June 1, 2012

Mr. Felipe Calderón Hinojosa
Presidente Constitucional de los Estados Unidos Mexicanos
Residencia Oficial de los Pinos Casa Miguel Alemán
Col. San Miguel Chapultepec,
C.P. 11850,
D.F., México

Dear President Calderón:

The undersigned insurance associations, members of the International Network of Insurance Associations (INIA) accounting for over 75 per cent of the world's insurance business, would like to take this opportunity to wish you and your colleagues every success at the upcoming G20 Summit in Los Cabos, Mexico on June 18-19, 2012. We were very pleased to have had the opportunity to meet with Secretary Meade earlier this year to introduce him to the INIA, and to discuss the role the insurance industry can play in Mexico's 2012 Presidency of the G-20. We welcome the priorities that you have established as Chair of this year's G20. In that vein, we offer for your consideration our industry's views, as outlined below.

The INIA gathers together the views of national and regional life and health and property and casualty insurance and reinsurance associations from the world’s major economies. INIA member associations would like to acknowledge the work of the G20, the Financial Stability Board (FSB) and the International Association of Insurance Supervisors (IAIS) in addressing the vulnerabilities in the financial system that were exposed by the 2007-2008 crisis. A regulatory framework free of gaps and with better coordination between supervisors across jurisdictions will go a long way to meeting this end.

Insurance and the Wider Economy

The Insurance Industry's Social and Economic Role

The global insurance industry plays a valuable social and economic role. Insurers promote financial security by indemnifying various risks faced by individuals and businesses such as sickness, loss of life, liability, property damage, etc. These risks are then pooled and actively managed. Insurers also provide an economic price to risk hence they help to optimise the allocation of resources to more productive uses on a risk efficient basis. In order to meet future claims, insurers are significant investors in safe and stable assets. According to the IMF's April 2012 *Global Financial Stability Report*, at present the global insurance industry holds USD$6.4 trillion worth of worldwide government securities, equal to 15 per cent of all outstanding sovereign debt. In addition, they are providers of capital and long-term funding to the broader global economy through investments in large-scale projects in, for example, green technology, agriculture, and oil and gas. They enable funding risky but highly rewarding projects, thus enhancing long term economic growth.

The insurance industry also plays an important social role, working alongside national social security systems. The industry can play a significant role in helping people to save and prepare for the costs of their health care and retirement needs from an early age. In addition to its financial protection role, the industry can also support health prevention efforts, and in a wider context this also can reduce the burden on public finances by decreasing overall health care expenditures.

Sustainable Development

Our industry is also a proponent of s*ustainable development initiative*s in order to mitigate the environmental risks associated with natural catastrophes. Disasters and catastrophic events are mostly unpredictable in terms of timing and location; frequently disrupting lives, economies and vital food supply. Insurers work with governments at all levels to advocate for research on environmental management, stronger building codes, better land use planning and other loss-mitigating, adaptive measures.

Financial Education

We would like to underscore the insurance industry's willingness to act as an ally in promoting financial inclusion. The insurance industry's micro-insurance products are geared towards people living just above or below the poverty line and cover a range of risks, such as death, disability, and damage to property. It is often the most affordable and viable way of providing the poor with basic social protections. If made widely available in developing countries, our industry believes that micro-insurance can keep families on a sustainable growth path despite external shocks and, by extension, economic growth stability for society.

For our industry, financial literacy has always been an important part of what we do. The recent financial crisis has only helped to reinforce our commitment to financial education. In a number of jurisdictions, our industry is working in concert with government and other interested parties to develop best practices to protect and educate financial consumers and investors. In this regard, the INIA stands ready to assist the OECD on its work in this area.

