

The German Life-IGS

From Run-off to Transferring: Experiences and Vision of German IGS

Joerg Westphal - CEO of Protektor Lebensversicherungs-AG, Germany
The Guarantee Scheme of German Life Insurers



May 16, 2019

The „Mannheimer Life“ case

*protected by
a private initiative of the German Life Insurers called
Protektor Lebensversicherungs-AG („Protektor“)*

*The private company „Protektor“ is the precursor of today's mandatory
scheme by law, which was integrated 2004 additionally into the
organization of the company*

The „Mannheimer Life“ case

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2003

- **Transfer of the business of the failed Mannheimer Life to the private life company Protektor (344,000 contracts, 3 Billion € liabilities/net-reserves)**
- **Capital injection of 240 Mio. € by shareholders**
- **Take over of parts of the Mannheimer organization**

**2003-
2017**

- **Restructuring the company to an efficient run-off vehicle in 2004/2005**
- **For financial purpose: Build-up an administration-reserve for future administration cost of a decreasing book of contracts**
- **3 attempts to sell the business to an active life insurer (2004, 2008, 2016)**

2017

- **Sale of the business (100,000 contracts, 1.7 Billion € liabilities/net-reserves) to one of the new run-off-platforms in Germany by agreeing**
 - **guarantees in respect of future minimum solvency-figures and**
 - **maximum allowable amounts of administration cost per policy.**

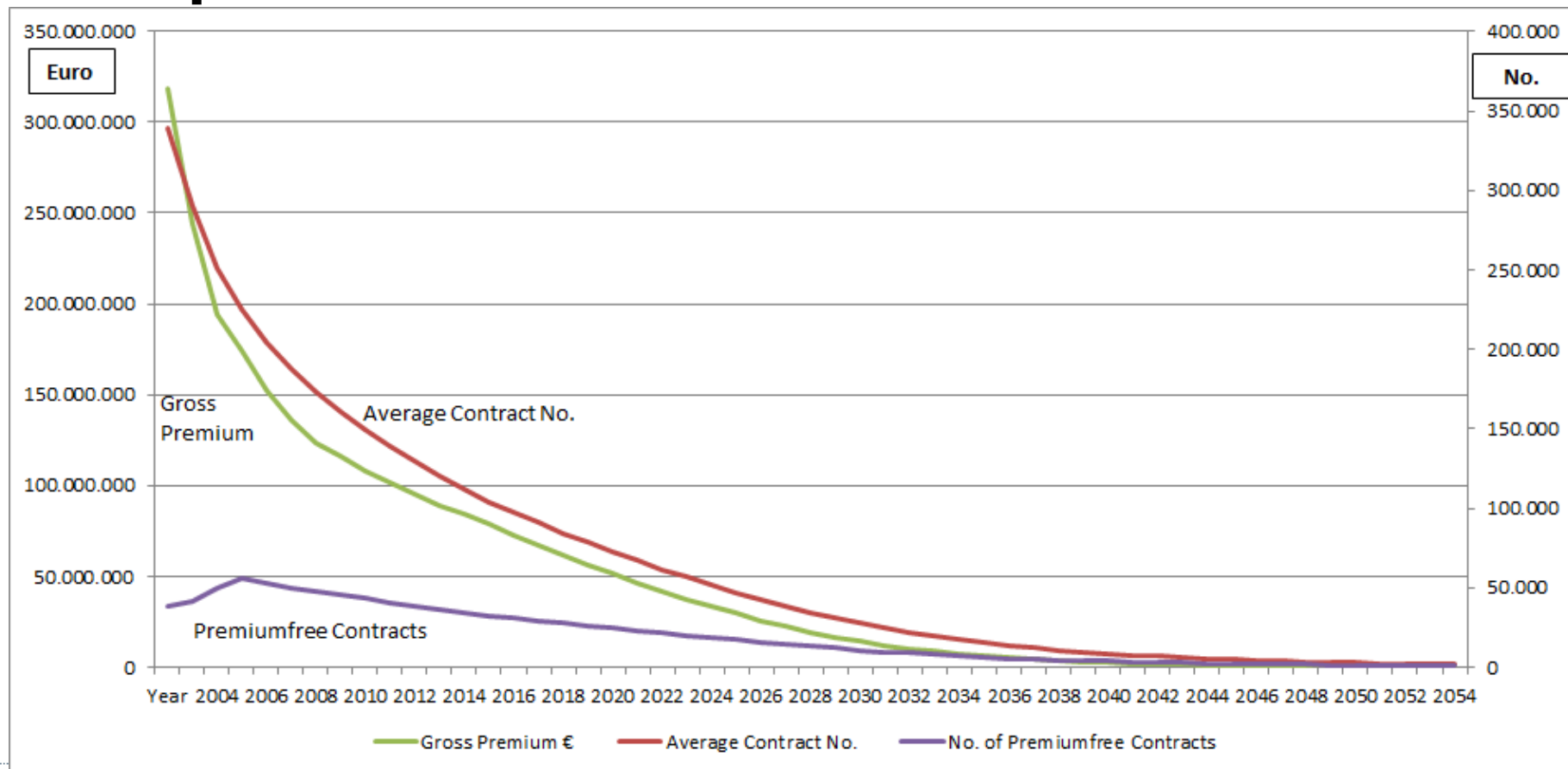
Cost of Mannheimer Case to shareholders in total: 5 Mio. €

