GFIA
GLOBAL FEDERATION OF INSURANCE ASSOCIATIONS

GOVERNOR DIRK KEMPTHORNE

7th INTERNATIONAL INSURANCE CONFERENCE GLOBALIZATION OF THE INSURANCE INDUSTRY
May 27, 2015

To your royal highness (His Royal Highness Crown Prince Guillaume of Luxembourg), I confidently speak for everyone in this room in saying how honored we are to have you here with us this morning, and to be in a beautiful country with a great history.

Mr. Minister (H.E. Pierre Gramegna, Minister of Finance of the Grand-Duchy of Luxembourg), may I compliment you on your pertinent remarks and affirm, as you stated: let us rejoice and enjoy being at peace in this country while also remembering those who are less fortunate.

Karel (Van Hulle of the European Insurance & Occupational Pensions Authority), thank you for your splendid role as emcee.

It is all together fitting and proper that I should begin my speech by quoting a famous European, whom history has affirmed was a great leader. I am referring to Winston Churchill of Great Britain. In 1909, he stated:

“If I could, I would write the word ‘Insure’ over the doorway of every cottage. Because, for sacrifices so small, you can keep a family from being smashed up forever.”

Note that Winston Churchill said “insure” should be written over *every cottage* not just cottages in England. Imagine every cottage in England, France, Luxembourg, all of Europe and throughout the world having the word "insure" *written over the doorway*.

Considering the state of affairs in the world’s international insurance community, I wonder: is the Churchill quote relevant today? Are we achieving his vision? Or, is such a strong sentiment about our business just a relic of bygone days?

I believe Churchill’s quote is a wonderful statement that should not be a relic of the past but a relevant statement for the future.

Does the G20 agree with Churchill’s view on insurance? Do the leaders of the organizations created and empowered by the G20 in the wake of the financial crisis agree with the great British leader? I hope that they do, because the world is facing many new crises and our global industry has a very important role to play in providing solutions.

A major factor today for corporations worldwide, whether industrial or agricultural, is sustainability…whether a system or a product can be sustained over a long period of time, including every element of a supply chain. I happen to be the sustainability chairman of a major corporation. From clean water to the end product, corporations and their suppliers must demonstrate that steps are in place to promote sustainability.

So, what is the picture of sustainability in this industry?

One challenge facing our industry and, in fact, most nations, is the demographics of longevity.

The iconic age of retirement is 65. It is noteworthy that this age was chosen by Otto Von Bismarck in the 1880s in Germany. He chose it because few ever reached that age, so there was little financial stress to the government program. It is still regarded in many parts of the world as the age of retirement even though many people not only make it to 65, but they will live another 20, 30 or 40 years.

Time magazine recently featured a beautiful baby on its cover, noting it could live to be 142 years old.

A Nobel Prize laureate has suggested that about a third of the people under the age of 30 will live to be 100 years old. And there is one gerontologist who believes that the first person who will live to be 150 has already been born.

When the United States put in place the Social Security program in 1935 it chose the age 65. The nation had 12 workers for every retiree. But today this ratio is 3-to-1. And, that is a very similar trend around the world.

- In 2020 in Luxembourg, there will be 4.4 workers for every retiree.
- In 2020 in the United Kingdom, there will 3.3 workers for every retiree.
- In 2020 France, the ratio will be 3-to-1.
- In Germany and Italy, the ratio will be about the same, 2.8-to-1.
- And in Japan in 2020, it will be a 2-to-1 ratio.

These remarkable declines will continue on a negative trajectory. In 2050, there will be:

- 2.6 workers for every retiree in Luxembourg;
- 2.4 workers for every retiree in the United Kingdom;
- 2.3 workers per retiree in France;
- 1.7 workers per retiree in Germany.
- And 1.6 workers per retiree in Italy;

In Japan that ratio will be virtually 1 to 1.

Is any of this sustainable? Absolutely not.

How should we characterize this? A challenge? Or should we forthrightly and say it is a crisis on the horizon?

Did you know that in America, half of the nation’s pre-retirees – people between the ages of 50 and 64 – have only enough in savings to last 16 months? And they could live 20 years or more.

The truth is government benefits from private sector programs that supplement government programs. We are that private sector supplement. Only we can offer a guarantee of income for life. Only we offer long term care. Only we offer disability income insurance, and it is good that we do. Next year, for example in the United States, the U.S. government’s Social Security Disability Income program becomes insolvent.

I spoke last week to 1,000 life insurance agents just before they went to the U.S. Capitol to meet with their Members of Congress. What did I say to them? I asked them to remember the Winston Churchill quote. And, I asked them to realize that they represent an industry that is not part of the problem, it is part of the solution.

I told them they are relevant because each one of them represents a solution. Win their minds and you gain their applause. Win their hearts and they will fight for you.

One United States senator who understands it said, "The more successful your industry is the less this government must do."

Now sure, we have challenges…what new regulations may be required? What are the capital standards that will be required? What unintended consequences may occur? Is it possible that we may see the transfer of risk back on the customers? Does anyone in this room doubt that we have the solutions?

