

Introduction to Insurance Guarantee Schemes and IFIGS

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

16 June 2021

Alister Campbell
Vice Chair, IFIGS

Contact Information acampbell@pacicc.ca

A Knowledge Sharing Webinar
Organized by:



International
Forum of Insurance
Guarantee Schemes
IFIGS

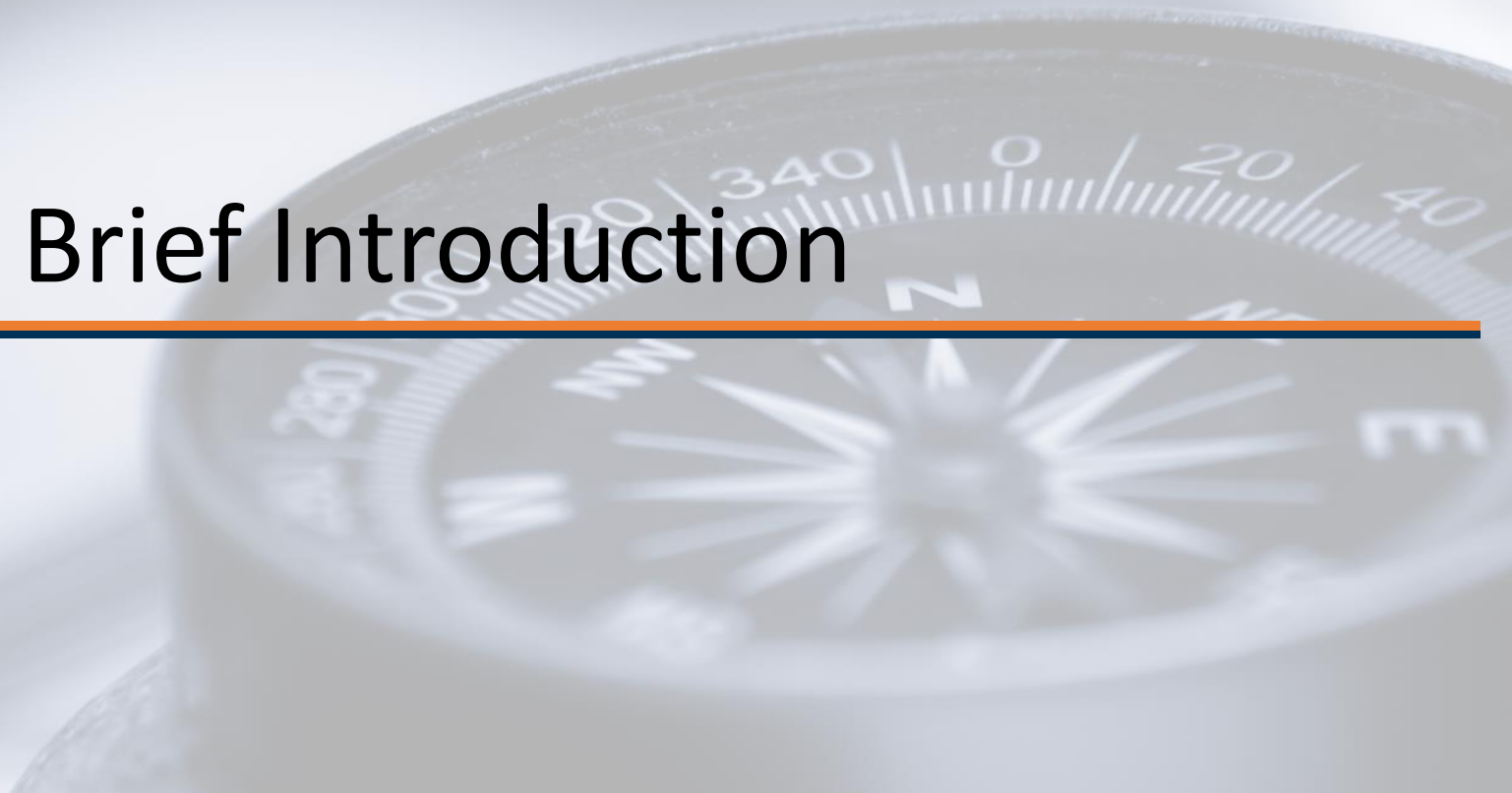


WORLD BANK GROUP
Finance, Competitiveness & Innovation

Agenda

- **IFIGS – Brief Introduction**
- **Insurance Guarantee Schemes**
- **IFIGS – Framework Guidance**
- **Conclusion**

IFIGS – Brief Introduction



IFIGS – Brief Introduction

Established – May 2013

Objective – Sharing Experience, Knowledge and Best Practices of Insurance Guarantee Schemes

Legal basis – Non-profit, Member-Based, Network Forum of IGS

Organization Structure



2021 Management Committee

Chair – Yangig Cho – KDIC

1st Vice Chair – Afiza Abdullah
– PIDM

2nd Vice Chair – Alister Campbell
– PACICC

IFIGS – Brief Introduction

Full Member	Associated Member	Observer
Legally Established Insurance Guarantee Scheme (IGS)	In the Process of Establishing an IGS	By Invitation

25 Full Members from 20 Jurisdictions

Continent	IGS
Europe (12)	Greece, Isle of Man, France, Germany, Denmark, Norway, France, Germany, Poland, Romania, Spain, United Kingdom
Asia/Pacific (7)	Thailand, Australia, Thailand, Korea, Malaysia, Singapore, Taiwan
America (5)	Canada, United States, Canada, United States, Ecuador
Africa (1)	Kenya

Life Insurance Guarantee Scheme – Non-Life Guarantee Scheme – Life & non-Life Guarantee Scheme

Insurance Guarantee Schemes



The Core Rationale for an IGS

Why many countries choose to establish IGS...

