

## Insurance Europe comments on the FSB proposed framework for evaluation of the effects of the G20 financial regulatory reforms

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### Introduction

Insurance Europe welcomes the opportunity to comment on the Financial Stability Board's recently proposed framework for assessing the impact and effects of financial reforms. The framework is welcome and very much needed, especially given the significant wave of financial regulatory reforms following the financial crisis.

While the need for an evaluation of the reforms and their unintended consequences was already identified by the G20 under the Australian Presidency in 2014, Insurance Europe believes that **work so far has unfortunately been extremely limited and even completely absent in some areas.**

In fact, concerns over unintended consequences, including procyclicality and the impact on economic growth emerging from insurance-related workstreams (eg work on the Basic Capital Requirement, on Global Systemically Important Insurers) have been raised across jurisdictions and by various public and private stakeholders. However, **these concerns were never seriously considered and assessed by the FSB**, which Insurance Europe strongly encourages to take more concrete and bold action. It is equally important that the **guiding principle** of the FSB work should move away from an approach of "if it turns out wrongly, it should be assessed and potentially fixed" to a clear commitment of "get it right first time".

### Summary

Even though the insurance industry proved its strong resilience during the crisis, it saw a large share of new regulations triggered by problems that stemmed from other parts of the financial sector. The European insurance industry strongly supports appropriately designed regulation aimed at addressing financial stability concerns. However, over recent years — and following the development and European implementation of a range of post-financial crisis reforms — the European insurance industry has raised strong concerns. These include not only the design of these reforms, but also their negative impact on insurers' ability to preserve their traditional role as long-term, countercyclical investors and supporters of economic growth.

In general, the European insurance industry has raised concerns over:

- An **oversimplified regulatory approach**, looking at the financial sector as one, single and interlinked industry, as opposed to a set of different industries, each with its own business model.

- A **flawed perception that banks and insurers are similar**, which leads to the equally flawed perception that banking regulation can be used as a blueprint for insurance regulation.
- A **lack of appropriate understanding and consideration of the insurance business model** in the design of frameworks and standards.
- A **lack of appropriate understanding of how insurers are regulated and supervised around the world**, and how a risk-based approach in insurance differs from banking.

These concerns emerged in several **FSB-related workstreams**, including:

- OTC derivatives reform and its European implementation, ie EMIR
- IAIS work on the identification of Global Systemically Important Insurers (GSIIIs)
- IAIS work on developing measures for GSIIIs (ie the Basic Capital Requirement, the Higher Loss Absorbency)
- IAIS work on the development of a global Insurance Capital Standard (ICS)
- FSB work on shadow banking

The objectives and scope of the framework are appropriate, albeit incomplete. Insurance Europe believes that **the following key changes should be made:**

1. The framework should include — as an initial step in the evaluation process — a **gathering of key concerns from stakeholders, on which the FSB needs to form an opinion**. This ensures that issues of concern will be explicitly examined by the FSB and their findings and recommendations made clear.
2. **The framework should target ex-ante and not just ex-post implementation evaluation**. In many cases, *ex-ante* evaluation can lead to a straightforward identification of the negative impact of reforms thus avoiding unintended consequences.
3. *Ex-ante* evaluation should always include a **testing of the framework under extreme/stressed market conditions**, which in fact are often a key trigger of reforms.
4. **Evaluations, both ex-ante and ex-post, should include input from all relevant stakeholders** to ensure all perspectives are covered. In practice, market players faced with significant reforms often have a very clear view of their potential impact, and policymakers should seek to identify and understand such impacts.
5. When assessing the **overall effects of reforms, the objectives of the assessment should be extended to explicitly mention the insurance context when considering:**
  - financial system resilience **and the prevention of procyclicality**
  - orderly functioning of markets while simultaneously **avoiding the distortion of market pricing and market efficiency**
  - cost and availability of financing **and the availability of insurance products** to individuals and businesses
6. It should also be very clear that a key purpose is for the evaluation **to confirm that both existing standards and those under development will work as intended and not create, rather than eliminate, procyclical behaviour and market distortions**.

Insurance Europe believes that the framework in its current form is a valuable policy evaluation tool for policymakers at both national and international level. As such, Insurance Europe would like to see this framework become an integral part of all current and future reforms and regulations. With appropriate changes, the FSB proposal for a framework in mid-2017 would be timely and welcome. Follow-up assessment work should start as soon as the framework is approved by the G20 leaders.

