Keynote Speech of Governor Dirk Kempthorne
Chairman, Global Federation of Insurance Associations
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Mehmet Akif Eroglu, thank you for the very kind welcome. To Treasury Deputy
Undersecretary, Dr. Ahmet Genc; to Insurance Association of Turkey President Ramazan Ulger
– those were tremendous remarks made today. And of course, to my friend, Mehmet, who is the
leader of the Insurance Association of Turkey.

I am honored to be in a nation whose dynamic markets made it the obvious choice to be
included in the G-20, among the world’s leaders. The G-20 countries honored you by asking you
to host this yearly meeting. Turkey is the presidency of the G-20 this year.

This is a dynamic meeting. I will give you my perspective standing here: it’s a very
impressive view as the president just said. This is a first of bringing all the sectors together. And
the good that can come from this and from the perspective that we’re beside the mighty
Bosphorus: we see the world pass here. What comes from this meeting can benefit people
throughout the world.

Turkey’s people are young, vibrant and rightly proud of their history and traditions. In
1925, two years after Turkey became an independent country, your first president, Ataturk,
established Turkey’s first insurance company, the Anadolu Insurance Company. Those of you
from Turkey’s insurance industry know your work is rooted in your country’s birth. The United
States has similar beginnings with regard to the insurance industry with one of our founding
fathers, Benjamin Franklin, who also began insurance in the United States of America.
As ACLI president and CEO, I know our industry helps families when a loved one and a key provider dies. We pay college education when that provider dies, so that dream does not die. We help people with disabilities, and those needing long-term care.

As chairman of the Global Federation of Insurance Associations, our 39 regional and national industry groups, which account for 87 percent of global insurance premiums, speak with one voice to policy makers around the world. Our collective strength comes from the companies we represent, who build communities throughout the world. And they help insured citizens and communities rebuild when catastrophe strikes.

GFIA’s Executive Committee, thanks to the significant help of the Turkish Insurance Association, visited with government leaders in April in Ankara in preparation for the G-20 meetings.

It was in the meeting with Dr. Genc, that this vision came to reality. And Dr. Genc, I give you the great credit to have the vision and the forethought to convene this gathering. And Mehmet: to you to your association … key members of your team, Kerem, Muge … to put all the details together so that something like this becomes a reality, I give you all great credit.

By our presence today, GFIA demonstrates its total commitment to this vision.

Our insurance industry has the opportunity, indeed an obligation, to become even more engaged with leaders like you and other global policy makers.

We offer solutions to many of the world’s greatest problems … providing funds to rebuild after a natural disaster … helping protect families, homes and property … and insuring retirement security.

For example, picture Ataturk Olympic Stadium here in Istanbul. It can hold 76,000 people. This year in Turkey, 410,000 people will turn 65 years of age -- enough to fill 5 Ataturk Olympic Stadiums. 25 years from now, in the year 2040, during that year alone, the number of people turning 65 will fill 10 Ataturk Olympic Stadiums.
You know a picture is worth a thousand words. *Time* magazine recently featured a beautiful baby and on its cover, noting the baby could live to be 142 years old. Can you imagine somebody spending 70 years of their life in retirement? Who will pay for this?

Government pension programs weren’t designed for this longevity. In the United States, when Social Security was put in place in 1935 it was stated clearly that Social Security is not intended to be the sole source of anyone’s retirement.

Can any government afford to be the sole source of retirement income for its people?

In 1935, when the United States began its Social Security program, the United States had 12 working-age people for every retiree. A 12-1 ratio. In 2020, that ratio will be about 3-to-1.

A very similar situation is happening around the world.

In France … there will be about 3 working-age people per retiree in 2020;

In Germany … 2.8;

In Japan … 2 working-age people for every one retiree.

Turkey is different. You have a younger population. You will have 4 working-age people for every retiree in 2020.

But be careful. Because in the year 2050, Turkey will have 2 working-age people for every retiree. It will be the same in the United States, and the same virtually in all those countries of the G-20, with the exception of Japan. Japan will have one working age person for every retiree.

Are any of these ratios a situation that is sustainable for any government? No, it is not.

We are on the cusp of a new era where responsibility shifts from government to individuals.

Turkey is an excellent example of how you’re dealing with this.

In 2013, Turkey’s government decided that, subject to income limits, individual contributions to private pensions in Turkey should receive a matching 25 percent tax credit. This
tax credit is achieving results. Since it was put in place in January of 2013, the number of enrollees in the system has increased from 3.1 million to 5.1 million enrollees. This is an increase of over 60 percent in just two years.

So, when you think about the 10 Ataturk Olympic Stadiums filled with the people in 2040, know these people will be better able to pay for their retirement because of the incentives you have put in place.

