

June 20, 2018



Dietrich Domanski
Secretary General
Financial Stability Board
Bank for International Settlements
CH-4002 Basel Switzerland

Regulatory impact on Insurers' role in infrastructure finance

Dear Dr. Domanski,

The IIF [Insurance Working Group] has previously expressed its general support for the FSB initiative to evaluate the effects of the implementation of G20 regulatory reforms, including on infrastructure financing.¹ As the FSB considers the results of the recent industry survey on this set of issues, we would like to share with you some issues for your consideration as you take this work forward.

We welcome the inclusion of infrastructure investment as a priority item on the 2018 G20 agenda, and we support the FSB's ongoing efforts to monitor possible effects of regulatory reforms on the supply of long-term investment opportunities. Various studies and statistics have shown the strong link between infrastructure investment and economic growth as infrastructure capital improves production capacity of the economy while raising productivity.² It is estimated that future infrastructure financing needs will increase to 1.2 trillion US dollars by 2030.³ Many insurers underwrite long-term products, and require access to long-term investments to match their long-term obligations. With increased opportunities for investment in infrastructure financing, insurers can better contribute to economic growth and enhance their function in managing risks, providing long-term financial tools for post-retirement savings and pensions, and enhancing market stabilization.

In its review of the impact of the implementation of post-crisis regulatory reforms, we have urged the FSB also to take account of reforms that remain in development. In this regard, we highlight an important opportunity to ensure that the design by the IAIS of a global risk-based Insurance Capital Standard (ICS), which is being developed in response to the FSB's request to create a "comprehensive group-wide supervisory and regulatory framework for Internationally Active Insurance Groups", does not inhibit the ability of insurers to perform their vital financial and social functions.

A key consideration for ensuring that such unintended consequences are avoided is the approach to the valuation of insurance liabilities. To date, methods favored by the IAIS would fail to properly reflect the distinct nature of the insurance and reinsurance business model and would increase the likelihood of these unintended consequences being realized. The interest

¹ IIF Response to FSB Proposed Framework, May 11, 2017 [\[link\]](#)

² *Infrastructure Investing. It Matters.* IIF and Swiss Re, 2013

³ *Bridging Global Infrastructure Gaps, McKinsey Global Institute, June 2016*

significant jurisdictions (e.g., Korea and Japan) have expressed in implementing the ICS as a replacement to their current solvency regimes, which would be a level far more granular than the ICS is intended to apply, further raises already heightened concerns among IIF Insurance Working Group members.

We urge the IAIS and FSB to carefully evaluate the ICS and make sure that the current concerns with volatility and pro-cyclicality are properly addressed, and that unintended adverse consequences on the ability of insurers to invest long-term, including in infrastructure finance, are avoided.

Please do not hesitate to contact George Brady (gbrady@iif.com) or Ningxin Su (nsu@iif.com) if have any questions or remarks on this topic. We look forward to engaging with you on the upcoming consultation on this topic and other important issues of in the future.

Yours sincerely,

A handwritten signature in black ink, appearing to read 'George Brady', with a long horizontal flourish extending to the right.

George Brady

CC: Mr. Rupert Thorne, Deputy Secretary General, Financial Stability Board
Mr. Jonathan Dixon, Secretary General, International Association of Insurance Supervisors
Ms. Marie-Christine Drexler, Administrative Officer, Financial Stability Board
Mr. Christian Schmieder, Member of the Member of Secretariat, Financial Stability Board