On a administration level:

- A long-term run-off will result in a **high level of fixed cost per policy**. That means that the calculated part of **premiums** for administration **will not cover the effective cost on the long run**.

Additionally stabilizing the internal **know-how is an important risk**.

Expected development of contract no. and premium income



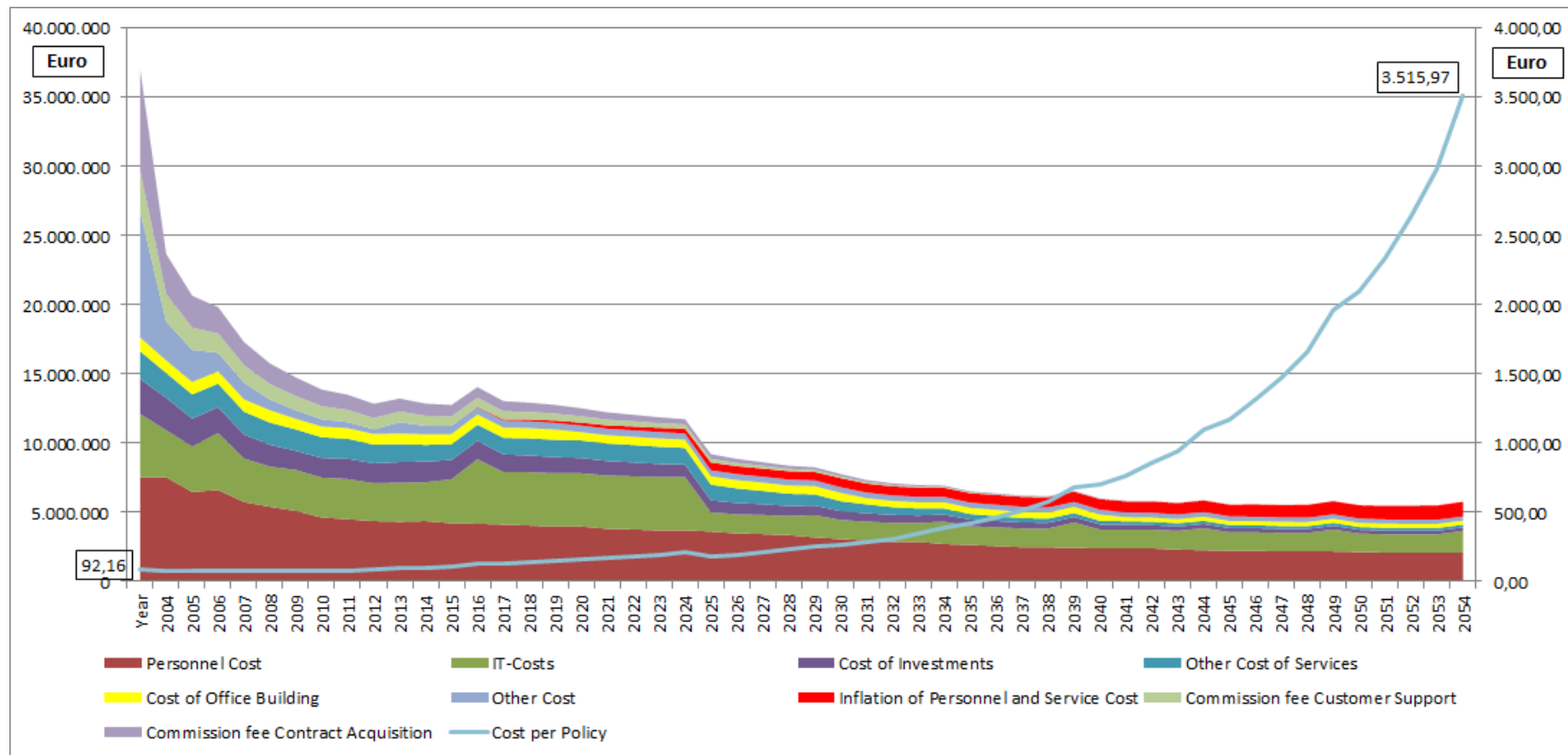
Administration Cost of a Run-Off

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Expected development of Costs



On a administration level:

■ There are following opportunities:

■ Selling the business to another active insurer

➤ **Problem:** Active insurer are interested to sell business but normally not to buy closed books without cross-selling opportunities; also: „political“ obstacles

■ Transferring the administration to external providers

➤ **Problem:** Because of VAT on provided services these services are more expensive (e.g. in Germany +19%) than providing the administration within the company

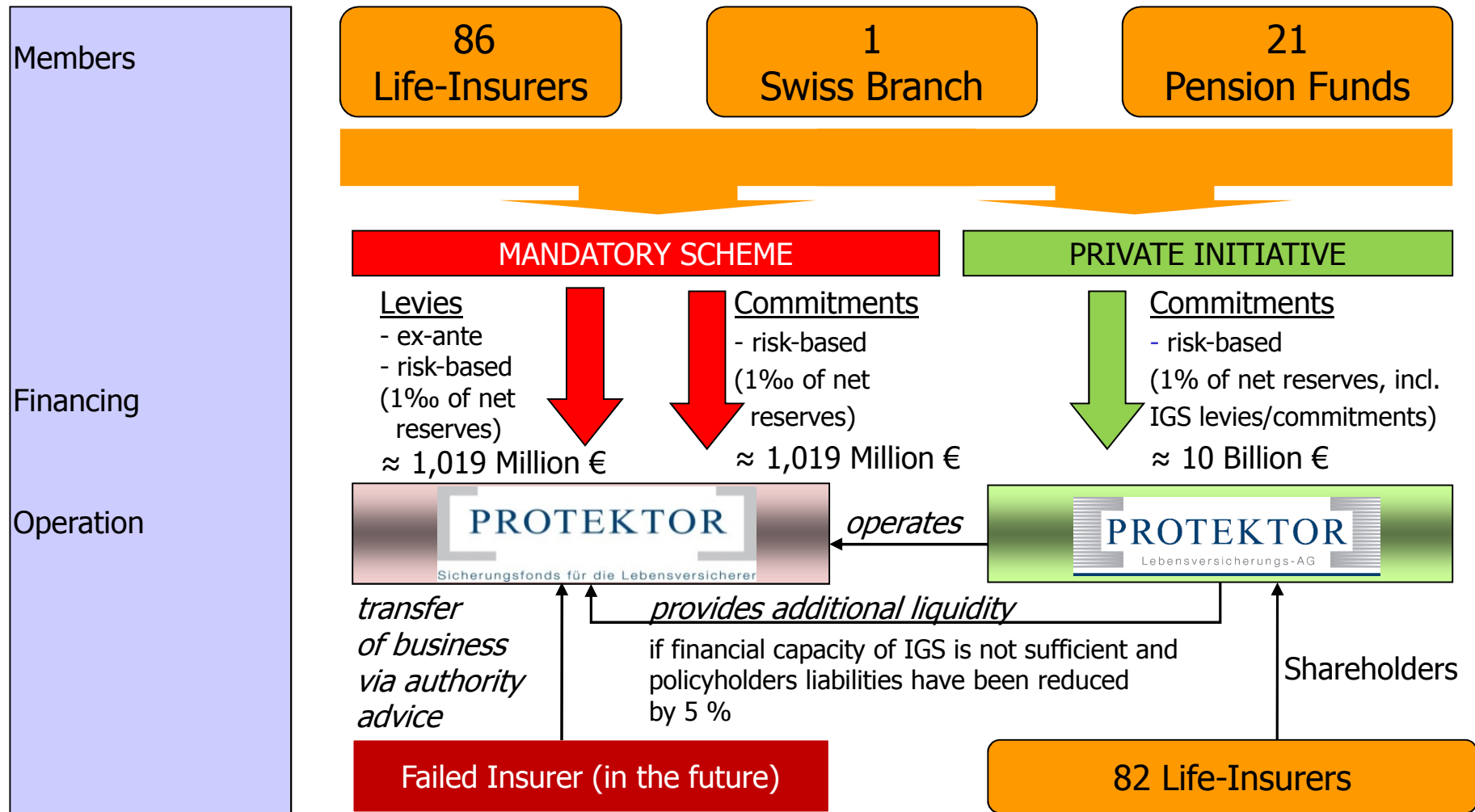
In respect of the financial capacity of a fund:

- **Continuation schemes don't need much pre-funding, because assets will be transferred and there will be liquidity from premiums. Funding is an issue mainly for compensation schemes.**

➤ But in any case: Levies should be shown on the P/L of member companies: In Germany levies are shown as an asset, so in case of pressure companies have to write-off these assets in a worst economic environment

- **Because cases are different: Options of funding should be flexible (pre-/post-funding (combination of both), limited reduction of contracts). This includes also an opportunity of raising of credit.**

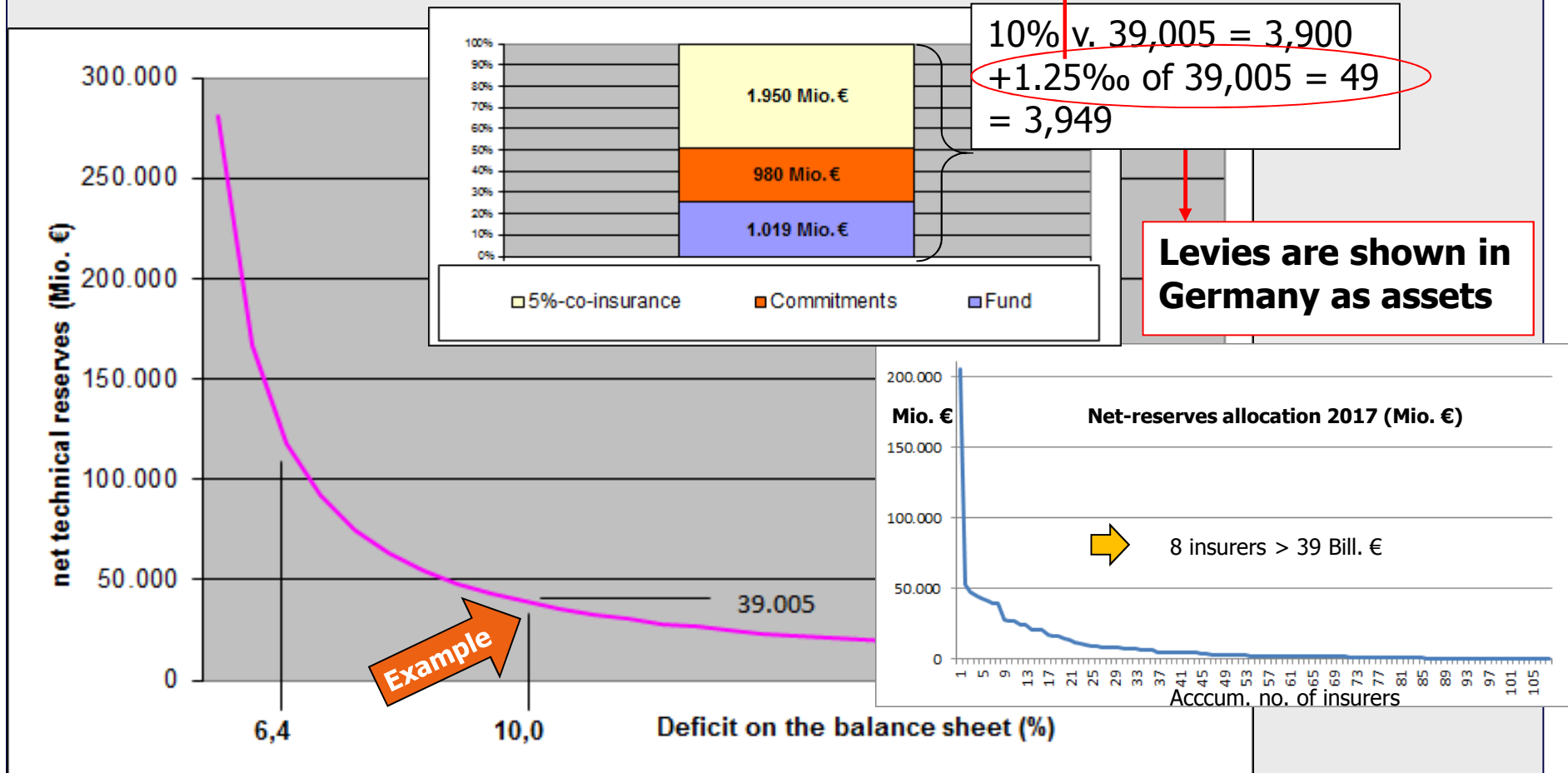
Short excursions to Structure and Funding in Germany