To now quote another great leader, this time an American, President Ronald Reagan. He said: "If not us, who? If not now, when?"

Let’s look at another daunting issue…infrastructure. At a meeting in Istanbul sponsored by the Institute of International Finance that included leaders from the G20 and the Financial Stability Board, one of the industry panelists said, "How many times … how many thousands of times have we heard G20 leaders say: we must have sustained, long-term investment in infrastructure! When are we going to get it?" That was said emphatically. The current gap in infrastructure, during the next 15 years, is estimated to be $60 trillion U.S. dollars.

The G20 included long-term investment in infrastructure as one of its top 5 goals when it met in Australia in December 2013. The GFIA executive committee had a number of high-level meetings in Australia, when they had the presidency. This was thanks to Insurance Council Australia.

What types of projects are we talking about? In the U.S., immediately after the financial crisis, the insurance industry purchased 33 percent of the Build America Bonds when they were issued. That was approximately $62 billion U.S. dollars. The projects included such examples as:

- The Ohio State University’s two new towers that house the new Cancer Hospital and Research Institute.
- The University of California’s women’s and children’s cancer hospital in the San Francisco area.
- Parkland Memorial Hospital’s new facility in Dallas, Texas. This is the hospital where John F. Kennedy died.
- The Washington, DC Dulles Airport Corridor Metrorail Project.
- The New Jersey Turnpike expanded toll roads.

If you want to be recognized as relevant, isn’t it positive that you helped fund projects that accomplished tasks and built the infrastructure? In the U.S., our company portfolios generally have only 1 to 3 percent invested in infrastructure. This industry is a significant potential source of capital, and the latest data we have is that the bonds we own have an average maturity of 18 years. We are relevant. We can solve problems.

In sports…soccer for example…as great as your defenders are, and as great as your goalie may be, can any team win if you don't play offense? Someone must score.

One of the scenes of a movie I saw a few years ago has really stayed with me. The movie is called “Vision Quest,” and it's the story of a high school wrestler.

He doesn't have much of a family. But, someone who has befriended him is an adult hotel worker who has to work diligently to pay his bills. The young wrestler has a big championship match coming up and his friend is taking the day off to travel to see the championship match. The wrestler, whose name is Louden, knows this means lost income for his friend, Elmo. So Louden tells Elmo:

LOUDEN SWAIN: “You never took a night off to see me wrestle before. They'll dock you for that.”

ELMO: “Hey, kid-money ain't everything. I was in the room here one day…watching the Mexican channel on TV. I don't know anything about Pele. I'm watching' what this guy can do with a ball and his feet.”

"Next thing I know he jumps in the air and flips into a somersault and kicks the ball in…upside down and backward. The goalie never knew what hit him…Pele gets excited and he rips off his jersey and starts running around the stadium waving it around his head. Everybody's screaming in Spanish. I'm here, sitting alone in my room and I start crying.

"That's right. I start crying. Because another human being, a species that I happen to belong to, could kick a ball, and lift himself, and the rest of us human beings, up to a better place to be. Let me tell you kid, it was pretty damned glorious."

So, how does this industry play offense? What can we positively point to?

Let's talk first about the Global Federation of Insurance Associations. For a young organization, GFIA has accomplished a lot in a short time. And, let me give credit where credit belongs. It was the International Association of Insurance Supervisors that encouraged insurance associations around the world to organize into one body. The IAIS pointed out it would be helpful for them and more effective for us if we could take one united position on an issue.

Let me point out Frank Swedlove, chairman of the Canadian Life & Health Insurance Association. As the first chairman of GFIA, he put our group on the right foundation at the start.

One major achievement is that we have put into place a system which effectively represents 38 regional and national industry groups with a unified voice to the IAIS and G20. We provide consensus positions to the IAIS instead of 38 different stakeholder suggestions. We do it for less money than we would pay for IAIS dues, which we no longer pay.

GFIA has notably engaged the IAIS on the subject of International Capital Standard and ComFrame. Based on the experience of Insurance Europe and other GFIA members, we have been able to request a cost-benefit analysis be undertaken before regulatory measures are finalized and that the possibility of unintended consequences are avoided. It was encouraging to hear the head of the IAIS, Felix Hufeld, announce on Friday in Washington, D.C. at the NAIC international conference affirming to take the time necessary to get it right. Now, the ICS 1.0 … 2016, ICS 2.0 … at some point in the future. I want to commend Felix for his forthright leadership at the IAIS.

On trade policy, GFIA has engaged repeatedly on mandatory reinsurance cessions. In several cases, GFIA has obtained one year extensions of these requirements.

In India, since the election of the Modi government in 2014, as chairman of GFIA, we sent three letters to the prime minister. Working with local counterparts and with the strong support of our respective governments, we collectively were able to lift the 26 percent equity cap of foreign ownership to 49 percent. This creates up to $7 billion dollars in new foreign direct investment in India.

Let me note that the G20 presidency in Turkey this year calls for their suggested three i's...inclusion, infrastructure, and implementation.

