

Our Experiences and Developments of IGS

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



April 19, 2016

**2002/
2003**

- **Establishment of Protektor as a private run-off-platform for business of failed insurers (continuation of contracts as it is agreed with policyholders)**
- **Transfer of the business of the failed Mannheimer Life to Protektor**

**2004/
2006**

- **Establishment of a mandatory, governmental protection scheme for life business based on continuation (without haircuts in general)**
- **Transfer of the power of the governmental scheme to (the private company) Protektor**

**until
today**

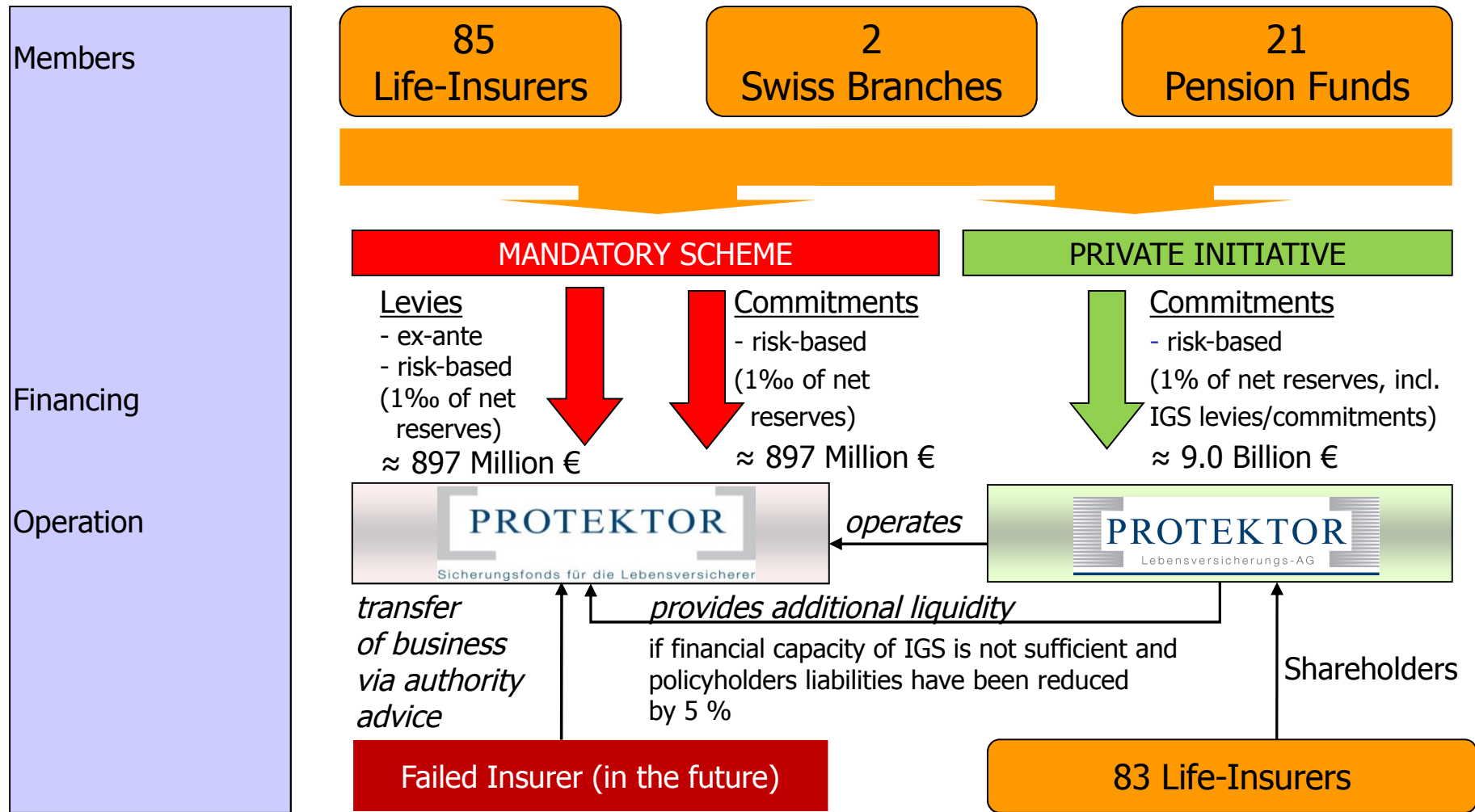
- **„Private“ company Protektor runs-off the business of Mannheimer Life**
- **As „handling agent“ Protektor manages the governmental fund, collects levies on a yearly bases and will took over business if it is required by the supervisory authority.**

