

June 2, 2010

Dear Leaders of the G20:

The undersigned associations, representing the vast majority of the global insurance industry, would like to extend our support to you in the upcoming G20 Summit in Toronto on June 26-27. We welcome the G20's commitment to coordinating and strengthening the global financial system. It is crucial that the impetus for sensible and balanced reform is not lost.

Insurance plays an important social and economic role in ensuring sustainable economic growth and in protecting the well-being of populations. It indemnifies risk, it provides compensation for loss, and it supports infrastructure development as a significant investor in government securities.

Since the arrival of the global financial crisis, the global insurance industry has come together on several occasions to offer its shared perspective on the issue of enhancing financial sector regulations. We are pleased to have this opportunity to once again bring to your attention some commonly held principles to take into consideration as part of any planned regulatory changes.

The insurance industry entered the financial crisis in a position of relative strength and, with limited exceptions, the unique characteristics of its business model have protected the industry from the worst impacts. The insurance sector operates on a different business model from banking. Insurers generally match their obligations with secure investments and aligned risk management strategies and thus are far less reliant on short-term financing. Banks, on the other hand, are more likely to have mismatched terms and are more exposed to liquidity concerns and leveraging. Consistent with the approach taken in the Joint Forum's January 2010 *Review of the Differentiated Nature and Scope of Financial Regulations*, the industry believes that these differences should be given due recognition and that the G20 take them into account in the application of any new or corrective regulations.

As mentioned above, compared to the banking sector, the large majority of insurers were relatively unscathed in the financial crisis. Although some non-traditional activities may have contributed to systemic risk, the core activities of insurers do not generate systemic risk, nor do traditional insurance products create the kind of risks that led to the financial crisis. This fact has been acknowledged in the IAIS paper of November 2009 and the Geneva Association paper of February 2010 on systemic risk.

In its April report on the impact of the crisis on the insurance sector, the OECD noted that the traditional life and general insurance sectors have largely been "bystanders" in the crisis. Indeed, insurance also helps to provide stability to the financial system.

Consequently, any measures requiring insurers to pay for the cost of failures in other sectors would, in our view, be inappropriate and harmful to our policyholders. This is particularly the case given the existence in a number of jurisdictions of mandatory insurer funded policyholder protection schemes.

In light of the fact that the profile of the industry does not present a systemic risk and that there was no widespread recourse for government intervention on the part of insurers, we feel strongly that insurance should be exempted from any levy, as suggested in the IMF's draft advice to the G20, to pay for the fiscal cost of government support to the financial services industry. If this levy were ever introduced, it should apply only to those sectors that receive the support.

Instead of a levy, we urge the G20 to develop choices in terms of how countries within an internationally consistent framework could regulate to safeguard the stability of their financial sectors.

Because insurance is a global industry, the industry believes that new insurance regulation should be coordinated at the international level to encourage the growth of well regulated private insurance markets, as well as regulation that is both effective and efficient. On this note, we would like to draw attention to the activities of the International Association of Insurance Supervisors (IAIS) and its recent *Common Framework for the supervision of internationally active insurers* (ComFrame) proposal. We are optimistic that the ComFrame can create the basis for more effective group supervision and greater consistency and cooperation between regulators. We look forward to working closely with the IAIS on this initiative.

With regard to international standards, the insurance industry is generally supportive of having strong prudential regulatory standards that are consistent with a risk- and principles-based approach. Again, we would draw attention to the resilience of most insurers through the global financial crisis, which is testimony to the strong prudential regulatory regime already operating in many jurisdictions. We would urge regulators at the national and international level to be mindful of the effect excessive capital requirements might have on insurers, as well as on their ability to meet the needs of policyholders.

The industry would also like to stress the value in making sure that any new regulations should, to the greatest extent possible, be streamlined and pro-competitive across all major jurisdictions. Regulators' efforts to establish greater consistency and cooperation across jurisdictions should limit the creation of new compliance burdens for internationally active insurers. In this regard, the G20 should take note and recommend compliance with the OECD's Policy Framework for Effective and Efficient Financial Regulation and related guidance and checklist, issued in December, 2009.

The industry continues to support high quality and robust standards on accounting that are in line with the insurance business model. We hope that the international accounting

community will be sensitive to the impact any changes in relation to fair value accounting may have on the industry.

Lastly, we would urge the G20 to strongly reiterate its commitment to growth in trade and liberalization through the work of the WTO. We believe the WTO has a valuable role to play in ensuring that regulations adopted by any country are in keeping with the principle of being least-trade restrictive and non-discriminatory. The G20 should again call upon all members of the WTO to redouble their efforts to making meaningful commitments as part of the Doha Round and to come to a conclusion as soon as possible.

In conclusion, we would like to reinforce our commitment to working with governments, regulators, and agencies to improve upon financial services regulation. We hope that any new regulations or prudential requirements intended for the insurance sector will allow regulators across jurisdictions to coordinate better among themselves and provide effective group supervision of internationally active insurers. At the same time, regulators need to be aware of the impact, or indeed the cumulative impact, new regulations can have on the ability of the industry to diversify risks for businesses and individuals, and to meet the changing needs of consumers.

Yours sincerely,

American Council of Life Insurers (ACLI)
American Insurance Association (AIA)
Association of British Insurers (ABI)
Asociación Mexicana de Instituciones de Seguros (AMIS)
Association of Savings and Investment of South Africa (ASISA)
Association of Bermuda Insurers and Reinsurers (ABIR)
Association of Mutual Insurers and Insurance Cooperatives in Europe (AMICE)
Canadian Life and Health Insurance Association (CLHIA)
Dublin International Insurance & Management Association (DIMA)
Dutch Association of Insurers
European Insurance and Reinsurance Federation (CEA)
Federación Interamericana de Empresas de Seguros (FIDES)
Fédération française des sociétés d'assurances (FFSA)
General Insurance Association of Japan (GIAJ)
German Insurance Association (GDV)
Group of North American Insurance Enterprises (GNAIE)
Insurance Bureau of Canada (IBC)
Insurance Council of Australia (ICA)
Irish Insurance Federation (IIF)
Italian Insurance Association (ANIA)
Property Casualty Insurers Association of America (PCI)
Reinsurance Association of America (RAA)