Systemic Risk in Insurance versus Banking

INIA members remain concerned about the view held at least in some quarters of the regulatory community that insurance activities pose a systemic risk in a similar way that banking activities do. We remain steadfast in our belief that, unlike in banking, traditional insurance activities do not contribute to systemic risk by virtue of the unique characteristics of the insurance business model. Insurers use rigorous risk management practices in order to make secure investments that appropriately match the expected amount of benefits paid for claims. This investment approach is therefore generally prudent and predictable. Banks by contrast face higher short-term funding needs. This exposes them to asset-liability mismatches, which can lead to a liquidity squeeze. Banks generally rely on the inter-bank lending markets to meet their short-term funding needs and the resulting inter-connectedness between banks is generally recognized as a major source of systemic risk. Along the same lines, while size is used as a measure of systemic risk in banking, this would not make sense in insurance where it is generally regarded as a positive by providing for greater risk diversification.

The findings contained in the IAIS's November 2011 report on *"Insurance and Financial Stability"* largely support the position of INIA members insofar as traditional insurance was not deemed a systemic risk; however certain non-traditional and/or un-regulated activities within an insurance group or conglomerate could potentially suffer distress or become systemically disruptive in the event of a financial crisis.

Based upon the distinctions evident between insurance and banking, we would urge that an altogether different approach be taken in the area of systemic risk from the one that was implemented for the banks. Rather than developing a list of systemically important insurers (SIIs) and imposing a series of requirements on the listed entities, the focus should instead be on targeting those activities which are non-traditional and/or un-regulated and that have the potential to be systemically relevant. With regards to any additional requirements to address potential systemic risk concerns in insurance, here too we would ask that they be specific to non-traditional and/or un-regulated activities should they demonstrate a systemic relevance. We therefore question the appropriateness of applying higher loss-absorbency and the set of Basel III banking rules on SIIs. Rather, measures should be carefully targeted on activities identified as systemically relevant and proportionate to the level of risk posed by the activity. Additionally, local regulation and individual firms' internal risk management practices should be carefully considered before a decision is rendered on whether additional measures are needed.

<u>Recovery and Resolution Plans for Insurers</u>

The global insurance industry is entirely sympathetic to the view that taxpayer funds should not be used to prop up a failing financial institution. In keeping with this aim, the IAIS is expected to release a report on Recovery and Resolution Plans (RRPs) in insurance shortly. The industry looks forward to reviewing this report. A number of factors lead us to believe however, that special RRPs are likely not needed in the case of insurers. Most jurisdictions already have orderly winding-up procedures for insurers in place and regulations require insurers to hold substantial amounts of capital in excess of technical provisions, which can assist supervisors in detecting any financial strains at the firm at an early stage. The different timeframe over which the insolvency of an insurer is played out as compared to a bank means that ordinary insolvency procedures are adequate without requiring the introduction of RRPs.

Should RRPs, in the end, be determined as necessary in the case of insurers, they should be tailored to those activities which are non-traditional and/or un-regulated and that have demonstrated a systemic relevance. We would also propose that RRPs be rolled into an insurers' Own-Risk Solvency Assessment (ORSA) as we see them as being linked and it is a way of reducing the compliance and regulatory filing burden.

The New International Financial Architecture

Since the 2007-2008 financial crisis, a number of supervisory frameworks have been updated or proposed with a view to strengthening financial stability both within and across jurisdictions. Many new regulatory proposals have been communicated to the insurance industry from various competent bodies such as the IAIS, the FSB, the Joint Forum and the OECD. The insurance industry is becoming increasingly concerned about the layering of regulation and the extent to which insurers are being negatively impacted as a consequence. Depending on an insurer's structure, size and location they may be subject to multiple layers of supervision.

As a case in point, while we agree with the overall need to address cross-border supervisory gaps as set out in the Common Framework for the Supervision of Internationally Active Insurance Groups (ComFrame), INIA members are concerned about the apparent layering of new regulatory requirements on companies that fall under this framework. As the ComFrame envisions close cooperation between an insurance group’s home and host supervisors, we would like to emphasize the need to avoid situations whereby multiple supervisors at the top group level are imposing duplicative or contradictory regulation on an insurer.

For the benefit of policyholders and consumers, over-regulation, duplication, overlapping and conflicting regulatory standards must be avoided. At this juncture, the industry would benefit greatly from a clear explanation of the interaction between the various new regulatory frameworks.