## Responses

Insurance Europe would like to put forward the following responses to the FSB's questions:

### Main elements of the framework

**1. Do you have any comments or suggestions on the main elements of the evaluation framework (eg are there other elements that should be considered for inclusion in the framework)?**

Insurance Europe suggests that another main element should be included in the framework, namely details of the application of the evaluation framework, both *ex-ante* and *ex-post*. For example:

- In the *ex-ante* phase, the evaluation framework should be applied at least at the start and end of the policy development
- In the *ex-post* phase, the evaluation framework should be applied periodically, for example every 3 or 5 years, or after a major financial shock

Additionally, and in the interest of transparency, any findings and conclusions from the policy evaluation process should be made public, regardless of whether these support a given policy or not.

**2. Are the objectives and scope of the framework appropriately set out?**

Insurance Europe supports the current twofold objectives of the framework:

- To guide the analysis of whether G20 financial reforms are achieving their intended outcomes (ie does the reform achieve its original objective)
- To help identify any material unintended consequences that must be addressed within the reform

However, Insurance Europe would like to point out that these objectives should always apply both *ex-ante* and *ex-post*.

The scope of the evaluation framework should not only cover the core reform areas as currently framed, but also other related areas that are either triggered or linked to FSB core areas. For example, the development of a global ICS was not in itself an FSB core reform, but was initiated by the IAIS to address challenges identified when delivering on the FSB mandate to address "too big to fail". In this context, the ICS and "too big to fail" should be regarded as FSB-related workstreams that require the application of the same evaluation framework, both *ex-ante* and *ex-post*.

**3. Would you suggest any refinements or additions to the concepts and terms?**

Insurance Europe believes that a **refinement** is necessary to the current description of the term "*overall effects*" of reforms. Specifically, in addition to the cost and availability of financing to households and non-financial businesses, the description of the "*overall effects*" should trace the impact on the **availability of products such as long-term savings and guarantees, and the ability of insurers to provide them.**

Insurance Europe suggests the inclusion of **an additional concept of proportionality** in the framework, to ensure that policy actions and reforms are limited to what is necessary to achieve the objectives of the reform.

#### Challenges of evaluations

- 4. Do you have comments or suggestions on how to address the challenges of identifying and measuring interactions between reforms and how to isolate the effects of reforms and their interactions from other factors?**

Insurance Europe welcomes the FSB's proposal to evaluate reforms on a stand-alone basis, as well as to investigate their interaction and coherence with other reforms. This ensures consistency in the application of financial regulation and prevents "reform contradiction".

In addition to assessing how reforms interact with each other, Insurance Europe believes that the framework should also examine how a reform interacts in practice with the existing infrastructure of the marketplace. As an example, the OTC derivatives create an obligation to centrally clear, however, in practice, access to central clearing arrangements is limited. In some cases, this may lead to a choice between being forced to breach the clearing obligation or remain unhedged. Both consequences are clearly unintended by the reform itself and, had they been anticipated, they would have likely impacted the implementation timeline and other details of the reform.

- 5. Do you have views on how to think about intended versus unintended (and possibly undesirable) consequences or how to frame the trade-off between different (and possibly competing) objectives?**

No comments

- 6. Do you have comments or suggestions on how to address the challenges of defining and measuring social benefits and costs, especially when they do not follow directly from private benefits and costs?**

No comments

#### Evaluation approaches

- 7. Do you have comments or suggestions on the proposed evaluation approaches (ie on the empirical models and methods to analyse effects)?**

Insurance Europe believes it is vital that the evaluation framework introduces an obligation to test reforms under simulated stressed market conditions. In fact, it is financial stress conditions that often trigger the need for reform and therefore one cannot expect to deliver on the objectives of addressing the concerns without actually testing the reforms under stress conditions.

- 8. Do you have comments or suggestions on the proposed evaluation approaches (ie on the empirical models and methods to analyse effects)?**

No comments

- 9. Do you have views on lessons – in terms of methods and approaches – that can be learned from evaluations in other policy areas, or from existing national or regional evaluation frameworks?**

No comments

#### **Data issues**

**10. Do you have suggestions on information sharing arrangements (publication of results, repository of evaluations, and data availability, particularly as it pertains to replicability)?**

No comments

#### **Engagement with stakeholders**

**11. How can the FSB and SSBs best engage with external stakeholders (e.g. financial services providers, various kinds of end-users, and academics) in their evaluation work (going beyond public consultations)?**

No comments

#### **Prioritisation of topics**

**12. Do you have comments or suggestions on which individual reforms or interacting set(s) of reforms should be initially considered for evaluation as a matter of priority?**

No comments

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