



**Brad Smith**  
*Chief International Officer*

## **Comments of the American Council of Life Insurers on the Proposed Framework for Post Implementation Evaluation of the Effects of the G20 Financial Regulatory Reforms**

**Overview:** We commend FSB for consulting stakeholders as you develop your framework for post-implementation evaluation of the effects of the G20 financial regulatory reforms. We provide these high-level comments for your consideration and hope that there will be ongoing consultation with interested stakeholders before you proceed with framework design and eventual adoption and implementation.

We believe that the FSB and the International Standards Setting Organizations have undertaken a significant number of financial regulatory initiatives since the financial crisis and that given the progression of the G20 agenda, your review of the scope and methodology for the identification and evaluation of outcomes (intended or unintended) is a matter which should be broadly considered by national policymakers and stakeholders as an urgent priority.

We note this consultation recognizes that “with the main elements of the reforms agreed and implementation of many core reforms underway, initial analysis of the effects of these reforms is becoming possible”. We would highlight that the scope of the framework must be constantly updated to incorporate new and evolving G20 objectives and the increasing tempo of G20 work. We would urge the FSB to acknowledge it will explicitly expand the scope of the G20 priorities in its framework as an integral part of the FSB’s accountability to the G20 and public.

Many post 2011 G20 priorities are broader than the first generation and require more complex and holistic approaches to support growth, innovation, and productivity – for our industry particularly infrastructure and financial inclusion. We would thus urge that the framework must include these outcomes in its scope. This will necessitate more diverse expertise to undertake the analysis, but it is imperative that the development and analysis of international standards are not blind to unintended consequences outside sector specific supervisory experience. The framework must not exclude or minimize the possibility that some regulations invoked in the name of the G20 could have had an undisputable negative effect on the real economy.

International financial standard-setting needs to be transparent and in the case of insurance, prudentially needed, as they must be adopted and implemented by national policymakers. We thus urge the FSB to clearly indicate in this framework that all international financial standards must be balanced, based on an explicit cost/benefit analysis and consider both financial stability and G20 growth objectives.

International financial standards need to be applicable in a wide range of jurisdictions and by a wide range of financial institutions, in a flexible way to calibrate parameters to local specificities. The standard-setting process should be transparent, and regulators serving as standards setters should establish well-defined timetables and provide reasonable time for market participants to respond to regulatory proposals. This consultation itself allows only one month for public comment. We urge that this process be expanded to include the transparent review and evaluation of comments received. This should include conference calls with interested stakeholders with FSB drafters to discuss suggestions.

**Supporting G20 Objectives:** As the representative of the U.S. life insurance and retirement security industry ACLI would draw your attention to what we consider to be the unique contributions of our industry to support G20 goals, and we urge that international insurance standards in no way unintentionally undermine the unique contributions which our industry can provide:

- The life insurance industry allows workers to protect their families against financial hardship caused by the death of the working age family members;
- The life insurance and pension industry allows individuals and families to provide for their own retirement or disability;
- The life insurance and pension industry supports the development of long term capital formation to support investments such as infrastructure and corporate bonds;
- The life insurance and private pension industries can reduce strain on Governments caused by aging societies;
- Micro insurance and micro pensions support poverty alleviation and economic empowerment of unserved and underserved populations;
- Reinsurance and global affiliate risk transfer disaggregates and diversifies risks, allows product innovation and mitigates isolation and fragmentation;

**Process:** Standard-setting should be evidence-based and holistic. Good standard-setting requires a full understanding of the combined effects of reforms to prevent duplicative or contradictory measures and to ensure positive effects on both stability and growth. In addition to this framework, we would suggest the G20 should mandate the FSB to set up a more formal mechanism for continuous and systematic cross-border dialogue with and between national regulators, including addressing possible unintended consequences of conflicting objectives across regulations.

- The FSB progress reports to the G20 on the financial regulatory reforms have so far had a strong focus on banking and securities. While this is attributable to the justifiable focus of the FSB on the root causes of the financial crisis, FSB and ISSOs policy recommendations have had impact on the insurance and pension sector. Leaving insurers and pension funds outside the evaluation would show an incomplete picture of the resilience of the financial sector.
- The effect of regulatory reforms on risk aggregation, global diversification and the appropriate use of sophisticated investments instruments should be evaluated against the ability of insurers and pension funds to provide affordable retirement income. This important challenge, to provide affordable retirement income, cannot be left to be solved by individuals but to regulated professionals by encouraging the use of effective tools like risk aggregation, geographic

diversification and advanced investments. This complex problem will require innovation and sophisticated asset liability management that might not be possible within a prescriptive regulatory framework on investments, or one that penalizes the holding of long-term investments with disregard to the liabilities that they are backing, or where cross border activity is penalized in the form of repetitive costly regulatory requirements and redundant assets. Affordable retirement income products are never seen as an urgency, but if the necessary activities for the provision of those products are not encouraged or are even hindered by regulation, the social and political impact will be significant.

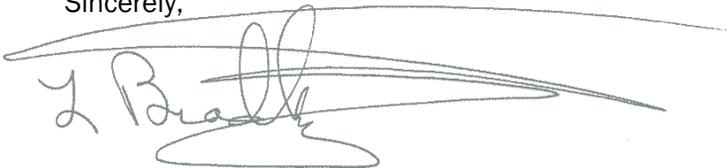
- The effect of international standards can't be analyzed if the economic activity is not included in the data. We would thus urge that before the framework is utilized that the FSB should undertake a gap analysis of the financial services providers which fall outside the scope of the FSAP process. We are aware of several markets where insurance providers are not included in FSAP reviews for either financial stability or supervisory intensity because they are not regulated by independent regulators but by their state-owned patron. This creates an uneven competitive dynamic and creates taxpayer risk because of the implicit government guarantee.
- We would also draw to your attention that the regular World Trade Organization reports to the G20 summarizing new trade barriers or restrictions which have been imposed since 2009. We believe that this list, which includes numerous restrictions on cross border reinsurance when, compared against the FSAPs of the listed countries will point out that nationalizations which have occurred are in direct opposition to international standards. This cross reference signifies a short list of G20 member governments who have undertaken regulatory measures in the name of the G20 which have been highlighted as contrary to sound regulation and free trade.

**Request:** As you proceed with the development of this framework we would urge the FSB to continue and expand communication with stakeholders including the regulated sectors. While public consultation via written submissions is a starting point, we would suggest the utilization of conference calls, webinars and other established public consultation methods to increase transparency and stakeholder engagement.

While the work of the FSB is important it should be clearly understood that the implementation of any standards occurs at the jurisdictional level and that the G20 and FSB are not treaty organizations and rely on the consent of the sovereign authorities in member nations.

We ask to be included in any further consultation on this matter and thank you for your consideration.

Sincerely,

A handwritten signature in black ink, appearing to read "Brad Smith", is written over a large, horizontal, light-colored scribble that spans across the width of the signature area.

Brad Smith