Short excursions to Capacity of the Governmental Fund

Levies are risk-adjusted

Net reserves *in relation to* Deficit



Generally:

- **In life, only continuation schemes are able to fulfill a comprehensive safety net. Expectations of insured people will not be satisfied by compensations.**
- **Insured people will accept a limited reduction of the guaranteed part of the contract in case of a failure. This could be helpful to avoid moral hazard aspects and increasing the capacity of the fund.**
- **Insured people „feel“ that life contracts are complex. After entering into a contract they will not deal with the contract over years, sometimes until the time when retirement payments start. This means also that insured people will not care about protection of contracts.**

Expectation on future issues (Expectation on legislators)



The role of Insurance Guarantee Schemes

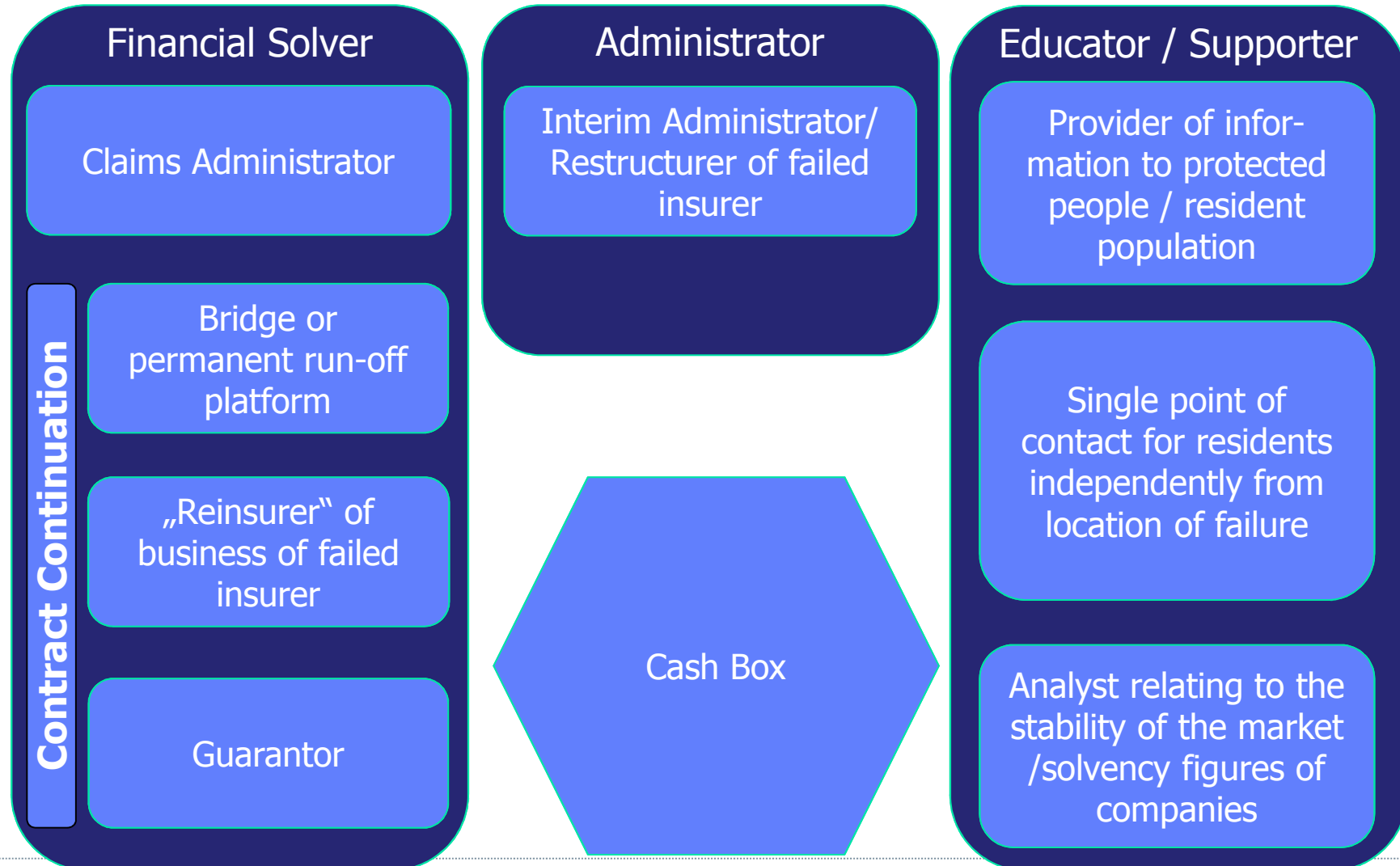
! The opportunities and ability of an IGS should be used in a more comprehensive and also flexible way.

An IGS is much more than a Cash Box !

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Stakeholder discussions: Focus and needs concerning the Core (Protection) Function

- Split into **Claims Payment (Compensation) Schemes** and **Portfolio Continuation Schemes**
- **Claims Payment (Compensation) Schemes:**
 - **Focus: Identification, (re-)valuation and payout claims in a short time**
 - **Needs: Data collection and financial capacity by own funds and access to the assets of the non-vialable insurer**
- **Portfolio Continuation Schemes:**
