

# Insurance Industry - Global Outlook, recent challenges and IGS

**Navigating the Way Forward for  
the Last-resort Protection to Policyholders**

**16 June 2021**

Serap Oguz Gonulal

Lead Financial Sector Specialist-World Bank

•A Knowledge Sharing  
Webinar Organized by:



# INSURANCE INDUSTRY-OUTLOOK

---

- The global economy no longer has the luxury of relying on monetary and fiscal levers alone.
- We can talk about the alternatives which include structural reforms that improve resilience, such as addressing climate risks, green investments, the digital economy, and the transition to a low-carbon economy

# INSURANCE INDUSTRY-OUTLOOK-CHALLENGE-regulatory challenges

---

- Market conduct
- Business interruption
- Operational resilience and workforce transformation
- Solvency concerns
- Climate change
- Digital transformation, data, cybersecurity and data privacy

**Market conduct: In terms of market conduct, now Regulators pay close attention to how insurers are treating policyholders, both on claims directly prompted by COVID 19 losses, as well as the sudden shift to virtual sales and claims handling.**

Claims are a major concern: Reason the emergence of court challenges over COVID 19 claims. as the industry and governments around the world consider Public private approaches to provide coverage for future pandemics. Claims disputes would mount as more employees return to their workplaces, while debate continuous over liability waivers for employers. Solvency concern will rising COVID 19 related and non-pandemic losses

# INSURANCE INDUSTRY-OUTLOOK-CHALLENGE-regulatory challenges

---

- In this challenging environment, Regulators continue to refine existing regulations and expand into new areas such as climate risk and insurtech supervision.
- Recent regulatory actions send a clear message that insurers can anticipate higher levels of accountability and enforcement moving forward and regulators are not easing up on their expectations.
- Data remains a key focus.....  
  
Both privacy laws and increases in pandemic-related digital customer engagement requires insurers to increase focus on data governance. Also, there continues to be a heavy focus on the ability to handle core risk management and compliance frameworks, principles, and requirements within a firm's operating model and culture.

**Result:** All these regulatory trends are expected to have a major impact on the insurance industry over the next 12 months and require close monitoring and action from leadership

# **INSURANCE INDUSTRY-OUTLOOK-CHALLENGE**

## **-industry challenges**

---

- In 2020, global gross written premiums in Life (excluding Health) and P&C declined by -2.1 percent.
- What kept the ship afloat was largely the P&C business, which even recorded a small increase in premium income of +1.1 percent last year.

- In 2020, global gross written premiums in Life (excluding Health) and P&C declined by -2.1 percent. This was almost double the rate of decline seen after the Financial Crisis (FC) in 2009, but it was less severe than feared. What kept the ship afloat was largely the P&C business, which even recorded a small increase in premium income of +1.1 percent last year.

What is the reason behind this resilience in non-Life business? This can mainly be attributed to digitalization and the fast and smooth digital processes in both sales and operations. Life business, prone to more complexity and advice-intensive products, didn't reap so many benefits of digitalization, declining by 4.1 percent.

# **Climate risk has received significantly more attention from financial institutions and regulators**

- Although the global COVID-19 pandemic took center stage in 2020/21, the world continues to face another global crisis that does not respect boundaries, and that no individual nation, government, or industry can solve on its own: climate change.
- Lessons learned from the world's response to COVID-19 could be useful in tackling the challenges presented by global climate change. While climate risk regulations are expected to be the primary driver of change, rising expectations from clients, investors, and stakeholders could add to the push for sustainability

# **Insurance guarantee schemes-Policyholders Protection Plan (IGS-PPP) provide last-resort protection to consumers when insurance companies are unable to fulfil their contractual commitments.**

In the event of insolvency,

- it first of all has to be ascertained whether or not the affected insurance policies can be transferred to solvent insurers.

If this proves impossible or cannot be financed,

- the guarantee schemes are to compensate the policyholders for their losses within a pre-defined period of time.

# Protection of policyholders

---

- The protection of policyholders against insolvency of insurance, that is one of the primary objectives of insurance regulation.
- To achieve this goal, a range of regulatory and supervisory measures are normally established to ensure financial and managerial soundness of insurance companies. In this respect supervisory authorities are expected to do their best to avoid the failure of supervised companies. It is sometimes inevitable; some insurance companies will encounter serious financial difficulties. Despite all possible supervisory measures, insurance companies can become insolvent.

# Why IGS

---

- **The protection of policyholders against insolvency of insurance companies is one of the primary objectives of insurance regulation.**
- **It is sometimes inevitable, however, that some insurance companies will encounter serious financial difficulties.**
- **In spite of all possible supervisory measures, insurance companies can become insolvent. In order to protect the interests of policyholders in the event of insolvency of an insurance company, certain special regulatory arrangements are normally established**

# Why IGS

---

**primary** purpose of protecting the policyholders of an insolvent insurance company by paying them compensation for their unsettled claims and s

**Secondary** purpose is to develop the insurance industry through promoting confidence by safeguarding the interests of policyholders

- Protection of non-professional policyholders
- Maintain public confidence
- Creating Competitive markets
- Experiences from countries where such schemes have already been tested : It can help to strengthen policyholder protection.

# STRUCTURE OF IGS OR PPF

---

The establishment of policyholder protection funds is clearly beneficial in promoting the protection of policyholders, supplementing insurance supervision in the event of insurer insolvency.

There are also drawbacks that cannot be neglected, which perhaps accounts for the fact that only a limited number of countries have introduced such funds

The Main Pillars:

- Coverage
- Function
- Funding
- Governance

# Establishment of IGS

---

**When established, Insurance Guarantee Scheme should be designed carefully to minimize any drawbacks, particularly the moral hazard problem and the burden on soundly managed member companies.**

**The actual structure of the existing funds around the World can differ considerably in various important aspects such as coverage, functions, funding and governance**