TORONTO CENTRE
Global Leadership in Financial Supervision

KEYNOTE SPEECH

Insurance, Insurance Supervision, and the Sustainable Development Goals

Remarks by Babak Abbaszadeh, President and CEO, Toronto Centre

Event:

Association of Insurance Supervisors of Latin America (ASSAL) – International Association of Insurance Supervisors (IAIS) The Regional Seminar on Training of Insurance Supervisors of Latin America

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Introduction

Good morning, distinguished guests!

It is an honour to share the stage once again with Don Tomás Soley, a decisive leader and a dedicated professional who is committed to transforming his organization, to international sound practices such as risk-based supervision, and to financial inclusion.

The important mission of the Association of Insurance Supervisors of Latin America (ASSAL) is to support the exchange of information on legislation, promote supervisory and regulatory cooperation, and encourage regional programs on insurance education for regional and global financial stability and inclusion. Similarly, the International Association of Insurance Supervisors (IAIS) actively promotes supervision that supports the inclusiveness and sustainability of the insurance industry.

The agenda for this exciting event reflects the ASSAL and IAIS missions. It should strengthen your capacity to play an important role in maintaining financial stability, supporting good governance, building up consumer protection, and championing financial inclusion.

Toronto Centre has a long history of working with supervisors in Latin America. Since our establishment in 1998, we have trained more than 12,000 mid- and senior-level supervisors from 190 countries and territories. The training has covered a wide range of programs for supervisors from all financial sectors, including country-level engagements with more than half of ASSAL's member countries, namely Colombia, Costa Rica, Honduras, and Panama. Nearly 100 of our country visits in Latin America since 2012 have focused on risk-based supervision (RBS). Our training has also included building leadership and communication skills, which are essential to leading change in financial inclusion where a wide variety of stakeholders are involved. Since 2012, Toronto Centre has delivered 23 financial inclusion programs in Latin America.

That brings me to the purpose of my remarks today, which is to highlight how insurance can help to meet the United Nations 2030 Sustainable Development Goals (SDGs) and to illustrate how better insurance supervision can help to meet your organizational objectives as well as the SDGs.

Understanding the linkages between the actions taken by insurance supervisors and the achievement of better outcomes is key. Insurance contributes directly to 6 of the 17 SDGs and indirectly to 5 more. As such, my remarks today will focus on ways in which insurance supervisors and regulators can support the achievement of three UN SDGs:

1) When insurance supervisors remove barriers to the supply of and demand for insurance, they promote economic growth and help bridge the protection gap, contributing to SDG #8, Decent Work and Economic Growth
2) When insurance supervisors facilitate market development through innovations that lead to inclusive insurance products and services, they offer new opportunities for women's empowerment, contributing to SDG #5, Gender Equality

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3) When insurance supervisors promote climate risk mitigation and resilience, they support responsible and sustainable development, contributing to SDG #13, Climate Action.

Insurance & Decent Work and Economic Growth (SDG #8)

Insurance development contributes to growth; it facilitates economic activity by allowing more risks to be taken, reduces dependence on welfare programs, and contributes to development of capital markets. The effects of insurance, particularly non-life insurance, on economic growth are even more significant in developing economies than in developed economies.[1]

Many of the world's underprivileged lack the necessities of life, including good education, nutrition, employment opportunities, and housing, and have little access to or trust in traditional financial institutions. Consequently, they are financially excluded from the full range of risk mitigation tools offered by the insurance industry. Although improving financial inclusion requires multifaceted efforts, supervisors often play key roles.

Weak financial regulation and supervision contribute to suboptimal economic growth and increase the potential risk of a financial crisis, typically due to:

- a lack of supervisory authority to act, such as competing mandates or inadequate legal powers;
- inadequate regulatory frameworks for action, such as weak governance or substandard supervisory methodologies;
- limited expertise or capacity to fully act on supervisory mandates; and
- corruption of the regulatory process, such as regulatory capture, or a move to ease supervisory oversight through forbearance.

Compounding this, insurance supervisors must have the capacity to regulate products and services that bear labels such as inclusive, micro, parametric, telematic, biometric, or peer-to-peer, that are being developed and delivered today by insurers. In addition, there are other emerging risks, such as the impact of the use of "Big Data" by insurers and big tech players, and the need to protect consumers from potential breaches of privacy or unfair discrimination.