The Executive Committee of the Global Federation of Insurance Associations, thanks to the significant help of the Turkish Insurance Federation, visited with government leaders in Turkey as they prepare for the G20 heads of state meeting this fall.

In one of those meetings, one of the government officials said they now realize how relevant and important the insurance industry is. This Turkish official asked if GFIA would be willing to return later this summer and, in coordination with the Turkish Insurance Association, to assist in organizing an official G20 insurance program to further explain the dual benefits of risk protection and long- term investment.

And, speaking of long term investment, the Business 20 policy recommendations for the G20 leaders stated that a significant source of capital for investment in infrastructure is banks. Period. Because of GFIA, our efforts culminated in a recommendation that now also includes the insurance industry.

Our industry is now fully recognized on par with other financial institutions.

Also in Europe, Insurance Europe remains a leading source of knowledge and advocacy for the EU insurance and reinsurance market, regulators, and European consumers. With its March 2015 publication, *The Benefits of Insurance*, Insurance Europe outlines steps which policymakers can take to make insurance available to more people, which in turn would reduce dependency on the state in times of financial loss. In fact, we in the United States should use this same model to educate our policy-makers on the unique benefits of our industry to our citizens and to our economy.

(Insurance Europe President) Sergio Balbinot and (Insurance Europe Director General) Michaela Koller are continuing to position Insurance Europe as a role model for all of us.

Also, with this annual International Insurance Conference, Insurance Europe continues to bring together industry leaders each year so we can address the opportunities and tackle the issues faced in the increasingly globalized world of insurance.

I have seen at home in the United States the value of going on offense.

The Federal Reserve in the United States asked the ACLI if it could coordinate the insurance companies who are either SIFI's or control savings-and-loans or thrifts. The goal was to develop one suggested capital standard that at least the Fed could look at to gain greater perspective on the insurance industry and avoid unintended consequences. Included in that effort are the property and casualty companies represented by the American Insurance Association and the Property Casualty Insurance Association of America.

I also see value in coordinating an outreach program. For example, when the Federal Reserve, like so many other nations, put in place a low interest rate environment, we sent teams of two-to-four member CEO's to each of the 12 regional Fed presidents. This is what we heard:

- "We didn't even have anecdotal evidence of the extent of your industry.
- "We didn't realize that you are the number one investor in corporate bonds.
- "We didn't realize that every day for 365 days a year you pay out on average $1.5 billion dollars a day.

They also said: please don't let this be the last visit that you make to us. We need to continue the dialogue.

Following the financial crisis that gripped the entire world in 2008, Congress and the White House responded with the Dodd-Frank law. It dealt with a myriad of requirements on financial institutions, primarily banks.

But, one provision caused the Federal Reserve to state that it was only permitted to apply bank capital standards, rather than insurance capital standards, even when they knew insurance-centric standards were appropriate to this industry.

The Federal Reserve said it was critically important for the industry to get a change to that language in the Dodd-Frank law. But, please keep in mind many lawmakers said, including members from the majority party in the U.S. Senate, that there can be no changes to Dodd-Frank.

The industry was able to get the only change to the Dodd-Frank Act in 2014. The vote was 100-0 in the U.S. Senate and 435-0 in the U.S. House of Representatives…numbers I think that any soccer team would be proud of. We all know that the insurance industry is different than the banking industry. We're not in competition, we are just different. We have different business models.

Going on offense is taking place not just in Europe and the United States, but in Latin America.

Mexico's insurance trade association, AMIS, had a tremendously successful 75th Anniversary Conference with more than 1,000 delegates. Its CEO is the GFIA vice chairman, Recaredo Arias. Michaela Koller, GFIA secretariat, and I had the great pleasure to be included in a session on savings and financial inclusion.

The Inter-American Federation of Insurance Associations (FIDES), will hold a significant conference this fall in Santiago, Chile on micro insurance, financial inclusion and other key priority issues for policy-makers and industry leaders alike.

Next year, China will host the presidency of the G20. The Insurance Association of China has a distinguished delegation that is here and will meet with the GFIA general assembly. I have been to China a total of 12 times. On one of my recent trips there, government officials said they wish to examine the array of financial tools that the insurance industry provides, because in all candor, they said, if you think your Social Security is stretched, you should look at ours and our aging population, especially in rural areas. We'd like to see what other instruments might be available.

Finally, I would say that we must continue to remind everyone that insurance companies are not banks. Basel III only applies to banks, not insurance companies. Sometimes I wonder…if just to keep reminding people visually and symbolically…if the IAIS should find a home in the future not in Basel.

I don't know of too many industries so well positioned to have a profound positive impact on their economies. If this industry uses its full array of ability, skill, innovation, products, and passion, is it such a leap in logic to think that in a future point in time, like the champion Pele, we can lift the human race to a higher level?

We must do it, because this industry is uniquely positioned to be part of the solution, and not part of the problem. If we do not, then we have relegated ourselves to be part of the problem. And that is not who we are.

Thank you.