- Ensures the “institutionalisation rather than socialisation of default risk”
 - Protects consumers...
 - Protects governments...
 - Clarity around coverage/benefits and source(s) of funding...
 - Bottom line...ensures citizen/taxpayers not on the hook for corporate failure
- Provides safety net to minimize adverse impacts on policyholders, beneficiaries or other adversely affected third parties – should be activated only as a last resort!
- Can recognize the role of all industry participants in overall industry health
- Helps to maintain consumer confidence in the financial services system

Design and Structure

Not “one-size-fits-all” ...

- Our membership reflects diversity of options for effective design and structure of IGS operating model
 - Public sector or private sector
 - Integrated across financial services or distinct entities for different Lines of Business
 - Ex-ante or ex-post funding models
 - Unlimited obligation or defined limits on coverage/benefits
 - Key differences between “compensation” and “continuation” scenarios
 - Role in resolution scenarios
- Our Membership and their varied experiences with insurer failure show that different models can each deliver effectively against their mandates

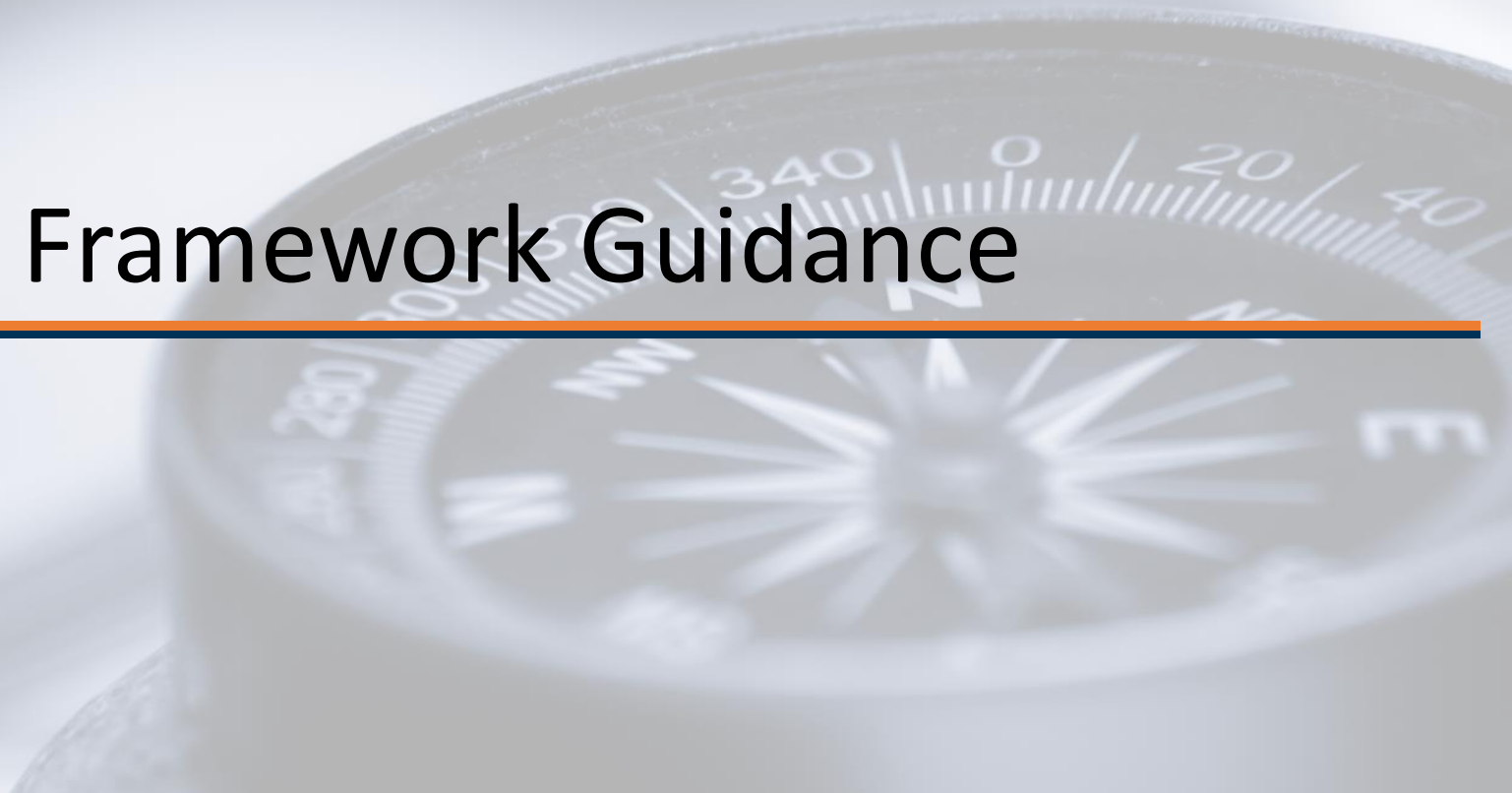
Why the difference in structure?