Conversely, with good regulatory and supervisory capacity, a *virtuous circle* can be achieved:

- strong supervisors and regulators can help to drive improvements to the regulatory framework;
- proportional regulatory reforms can support less burdensome and more effective supervision, and enable innovation;

[1] Han, Liyan, Donghui Li, Fariborz Moshirian, and Yanhui Tian, 2010, "Insurance Development and Economic Growth", The Geneva Papers 35, April. Development was measured by penetration (premiums versus GDP).

- this can lead to sound and stable financial institutions and responsible market innovations, such as customer-centric products, alternative distribution channels, and uses of financial technologies that support inclusion;
- ultimately, this leads to improved economic growth by reducing poverty and raising the standard of living.

Supervisory capacity can be strengthened through high-quality training programs that build awareness of financial inclusion issues into their oversight roles. In our work around the world, we have found that the most sought-after programs are those that build the capacity to apply proportional and risk-based supervision, as opposed to perpetuating compliance-assessment approaches.

RBS is able to focus limited resources on the risks that matter most. It enables supervisors to address material risks in the most efficient and effective way, while advancing other objectives such as financial inclusion. For example, supervisors can incorporate more flexibility in their risk assessment of insurance products, including weather-related agriculture policies, low-cost maternity or burial products, and basic property coverage for small businesses, thereby supporting resilience and improving the speed to market of more accessible and affordable products than if traditional rules-based compliance methodologies had been used.

Toronto Centre and its partners offer a wide range of high-quality tailored programs to strengthen the capacity of supervisors and regulators, including how to apply proportional RBS.

Insurance & Gender Equality (SDG #5)

UN SDG #5 is concerned with achieving gender equality and empowering women and girls.

Toronto Centre is active in the promotion of gender equality, which is also the focal point of the Government of Canada's *Feminist International Assistance Policy*. As an example, in July 2019 the Comisión Nacional de Bancos y Seguros de Honduras (CNBS) officially launched an innovative Toronto Centre three-year program called "Plan for Women's Financial Inclusion" that should help to close the gender finance gap in Honduras.[2]

You might ask how this is relevant to financial sector supervisors and regulators, and to the mission of Toronto Centre. Toronto Centre recognizes that inclusive financial systems are a formidable instrument for women's empowerment in developing countries. Women's ability to save, borrow, and control their own money, and to insure themselves and their assets reduces poverty and promotes inclusive growth. Unfortunately, according to the World Bank, there is a persistent gender gap between men's and women's usage of financial services, and this gap is even greater for insurance.[3] More than one billion women, primarily in developing countries, don't have

[2] Toronto Centre July 22, 2019 News Release.
[3] The World Bank's Global Findex Database 2017.

access to basic financial services, including insurance.

Financial services help women to develop and assert their economic power, which is key to promoting gender equality. Accordingly, insurance supervisors must be aware that:

- there are gender differences in insurable risks faced by women and men;
- insurance offers protection for women working in the informal sector, who often fall outside the reach of public social protection schemes;
- insurance helps to protect women against the devasting personal and financial effects of gender-related reproductive health risks;
- insurance protects women from the financial impact of losing family members, enabling them to retain their homes, sustain their businesses, and continue the education of their children.4

Given these characteristics, what can insurance supervisors do to promote women's empowerment and access to inclusive insurance products? They can:

- facilitate a better understanding of the needs of women through gathering gender-disaggregated market data using surveys and focus groups, and by engaging with financially underserved consumers, especially women, and the stakeholders that work with them;
- promote innovations, such as digital inclusion, that expand financial services to poor and rural women;
- take proportional and risk-based approaches to know-your-customer requirements for lower-risk products in places where formal identification is generally less available;
- ensure that the women in their own organizations have a full opportunity to contribute and advance, and encourage industry players to do likewise; and
- promote diversity of thought by actively promoting the recruitment of women in the insurance sector and the actuarial profession, which could lead to better products and career opportunities for women.

Financial inclusion is directly linked to outcomes related to gender equality, such as better health and education. Financial inclusion plays an important, if sometimes less direct, role in achieving broader sustainability goals such as equality, growth, and peace.

Insurance & Climate Action (SDG #13)

This brings me to the third part of my message: insurance and climate change action.

