Market conduct

Providing appropriate protection for policyholders

Since the 2008 financial crisis, regulators worldwide have turned their attention to practices and regulations that support a robust financial services industry and provide a reasonable measure of protection to consumers.

One of these areas is policyholder protection schemes (PPS), which protect policyholders' benefits in the event that their insurer becomes insolvent.

Principles from the IAIS

In 2011 the International Association of Insurance Supervisors (IAIS) adopted an updated set of 26 Insurance Core Principles (ICPs) that call for jurisdictions to put in place "a sound regulatory and supervisory system … necessary for maintaining a fair, safe and stable insurance sector for the benefit and protection of the interests of policyholders, beneficiaries and claimants … as well as contributing to the stability of the financial system".

At the core of such systems are solvency regulations and supervisory oversight, as well as supervisory intervention when an insurer is experiencing difficulties. Some jurisdictions provide added protection for policyholders through mechanisms within the supervisory regime, such as through the ring-fencing of assets that support insurance liabilities, or by providing preferential treatment for policyholder claims in an insolvency. Many jurisdictions also have policyholder protection schemes that provide minimum levels of protection should the supervisory regime prove insufficient.

Analysis of schemes

Given the important complementary role of a PPS, the IAIS market conduct subcommittee was tasked with developing a PPS issues paper.

The goal was not to advocate any particular PPS model, but rather, through observation and analysis, to develop a paper that provides an overview of the features of PPS and the functions they perform, using examples drawn from the different approaches that are used around the world.

A consultation draft of the issues paper was released in June 2013. In providing an overview of PPS features and a compendium of approaches used around the world, the main thrust of the paper is to urge supervisors to be aware of any PPS arrangements in their jurisdictions, the key features of them, and what, if any, liaison mechanisms are in place between PPS and supervisors.

Consistency and flexibility

In reviewing the paper, the primary concerns of the GFIA related to consistency and flexibility.

For instance, it reviewed whether the paper creates any conflicts with other international regulatory initiatives on the subject, such as the Organisation for Economic Co-operation and Development's "Policyholder Protection Schemes: selected considerations" that was released earlier in 2013. Also, the GFIA considered whether the paper allows for flexibility in the way that a PPS is structured and operated in various jurisdictions. In both these areas, the GFIA was pleased to see that the IAIS had been careful to be consistent and not to promote one type of PPS over another.

Jurisdiction taken into account

The draft issues paper stresses that, when considering the establishment or design of a PPS, the particularities of a jurisdiction's insurance sector should be taken into account, which is to be welcomed.

Points to be taken into account include determining the need for a scheme, who the fund is intended to protect, and the size and concentration of the insurance market (including the nature, scale and complexity of insurers operating within the market). The jurisdiction's traditions, culture and legal regime should also be considered, and it is acknowledged that these factors vary between jurisdictions.

The GFIA response was submitted to the IAIS in August 2013. It commended the IAIS for a thoughtful paper, stressed that a PPS is a last-resort mechanism that can play a valuable consumer-protection role when supervisory regime safeguards are insufficient, and made a number of minor suggestions to clarify or reinforce various points in the IAIS paper.

Natural catastrophes

Insurers' pivotal role in disaster risk management

Natural catastrophes can have a devastating effect. In 2012 the economic losses from natural catastrophes totalled US$178bn, according to Swiss Re. The loss of life and economic impact can devastate communities and countries for many years. Insurers can, and do, play an important role in providing economic support to communities following a catastrophe.

The effects of natural catastrophes can significantly hamper long-term economic growth. Insurance-based, disaster risk-financing mechanisms can help governments transfer risk to the private sector, providing them with greater spending flexibility and reducing the share of disaster losses borne by taxpayers. Insurance can play a pivotal role in disaster risk management, reducing the financial, fiscal and economic impact of disasters, as well as promoting faster disaster recovery.

In its first year, the GFIA natural catastrophes working group has focused on developing the mandate, principles and themes that will guide its engagement with international regulatory bodies, standard-setters and governments.

Five key principles

Private insurance can and does play a key role in disaster risk management. Fully open and competitive insurance markets enhance the ability of insurers to respond to disasters in the most effective manner. In addition, if the regulatory system supports a vigorous private insurance market, insurers can also contribute to disaster risk management through public information, loss prevention services and advocacy of measures that reduce the risk of loss, such as better building codes. Governments should therefore cooperate with the private sector, including insurers, in the development of national disaster risk management plans and in response and recovery.