Because each country is different!

- Different nations will have different:
 - Industry structures – integrated or distinct
 - Competitive environment – more or less industry consolidation
 - Mix of foreign vs domestic players
 - Comfort with risk/failure
 - Views regarding “moral hazard”

So...what advice can IFIGS offer Jurisdictions contemplating the potential benefits of establishing an IGS?

IFIGS – Framework Guidance



IFIGS Framework Guidance

1 – Public Policy Objectives

The first principal public policy objective of an IGS is:

- to provide last-resort protection to policyholders, insured parties, beneficiaries or other eligible third parties against loss of part, or all benefits, when an insurer is unable (or likely to become unable) to fulfill commitments under its insurance contracts

The second principal policy objective of an IGS is:

- to ensure consumer confidence and market stability through the protections it provides

The design of the IGS should reflect the system's public policy objectives

IFIGS Framework Guidance

2 – Mandate and Powers

The mandate and powers of the IGS should:

- support the public policy objectives
- be clearly defined and formally specified in legislation or documents supporting legislation or public statutes of the responsible body

3 – Governance

The IGS should be:

- operationally independent
- well-governed
- transparent
- accountable

IFIGS Framework Guidance

4 – Relationships with other safety-net participants

In order to protect policyholders/other eligible claimants and/or contribute to financial stability, there should be:

- a formal and comprehensive framework in place for the close co-ordination of activities and information sharing, on an ongoing basis, between the IGS and other financial safety-net participants (e.g. the ministry of finance, supervisor, resolution authority)

5 – Cross-Border Issues

Where there is a material presence of foreign insurers in a jurisdiction, there should be:

- Formal information sharing and co-operation arrangements in place among IGSs in relevant jurisdictions with a priority being to seek to ensure better alignment in policyholder/eligible claimant protection

IFIGS Framework Guidance

6 – IGS'S role in contingency planning and crisis management

The IGS should have in place:

- effective contingency planning and crisis management policies and procedures, to ensure that it is able to effectively respond to the risk of, and actual, insurer failures and other relevant events

The development of system-wide crisis preparedness strategies and management policies should be the joint responsibility of all safety-net participants

The IGS should be:

- a member of an insurer resolution preparedness or other institutional framework for ongoing communication and co-ordination involving financial safety-net participants related to system-wide crisis preparedness and management

IFIGS Framework Guidance

7 – Membership

Membership in an IGS should be compulsory for all authorized insurers, carrying on protected business, unless government or public owned and otherwise protected

8 – Coverage

Policymakers should define clearly:

- the level, and
- scope of coverage

Coverage should be consistent with the IGS's public policy objectives and related design features

IFIGS Framework Guidance

9 – Sources and use of funds

The IGS should have readily available:

- adequate funds and funding mechanisms necessary to ensure prompt funding of obligations or any assumption of contracts, including assured liquidity funding arrangements
- resources to cover the operating cost of IGSs

10 – Public awareness

To the extent not prohibited by law, in order to protect policyholders and contribute to financial stability, it is essential that the IGS inform the public about the benefits and limitations of the IGS on an ongoing basis

IFIGS Framework Guidance

11 – Legal protection

The IGS and individuals working both currently and formerly for the IGS must be protected from liability arising from actions, claims, lawsuits or other proceedings for their decisions, actions or omissions taken in good faith in the normal course of their duties

- legal protection should be defined in legislation and/or regulation

12 – Early detection and timely intervention

The IGS should be:

- part of a framework within the financial safety-net that provides for the early detection of, and timely intervention in, troubled insurers

Such actions should protect policyholders and contribute to financial stability

13 – Protecting policyholders and fulfilling obligations

The IGS should meet insurers' obligations:

- to the limits specified by the scheme's by-laws or other documentation that establishes the scheme's coverage limits
- to policyholders and other eligible claimants promptly (whether by funding payments or continuity, as appropriate, and subject to its mandate and powers)

There should be a clear and unequivocal trigger for IGSs action.

IFIGS Framework Guidance

14 – Recoveries

The IGS should have, by law, the right to recover its claim in accordance with the statutory creditor hierarchy

Conclusion



Policyholders deserve Protection

Increasing complexity of accounting standards makes it impossible for retail consumers to determine financial solvency of their chosen insurer(s)

Failures do and will happen...

- Despite improved prudential supervision
- Despite increased rigour regarding capital requirements

Effective design and implementation of an IGS can:

- Enhance public confidence in the financial system
- Reduce costs of failure for the industry
- Reduce costs of failure for society as a whole
- Protect policyholders against undue hardship when failure does occur

IFIGS welcomes increased engagement with World Bank, IMF, IAIS to help expand policyholder protection benefits to many more nations over time