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GFIA response to the FSB proposed framework for post-implementation evaluation of the effects of the G-20 financial regulatory reforms

The Global Federation of Insurance Associations (GFIA), through its 41 member associations, represents the interests of insurers and reinsurers in 60 countries. These companies account for approximately 87% of total insurance premiums worldwide.

GFIA appreciates the opportunity to comment on the FSB's *Proposed Framework for Post-Implementation Evaluation of the Effects of the G-20 Financial Regulatory Reforms* (the "Framework").

As our preliminary view, GFIA strongly supports the overall objectives of the Framework, and commends the FSB for a well-balanced and thoughtful Framework for evaluation. It believes that this framework will serve as a robust tool to identify areas of over-regulation and/or inappropriately designed regulation. GFIA will monitor the development of this initiative with great interest.

GFIA believes this framework is long overdue, as insurance-related workstreams of the FSB (and subsequently the IAIS) have repeatedly given rise to concerns over procyclicality and impact on economic growth. These regulatory reforms originated in actions taken by the FSB, but so far serious analysis of how their design can negatively impact the ability of the insurance sector to provide long-term savings/guarantee products and invest long-term in the economy has been lacking.

Though GFIA is supportive of appropriately designed insurance regulation, the post-crisis financial reform agenda risks seriously disrupting the insurance business model, inhibiting the naturally counter-cyclical and long-term nature of the industry. These traditional insurance functions were the reason that the insurance industry globally demonstrated strong resilience during the financial crisis, and care should be taken to maintain these qualities. As such, the regulatory reforms should be empirically evaluated and reviewed to avoid unintended negative consequences.

This applies, but is not limited to, the FSB work on OTC derivatives reform and shadow banking, and IAIS work on the identification of Globally Systemically Important Insurers (GSIIs), the Basic Capital Requirement, Higher Loss Absorbency, and the global Insurance Capital Standard.

Designing appropriate regulation for the insurance sector requires explicit recognition that the financial sector is composed of different industries with distinct business models. **Regulation for insurance cannot simply be transposed from banking regulation, and a deep understanding of the insurance business model is needed from the regulatory side to allow for a correct design.**

The evaluation tools presented under point 5 ("Evaluation Approaches") could provide valuable insights if they are applied in the "design" phase of the policy cycle, where they can be leveraged to evaluate stakeholder input. **Explicitly acknowledging and transparently addressing the concerns of stakeholder in advance of finalising the initial design of regulation** would allow for a much more thorough exploration of potential unintended consequences which would otherwise be present in the first iteration of the policy cycle.

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In the evaluation approaches, the counterfactuals and benchmarks in regulatory testing should **reflect stressed market conditions and crisis scenarios**. This is necessary if the G-20 financial regulatory reforms are intended to truly increase the resilience of the financial system. The use of stress scenarios also relates to the more general point that regulation should not amplify pro-cyclical behaviour in such situations.

When assessing the regulatory environment for insurers, **the following issues should always be clearly considered throughout**:

- the prevention of pro-cyclicality
- avoiding the distortion of market pricing
- maintaining the availability of insurance products
- maintaining the role of insurers as long-term institutional investors
- increasing insurers' ability to contribute to growth by providing investment in infrastructure
- positively affecting access to insurance for economically vulnerable demographics and businesses

GFIA strongly supports the inclusion of the consideration of efficiency, which evaluates whether the costs of an intervention are proportionate to the benefits. The **proportionate application** of regulation is fundamental to a well-functioning market.

GFIA would like to thank the FSB in advance for its kind consideration of these comments, and stands ready to discuss them further at their convenience.

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About GFIA

Through its 41 member associations, the Global Federation of Insurance Associations (GFIA) represents the interests of insurers and reinsurers in 60 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.