Government's overriding role is to ensure that national disaster risk management plans are complete and adequate to meet the needs of the population after an event. Risk assessment, adaptation, mitigation, preparedness, emergency response and recovery are important components of such plans. Governments should engage with stakeholders, including insurers, in their development.

A single approach to disaster risk management may not work for all jurisdictions. Countries face differing natural hazards, have different institutional and financial infrastructures, differing economic and political systems and, for a variety of reasons, have developed different responses. Despite these different approaches, a common feature of all disaster risk management plans should be clear, open, before-the-fact communication of expectations and responsibilities. To help communicate economic signals about risk, all costs and subsidies should be open and transparent.

Data quality and availability are central to accurate risk assessment and planning for effective risk management, without which an effective plan cannot be developed. To that end, governments are encouraged to promote the gathering and sharing of data that would maximise the ability of insurers to play an effective role. However, governments should not impose unreasonable requirements on insurers, especially while they are responding to a disaster.

Lastly, the pricing of insurance products ought to reflect the risk accepted by (re)insurers. Such pricing promotes resilience, the availability of coverage and risk-reduction behaviour.

The GFIA will monitor the activities of, and engage directly with, organisations such as the Organisation for Economic Co-operation and Development, the World Economic Forum, the United Nations Office for Disaster Reduction and the Global Facility for Disaster Reduction and Recovery to ensure that insurers are recognised for the important role that they play in national responses to natural catastrophes and risk transfer solutions.

Workshops to share expertise

In June 2013 the working group held a workshop in Rome devoted to the exploration of disaster risk management related to earthquakes and floods. Participants heard presentations from Japan and Chile on earthquakes and from the UK and Australia on insurer responses to flooding. A follow-up teleconference in August included presentations on a French public-private initiative for natural catastrophe loss data-sharing and outreach and on how catastrophe reinsurance is affecting capital markets.

Systemic risk

Significant concerns over policy proposals

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

This resulted in the publication in July 2013 of a list of insurers regarded as "globally systemically important" (G-SIIs). The list was drawn up on the basis of a methodology developed by the IAIS and was published with policy measures applicable to the identified G-SIIs. The measures fall into three main categories: enhanced supervision, effective resolution and higher loss absorption (HLA) capacity.

Insurance specificities are important

In the discussions leading to the publication of the G-SIIs list and policy measures, the GFIA highlighted the importance of developing an approach to systemic risk that is adapted to the risks arising in insurance. Given the clear differences between it and the banking sector, the approach should not be excessively based on what was developed in banking in reaction to the events that unfolded there. In the GFIA's opinion, it is fundamental to recognise that, unlike banking, traditional insurance business has been shown not to create or amplify systemic risk since the business is long-term, funding is generally upfront, and liquidity risk and interconnectedness are low.

The ability of the insurance industry to take a long-term approach has been widely recognised as allowing it to reduce rather than amplify systemic risks and overall market volatility. This means that the focus should be on activities that have the potential to generate systemic risk, such as those that result in maturity transformation or liquidity strains.

The GFIA has been pleased to observe increasing recognition of the specific features of insurance and of the fact that certain risk factors that are significant in banking (such as size) can in fact decrease risks in insurance, as a result of diversification.

This general recognition seems, however, largely contradicted by the decision of the IAIS and the FSB to publish a list of G-SIIs that can be regarded as a list of the world's largest insurers. The GFIA would have much preferred a more targeted approach, with a focus on the potential sources of systemic risk.

Need to tailor the policy measures

In the coming months, the IAIS's focus will be on finalising and implementing the policy measures, following the timetable it published in July 2013. In the GFIA's opinion, a number of key questions will have to be addressed.

How can duplication with similar measures already in place at regional (in the case of the European Union) or national level be avoided? How can it be ensured that the measures do not result in distortion of competition between companies subject to a specific G-SII measure and companies engaged in the same activities but not subject to specific measures? And how can it be ensured that the measures effectively address the sources of systemic risk identified?

This last question is related to the definition of "non-traditional/non-insurance" activities, as some of the measures would apply specifically to these activities. Here, the global insurance industry is concerned that the proposed definition is very wide, encompassing activities that do not raise systemic risk concerns.

The GFIA is concerned that in the absence of a proper calibration of the envisaged framework for systemic risk in insurance, the sector will no longer be able to act as a long-term investor in the economy and absorb shocks in the financial markets. The GFIA is also concerned that some of the measures, such as higher capital requirements, would result in higher premiums for policyholders, and a more limited range of products.