**Assets of Protektor and the governmental scheme
are strictly separated!**

Today's structure



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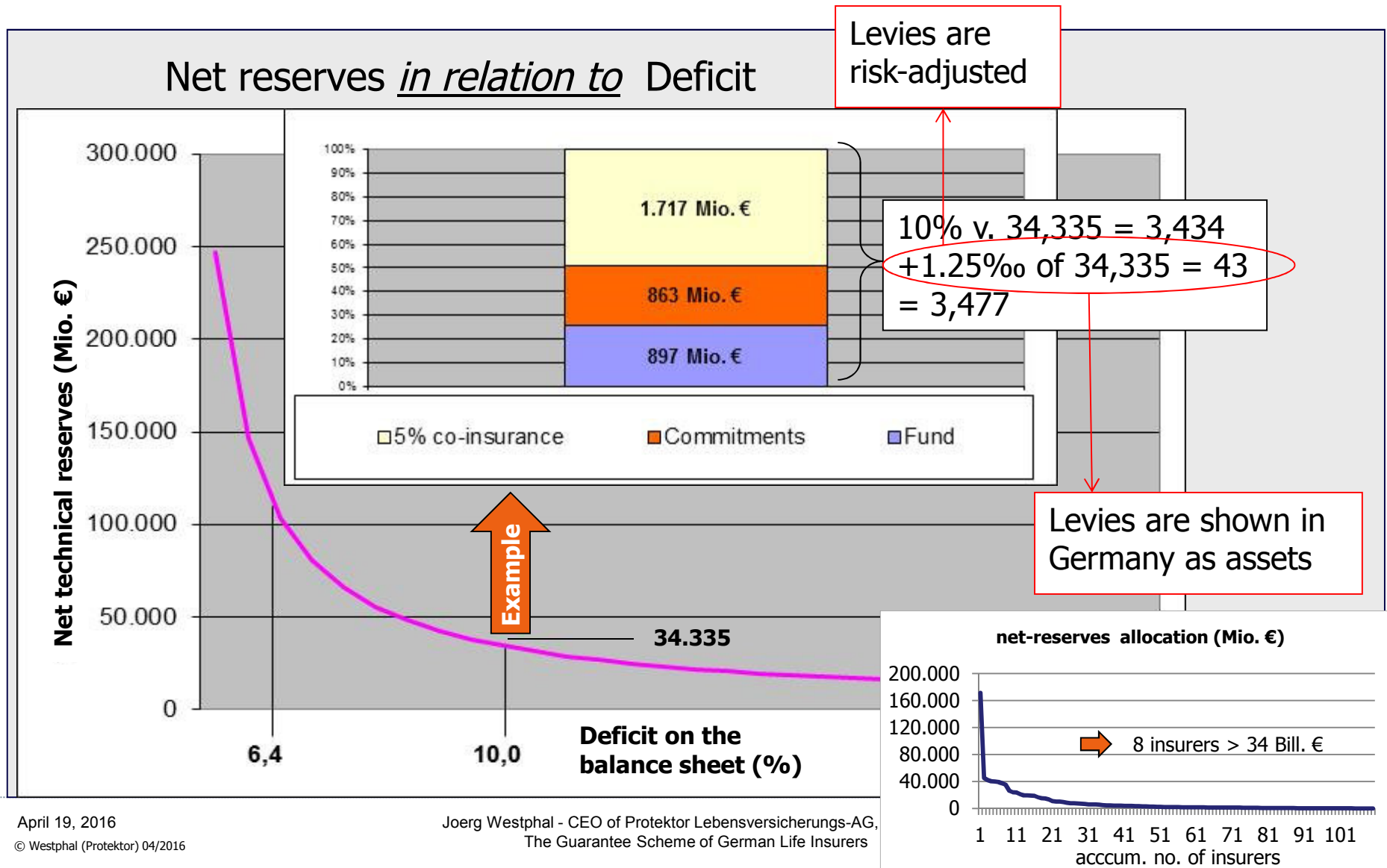