Climate change is obviously occurring and its consequences, commonly known as *climate risk*, result in acute events of greater frequency and severity such as floods and droughts, chronic physical changes such as rising sea levels, and risks relate to the transition to a lower-carbon economy such as stranded assets. Insurance contributes to mitigating the financial effects of climate risk. However, excessive risk resulting from more frequent

[4] Inclusive Insurance and Sustainable Development Goals, Deutche Gesellschaft fur Internationale Zusammenarbeit (GIZ) GmbH, 2017.

and higher claims can push insurers to limit coverage for certain risks or to withdraw from the market, potentially leaving customers without recourse in a disaster. Therefore, climate change poses significant risks to not only the poor, but to all households, businesses, financial institutions and intermediaries, and to global financial stability.

It is essential that both insurance supervisors and those they regulate are aware of the risks posed by climate change and take appropriate actions. It is clear that climate risk impacts the safety, soundness, and stability of financial institutions and markets, particularly less well-regulated financial systems. Climate risk is becoming an increasingly important insurance supervisory priority,[5] as:

- insurance mitigates the effects of extreme weather events, thereby strengthening climate change resilience;
- insurance complements and strengthens other climate change coping efforts;
- catastrophe insurance protects a variety of stakeholders, from companies and infrastructure to the most vulnerable.6

What can supervisors do to promote climate risk mitigation and resilience? At a basic level, insurance supervisors can:

- engage in international collaboration, which will enable them to share knowledge and develop consistent approaches to dealing with climate-related risks;
- undertake research and training, which will help them to better understand climate-related risks and build their capacity in relation to a range of issues, including transition risk and stranded assets;
- develop guidance or recommend regulations that support effective responses to climate-related risks; for example, by reflecting it in the company's Own Risk and Solvency Assessment (ORSA); and
- ensure that the organizations they supervise take effective action, such as climate-related financial disclosures and stress testing.

Toronto Centre understands that the risks posed by climate change are relevant to all parts of the financial sector. Accordingly, Toronto Centre has expanded programs and developed other resources to provide information on how all entities operating in the financial sector might respond to these risks through their governance, strategies, risk management, metrics, targets, and disclosures and, in turn, how supervisors might promote these approaches.[7]

I'm pleased to announce that we will be launching a new five-day program in December with the Eastern Caribbean Central Bank to help supervisors in the region identify the

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[5] Climate Change Risks to the Insurance Sector, A2ii – IAIS Consultation Call Report, November 2018.

[6] Inclusive Insurance and Sustainable Development Goals, Deutche Gesellschaft fur Internationale Zusammenarbeit (GIZ) GmbH, 2017.

[7] For example: Climate Change. Toronto Centre. July 2017.
http://res.torontocentre.org/guidedocs/Climate%20Change%20FINAL.pdf
Climate Change: Issues for Banking Supervisors. Toronto Centre. 2019.

risks that climate change and other environmental factors pose to financial institutions, economies, and consumers (including vulnerable groups), and identify steps that can be taken to deal with these risks.

Conclusion

I would like to provide one final set of observations. Toronto Centre's vantage point gives us access not only to supervisors but also to regulated insurers and intermediaries from around the world. As you participate in this program and then return to your offices to take up the challenging work of supervision, I ask you to consider the following aspects of your interactions with the regulated entities:

- they typically seek to comply with all regulations and to maintain a positive relationship with supervisors, while profitably growing their business;
- they generally seek proportionate regulation, fair supervision, and sufficient flexibility to avoid unnecessary barriers to their success. This means that if an entity manages its risks well, is attentive to the needs of all consumers, and treats its customers fairly, the supervisor will assess it favourably; and
- this creates an environment that encourages them to develop innovative products and service solutions, which will better meet the needs of all consumers, including the underserved or currently excluded.

Therefore, properly applying a proportionate risk-based approach to supervision will help to create an enabling environment for the sector to flourish and provide the necessary financial inclusion products needed by the poor to support the sustainable development goals, including poverty reduction.

What you do every day has a ripple effect that cascades across government, non-governmental organizations, and the private sector, impacting the economies of your countries and those living in them. This contributes towards achieving the UN SDGs, in particular, No Poverty, Quality Education, Gender Equality, Decent Work and Economic Growth, and Climate Action.

Toronto Centre supports supervisors and regulators to implement better insurance supervision and to meet their national UN SDGs commitments. We have published a number of supervisory guidance notes that address both the technical and the change management challenges involved in implementing these new approaches to supervision, and I encourage you to go to our website for more information or contact me after the program.

Toronto Centre's work is sponsored by our key funders, Global Affairs Canada, Sida, and the IMF, who share our concern for promoting financial stability, fostering financial inclusion, and achieving sustainable development goals.

In closing, I would like to thank ASSAL for this opportunity to speak here today. I thank you all