The GFIA will continue to work closely with the global regulatory community in order to avoid these detrimental consequences for the insurance sector, its customers and the economy at large.

Taxation

A focus on three issues

The GFIA's taxation working group has focused during its first 12 months on three issues: the US Foreign Account Tax Compliance Act (FATCA); the financial transaction tax under consideration by 11 European Union countries; and proposals by the Organisation for Economic Co-operation and Development (OECD) to tackle the erosion of tax bases.

Technical issues on FATCA

The GFIA has been looking at concerns over technical issues arising from FATCA. It has been developing proposals to minimise the compliance burden on insurers. FATCA aims to increase the ability of the US authorities to combat tax evasion by US persons with offshore accounts by requiring non-US financial institutions to report on US customers, including those with non-US life insurance and annuity contracts. FATCA's implementation has been delayed from January to July 2014.

In response to FATCA and growing global concerns over tax evasion, the OECD announced an initiative in June 2013 to develop a global system for the automatic exchange of tax information. While welcoming efforts to reduce tax evasion, the GFIA recommended that any global exchange should be risk-based, as only a very limited number of insurance products provide any type of savings element and thus present a risk of potential tax evasion.

Among insurance products with savings elements, most are generally ineffective for tax evasion due to surrender and mortality charges, so the GFIA recommended that any global system should only cover those insurance products that have a savings element and can be exchanged for cash. Under the risk-based approach advocated by the GFIA, pre-existing insurance accounts that are subject to local taxation and/or reporting, and government-approved pension and retirement plans as well as tax-favoured retirement products, should be excluded from the exchange. A first draft of the OECD proposal is expected by the end of 2013.

EU financial transaction tax

In June 2013 the GFIA wrote to the European Parliament and European Commission expressing serious concerns about the proposed financial transaction tax (FTT) under consideration by 11 European Union countries. The GFIA called for any FTT to exempt retirement and life insurance products and to exclude bond transactions on the secondary market, repo and stock lending trades, and intra-group transactions.

The proposed FTT would affect all GFIA members, not just those in the 11 jurisdictions, as it would be imposed on all transactions between financial institutions based on residence and on issuance. If only one party to the transaction is based in one of the 11 countries, the FTT would still apply to both parties. Likewise, for example, if a Japanese bank transacts with a US bank for the purchase of a German bond or a French share, both parties would pay the tax, to Germany or France respectively.

As a result of the concerns raised by the GFIA and others, it appears highly unlikely that the FTT will be implemented in its proposed form at the January 2014 date that has been foreseen. Instead, there could be a step-by-step approach, whereby an FTT on equities would be introduced first, before extending the tax to some other financial instruments. This would be a significant improvement on the FTT as currently proposed.

OECD tackles erosion of tax bases

An OECD paper released in February 2013 sets out proposals for tackling tax base erosion and profit shifting. It refers to captive insurance several times as a "pressure area" and notes that "other financial transactions including those involving captive insurance or derivatives can give rise to similar outcomes of payments being deductible in one country, but not being taxed in another country".

Under the OECD's action plan, captive and other insurance arrangements are scheduled to be addressed by December 2015. The GFIA is developing materials to explain to the OECD why and how reinsurance and inter-group transactions are used to optimise risk management.

Trade issues

Seeking fair and open markets

At the G-20 summit in Washington, DC in 2008, leaders of the world's major economies committed not to introduce international trade restrictions when making regulatory reforms. Dismantling barriers to free trade is an important driver of economic growth that the GFIA fully supports. Free trade in insurance and reinsurance also serves to facilitate the international spreading of risk, which can enhance national financial stability as it reduces risk concentrations in local markets.

The GFIA has therefore engaged since its inception on trade liberalisation issues; seeking to open markets that limit foreign participation or discriminate against foreign companies wishing to operate on a fair and competitive basis.

Engagement in India

In the Indian market, the GFIA has been active in its first year on three separate issues.

An early success was the GFIA's objection in December 2012 to foreign institutional investment, rather than foreign direct investment (FDI), being the only acceptable form of new foreign equity in Indian insurers. This contributed to the withdrawal by the Indian government of a proposed amendment to its Insurance Laws (Amendment) Bill.

The GFIA urged the Indian government twice in writing — first in March and then again in August 2013 — to present to Parliament the Insurance Laws (Amendment) Bill, which would increase the possible level of FDI in joint insurance company ventures from 26% to 49%. Increasing the FDI cap in insurance would strengthen the Indian insurance industry, increase the availability of products and services, and generate employment.