You saw a retirement problem and implemented solutions. We need to recognize your bold action. It is a model for other nations trying to solve this retirement puzzle. Too often, policymakers from around the world are only looking short-term, perhaps toward the next election. You have taken an action designed to address long-term problems.

How many more headlines from around the world will have to contain the word “austerity”? What if decisions are made now so that austerity does not become the vision of the future? We’ll talk more about the challenges on insuring aging populations in a panel this afternoon.

Annuities are one solution to supplement government pension programs. Annuities are a personal pension. Only the insurance industry underwrites annuities. Annuities guarantee lifetime income to supplement retirement benefits that countries offer to its citizens. Our guarantee of lifetime income … that personal pension … is just one way that insurers support the well-being of citizens around the world.

Keep this in mind: when government encourages people to save more for retirement, these funds can be used to build infrastructure, to create jobs and economies grow.

Earlier I referenced the reforms the Turkish government has put in place to help people save more for retirement. Because of these reforms, contributions to the Turkish private pension system grew 30 percent in one year alone. It reflects belief in inclusiveness, investment and implementation.

I believe that we can point to Turkey -- among all the G-20 countries – for concrete examples of ways that government can successfully encourage savings. Turkey represents the very reason to call this meeting … to demonstrate how government policy can create a positive atmosphere conducive to enabling the private sector to succeed in helping people.
Not surprisingly, the Turkish G-20 Presidency has focused on these three priorities:

- Inclusiveness
- Investment
- Implementation

All three of these priorities start with the letter “I.”

So does the word insurance.

Let’s talk about each goal, starting with inclusiveness. In his opening G-20 statement, Turkey’s Prime Minister Ahmet Davutoğlu said and I quote: “At the domestic level, we must ensure that the benefits of growth and prosperity are shared by all segments of the society.”

Insurers wholeheartedly support inclusiveness. Our products are available to vast numbers of people. We prevent people from backsliding into poverty after a calamity. We offer the security of property insurance for homes and businesses, the protection that comes from auto insurance, and the peace of mind that comes with knowing that your family will be financially protected in the event of dying too soon, or knowing your income is secured for your entire life through an annuity … which means that you will have dignity throughout your life.

A growing element of being inclusive is micro-insurance. Micro-insurance is also known as starter or “first time” insurance. We will hear more about this in our second panel moderated by Veronique Faber, executive director of the Micro-insurance Network.

Micro-insurance covers more than 260 million lives and properties in developing countries in Africa, Asia/Oceania and Latin America. This number is growing rapidly. In Africa alone in 2008, 14.6 million people owned a micro-policy; three years later that grew to nearly 45 million. … a 200 percent growth. This dramatic growth demonstrates the world-wide need for insurance. And while we think of micro-insurance for developing economies, let me suggest that even in developed economies you need micro-insurance because many citizens still do not have any form of insurance.
Micro-insurance helps people living at or below the poverty line. It is an affordable way to cover a range of risks, such as death, disability and property damages. Micro-insurance can provide vital security for families and help ensure continued and sustainable economic growth and stability for society.

Consider a farmer in Honduras … or Malawi … or Thailand working a small parcel of land. Without insurance, he risks losing his life’s savings if there is a calamity. But by transferring risk to an insurance company, if a flood or a drought were to hit, he can still afford to plant the crop next year to the benefit of his family and his community.

Making insurance accessible and inclusive is key for sustainable development and lasting prosperity.

Insurance is indispensable when catastrophe strikes. After the devastating 2010 Chile earthquake, the Chilean economy actually expanded the next quarter. Why? Because of the large inflow of cross-border reinsurance, the payments that boosted the economy.

And because the Government of Japan recognized the importance of spreading insurance risk to global reinsurers, after the tragic 2011 earthquake and tsunami, 90 percent of the reinsurance funds came from cross-border re-insurers.

Insurance provides certainty in an uncertain world.

The G-20 priorities statement also emphasized issues pertaining to Small and Medium-sized Enterprises or SMEs. These SMEs are the economic growth engine of many countries, providing new jobs, new opportunities for millions of people around the world. But without insurance, these opportunities would not be possible. For many SME’s the economic reality is quite simple: If you don’t have insurance, you don’t get a loan to start the new business.

Micro-lending requires micro-insurance.

There is a tremendous opportunity to harness the power of individuals and SMEs through these insurance industry tools. And another tool that we’ll discuss later this afternoon deals with public-private partnerships.
That provides a perfect transition to the second “I” priority: Investment in infrastructure.

The world spends $2.6 trillion (USD) every year on economic infrastructure – transportation, power, water, telecommunications. Over the next 15 years the world will face a $20 trillion gap in funding these essential components of economic infrastructure and growth that comes from that.