Capacity of the Governmental Fund

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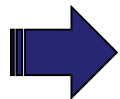
Our Experiences

... in relation to IGS-structure



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- **Compensation will not cover** the intentions of policyholders **in total** (especially making provisions for retirement and life-risks),
- **No “fair” calculation of compensation** (= market value of contract) exists,



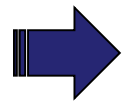
It is impossible to get the same contract with the same premium again because of changing health and age.

Continuation is the only way to fulfill policyholders' expectation in life and health.

Our Experiences

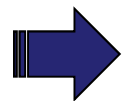
... in relation to the transfer

- At the time of transfer the main risks resulting from people and IT



Insurance business – especially life and health – is complex and products are different. In case of a transfer an IGS has to secure the IT as well as the key people of the company. It's not realistic to take over the business with people from outside the company.

- In the long run costs are the main trigger of success.



The decrease of costs will not follow the decrease of number of contracts exactly because of a high portion of fixed cost elements (e.g. IT). It's necessary to integrate the closed book into another organisation via selling or outsourcing.

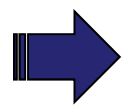
Our Experiences

... in implementing an IGS



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- Continuation schemes need the same expertise than the companies whose contracts are protected



Beside the activity to acquire new business, there is no difference between the management of closed or active books of business

- Continuation schemes need

- a strong relationship to (and are also normally supervised by) the relevant section of the supervisory authority
- and – especially if established as a private organisation – a licence to perform the business.



Factual requirements in Germany resulted in a protection scheme for insurance business, which is separated from protection schemes of other business like banking, security traders etc.

Integrated vs. Separated Guarantee Schemes

- Will an Integrated Guarantee Schemes be more efficient than separated Schemes?

Answer → **It depends on ...**

- ... whether the protection scheme is claim or contract based

If the step of calculating the claim is made, claims payment don't need a lot of insurance experience.

- ... whether the scheme will do the business on its own or via outsourcers / business providers

An „agent“ don't need the same experience than the provider.

- ... the function/section of an IGS which has to be realized

Calculating, collecting and investing levies need little experience, but run-off is totally different in the banking and the insurance sector.

Integrated vs. Separated Guarantee Schemes

Conclusion

- In an integrated scheme synergies could be realized
 - in administrating the collection and investment of levies
 - in an organisational form, where an IGS will provide the core activity (handling a failure) via outsourcers
- If the guarantee scheme is based on continuation of contracts, a specific knowledge on insurance is required (**“Bankers are no Insurers” and „Insurers are not the better Bankers”**)
- Important also: A clear separation promotes also a clear and adequate use of the fund's means: an IGS is financed by policyholders and a Guarantee Fund of Deposit Insurers is financed by consumers in banking!

... it depends also on the structure of the Supervisory Authority



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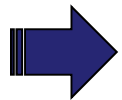
- In most countries there is only one supervisory authority. But if we look at the internal structure, insurance and banking is mostly strictly separated.

The reason is simple: Banking and Insurance business are completely different. Some reasons are:

- Especially in life/health the term of contracts is much more longer and products are more complex than in banking,
- Calculation method in insurance is based on the community of policyholders (collectiv), in banking it's margin/individual based,
- Insurance is based on uncertain expectations of events in individual's life; the uncertainty of a bank product is often limited to the default risk.

This requires different expertise and approaches !

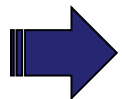
- Improvement of levy calculation
 - Requirement in Germany that levies have to be risk based.



Following the implementation of Solvency II in Europe we will move to a Solvency II-base in 2017 for the levy calculation.

- Improvement of flexibility of the IGS

- At the moment it's only possible to transfer the business of a failed insurer to the IGS, which has to settle losses and tries to transfer the business afterwards again.



Discussions are stimulated, whether there are more flexible and efficient ways of using the capacity of IGS, for example acting as a Special Commissioner to support a direct transfer to another insurer (including financial support / guarantee arrangements).

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Thank you very much !

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