 - **Focus: Stabilizing the organization of the insurer**
 - **Needs: Early involvement by the supervisor, access to the organization of the insurer and power on decisions of the company (financial issues are not the main aspects at the beginning)**

Option in the forefront of a failure: IGS as an Administrator



- A lot of countries define in case of financial trouble the function of a **Special Commissioner** who takes over all management functions of an insurer. The Special Commissioner will be installed normally by the supervisory authority.

An IGS can act as a Special Commissioner in the forefront of a failure

- to start recovery procedures within the company and
- to try selling the business/company.

..., but the base of an effective handling is a clear definition!

- **A clear definition of the task of an IGS means not only clarification of levies and structure of resolution, but also:**
 - **Borderline between Supervisory Authority and IGS/Resolution Authority**
 - **Relationship between IGS-handling and insolvency regulation**
 - **Definition of regress opportunities to minimise the burden to the IGS.**

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Thank you very much !

Contact details:

Joerg Westphal

(Chairman of the Board of Management)

Protektor Lebensversicherungs-AG

Wilhelmstraße 43 G

10117 Berlin / Germany

Phone: +49 30 2200 258-11

Fax: +49 30 2200 258-22

j.westphal@protektor-ag.de

www.protektor-ag.de



*founder
member
of*



International
Forum of Insurance
Guarantee Schemes
IFIGS