Supervision of government-owned or affiliated insurance providers

We note and support the G20’s efforts to prevent another financial crisis by working vigilantly to identify potential blind spots in regulatory regimes. In support of this objective we would request an urgent review of the practice among G20 member governments of excluding government-owned or affiliated insurance providers from the scope of World Bank and IMF Financial Sector Assessment Program (FSAP) application methodologies. In an apparent contradiction, the World Bank and IMF have been using Insurance Core Principles (ICPs) developed by the IAIS in its assessment of insurers under the FSAP review process. Yet, the current version of the ICPs provides that supervision of insurers should be comprehensive: “The ICPs apply to the supervision of all insurers whether private or government controlled insurers that compete with private enterprises, wherever their business is conducted, including through e-commerce.” As such, we would welcome an immediate thematic review of all G-20 countries to identify and report on all entities supplying insurance in those countries which have been excluded from the scope of past FSAP reviews as well as the G-SIFI process.

Data Privacy

Many jurisdictions around the world are proposing or actively promulgating data privacy laws and data transfer restrictions in response to issues arising out of the growing use of the internet to access and provide services, and network. Insurers join with other services industries in calling governments to ensure minimal disruption to the free flow of data that is vital to a 21st century economy. However, insurers have unique concerns. Insurers recognize the importance of data privacy and take their responsibility for data protection seriously. Yet it is important that data privacy laws strike the right balance between the rights of individuals with the services and benefits insurers provide to meet the needs of their customers. We ask policymakers to ensure that data protection legislation does not have unintended consequences for the insurance industry which provides vital services to consumers. Legislative frameworks for data privacy must recognize the need for insurers to gather, store and transfer personal data, for routine payroll, policyholder service, and claims processing, and to protect against fraud. Being able to access, process, and store personal data is central to insurers' ability to provide consumers with appropriate products at fair prices.

Trade Liberalization

INIA members are strong supporters of continued international trade liberalization, to open markets and remove unnecessary barriers for the efficient provision of insurance, reinsurance and retirement security products. This is because open and competitive private insurance markets provide many fundamentally important benefits to societies, including compensation for losses otherwise borne by victims and governments, investment in infrastructure to support economic development, and the promotion of loss prevention practices which can dramatically improve quality of life.

Accordingly, we call upon the G-20 to emphasize even more than in prior statements its firm commitment to open and competitive insurance markets. At the same time, we continue to urge G20 countries to abide by the standstill agreement, adopted at the G20 Summit in Washington, D.C., to not impose new trade restrictive measures under the guise of regulatory reform.

We ask the G-20 to consider that the biannual WTO reporting mechanism to name and shame violators of the Washington Agreement has proven to be ineffective and consider what other steps may prove to be more of a deterrent to recalcitrant members.

Finally, in the absence of a breakthrough in the Doha negotiations, the global insurance industry equally welcomes new bilateral or plurilateral agreements, including the possibility of an International Services Agreement, as a way of creating a more level playing field for insurance companies across markets.

We appreciate the opportunity to highlight for you the views of the global insurance industry and hope that progress can be made on the important priorities that stand before you.

Yours Sincerely,

American Council of Life Insurers (ACLI)
American Insurance Association (AIA)
Asociación Mexicana de Instituciones de Seguros (AMIS)
Association of Bermuda Insurers and Reinsurers (ABIR)
Association of British Insurers (ABI)
Association for Savings & Investment South Africa (ASISA)
Canadian Life and Health Insurance Association (CLHIA)
Federación Interamericana de Empresas de Seguros (FIDES)
French Federation of Insurance Companies (FFSA)
Insurance Bureau of Canada (IBC)
Insurance Council of Australia (ICA)
Insurance Europe
Irish Insurance Federation (IIF)
German Insurance Association (GDV)
Property Casualty Insurers Association of America (PCI)
Reinsurance Association of America (RAA)
South African Insurance Association (SAIA)

cc: Mr. José Antonio Meade, Minister of Finance, Mexico