The GFIA would be keen to see adoption of the Bill because it would also allow foreign reinsurance branches to be established in India. As an international business, reinsurance operates most efficiently in open markets. Since significant local opposition continues to delay the Bill, the GFIA will be continuing to press for its presentation to the Indian Parliament.

A separate, negative development in India has been the adoption by the Insurance Regulatory and Development Authority (IRDA) in February 2013 of a regulation that maximises risk retention within the country through a combination of compulsory cessions, risk retention limits and reporting requirements for life insurers. The GFIA raised concerns with the IRDA that the new regulation will increase local risk concentration, discourage investors and restrict the ability of foreign insurers to contribute to the development of the Indian insurance sector.

Important trade liberalisation initiatives

Two positive recent initiatives have been the development by the Organisation for Economic Co-operation and Development (OECD) of a Services Trade Restrictiveness Index (STRI) in insurance and agreement to a framework for plurilateral services negotiations by 21 World Trade Organization (WTO) members in December 2012.

In November 2012 the OECD took the welcome decision to expand its STRI to cover financial services. This index comprises a database of regulatory policies that affect trade in services and a quantitative scoring of that information, thereby highlighting countries with restrictive measures and providing trade negotiators with a reliable source of information on market access.

GFIA members provided input into the OECD's draft list of indexation measures in April 2013, seeking to ensure that the index covers health and pension products. It will discuss implementation with the OECD once the STRI is approved.

Meanwhile, as a response to the stalled Doha round of WTO negotiations, 21 WTO members started negotiations on a plurilateral agreement in services (Trade in International Services Agreement or TISA) in the second quarter of 2013. The TISA will be a significant tool for further liberalising a significant number of the world's major economies. The GFIA will seek to ensure that the final agreement is based on the General Agreement on Trade in Services (GATS) and includes important market access and national treatment commitments in insurance.

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Executives

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American Council of Life Insurers

ComFrame

Chair: Stef Zielezienski
American Insurance Association

Corporate governance

Chair: David Snyder
Property Casualty Insurers Association of America

Financial inclusion

Chair: Suzette Strydom
South African Insurance Association

Insurance Research

Co-chair: Andrew Melnyk
American Council of Life Insurers

Insurance Research

Co-chair: Lapo Calamai
Insurance Bureau of Canada

Market conduct

Chair: Leslie Byrnes
Canadian Life and Health Insurance Association

Natural catastrophes

Chair: Gregor Robinson
Insurance Bureau of Canada

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

2012	
14 December	Observer comments on second draft of IAIS issues paper on supervision of cross-border operations through branches
21 December	Response to IAIS consultation on proposed policy measures for G-SIIs
2013	
11 January	Comments on confidentiality of information for IAIS ComFrame Dialogue
18 February	Observer comments on third draft of IAIS issues paper on supervision of cross-border operations through branches
25 February	Letter to IAIS financial stability committee on G-SIIs methodology and measures
5 March	Open letter to Indian prime minister on Insurance Laws (Amendment) Bill
6 March	Letter to IAIS technical committee on participation in ComFrame field-testing taskforce
15 March	Letter to IAIS governance and compliance subcommittee on issues paper on corporate governance
29 March	Letter to Russian G-20 Presidency on systemic risk
2 April	Letter to Indian Insurance Regulatory and Development Authority about its (Life Insurance-Reinsurance) Regulations 2013
10 April	Letter to Russian G-20 Presidency on long-term investment
31 May	Comments on OECD draft measures for insurance Services Trade Restrictiveness Index (STRI)
28 June	Position paper on EU financial transaction tax under enhanced cooperation
26 July	Response to OECD discussion paper on automatic exchange of tax information
2 August	Letter to Indian prime minister on Insurance Laws (Amendment) Bill
14 August	Response to IAIS consultation on supervision of cross-border operations through branches
26 August	Comments on IAIS issues paper on policyholder protection schemes
30 August	Pre-summit letter to Russian G-20 Presidency
2 September	Comments on OECD report “Contribution of insurance to economic growth and financial stability”
20 September	Comments on IAIS draft ICP 22 on anti-money laundering and combatting terrorism financing
30 September	Comments on Financial Stability Board principles for an effective risk-appetite framework

Abbreviations

EU	European Union
G-SIIs	global systemically important insurers
IAIS	International Association of Insurance Supervisors
ICP	Insurance Core Principle (produced by the IAIS)
OECD	Organisation for Economic Co-operation and Development

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

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www.GFIAinsurance.org

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