Earlier this year, right here in Istanbul at a joint conference of the Institute of International Finance, the IIF, in a setting with the G-20, one of the speakers said, and I’m quoting: “How many thousands of times have we heard G-20 leaders say we must address infrastructure. We must have a solution.”

Worldwide, the insurance industry has $4.6 trillion of premiums to invest annually and more than $30 trillion of assets under management. Most of our liabilities are long-term and need to be matched with long-term assets. The industry is well placed to support long-term investment, so long as there aren’t any unnecessary regulatory impediments impeding that from occurring.

The latest data we have is that the bonds that we own had an average maturity of 18 years at the time of purchase.

To provide an example, the life insurance industry in the United States purchased 33 percent, or $62 billion, of Build America Bonds when they were issued after the 2008 financial crisis to spur economic development. And these were specifically used for infrastructure.

Let me suggest this represents a “win-win-win.” The country wins by accessing valuable capital. The industry wins by matching its needs for long-term investments to vital public works projects that further stimulate economies.

And the real winners are the citizens who live better lives with better infrastructure and better economies.

Significantly, the recommendations of the B-20 Infrastructure & Investment Task Force recognize the importance of the insurance and private pension industry.
It is essential for this conference to encourage the B-20 and the G-20 leaders to take the following four actions:

- First, ensure financial regulations or standards do not discourage long-term investment in infrastructure. Examples include Basel III and Solvency II.

- Second, encourage the Organization for Economic Co-operation and Development or OECD to examine investment regulations governing pension funds and insurers and determine if there are constraints to long-term investment.

- Third, commission an international review of accounting rules that may hinder investment in infrastructure.

- Fourth, ensure that new capital standards include a cost-benefit analysis of impacts to long-term investment.

Two weeks ago I testified before the United States Banking Committee in the Senate. It is important for me to say on this side of the Atlantic what I said back in Washington D.C. I urged Congress to conduct proper oversight of the work of federal agencies that represent the United States on the Financial Stability Board, FSB, and the International Association of Insurance Supervisors, IAIS.

I said this to make sure the United States writes its own capital standards first before agreeing to any new international capital standards. As I testified to the Senate Banking Committee,

“'It is important for the Federal Reserve’s capital standards and the FSB’s international capital standards to work in harmony, not in conflict. Quite frankly, there should be no rush in writing international capital standards for insurance companies in a very short period of time. Consider that Basel II took some 11 years. Solvency II has taken some 13 years is still being worked on to implement.”
To international regulatory authorities, we say: Don’t just get it done. Get it done right. And avoid unintended consequences. For these reasons, we want the G-20 to include the recommendations of the B-20 Task Force on Infrastructure.

I look forward to hearing more about financing investment in infrastructure in our first panel, which will be moderated by Hung Tran, the executive managing director of the International Institute of Finance. The IIF is leading global policy-making on this subject and has developed strong evidence which I hope will be positively considered by the G-20 finance ministers and leaders.

This leads us to the third priority, the third “I” which is Implementation.

Even the best ideas have little value if they’re not implemented. This conference should endorse full implementation of insurance goals being recommended.

The recommendations by the B-20 will be the focus of our 4th panel, moderated by Dr. Ahmet Genc, Turkey’s deputy undersecretary of the Treasury. Let me state that it is the hope of Global Federation that the G-20 will accept the B-20 affirmations of the importance of insurance and private pensions in the G-20 finance ministers’ and leaders’ communiques.

Just as we had promised to be with you today, I pledge to you the resources of GFIA to help you accomplish the insurance industry’s noble goal of helping people.

There’s a tremendous amount to be discussed. That’s because there’s so much that can be offered in a setting like this. We provide financial peace of mind for hundreds of millions of families around the world. We are a key component of the economic infrastructure for the world.

Insurance protects the dreams of fathers and mothers who want their children to have a better life than they had.

Insurance protects the dreams of men and women starting out with the hope for a better tomorrow.

As one United States Senator said: “The more successful this industry is, the less government must do for its citizens.”

Allowing government to then focus on those who are truly in need.
I say that this is a noble industry. Let me also reference what a great European in 1909 said. And this is from Winston Churchill.

“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.”

That’s our calling. The dynamics of a government setting with leaders such as you with an industry such as the insurance industry working together. Again I affirm that millions of people will benefit. And economies throughout the world will benefit. This forum, I think, will become a model. A model that other presidencies of the G-20 will look to.

Next year, our good friends from China will assume the G-20 presidency. And we certainly look forward to working with them. So I thank you for the great honor of being with you today. Dr. Genc, for you to have this vision. Mehmet for you and your team to put this together. And then for all of you who have filled this room on the Bosphorus to be here is a dynamic opportunity … an opportunity for us to do some tremendous things that the G-20 will take note of … and that again people throughout the world will benefit from.

Bless you all.