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Towards a proposal for the harmonisation of national Insurance Guarantee Schemes across the Member States in the EU

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- EIOPA has been working in the areas of **recovery & resolution** and **insurance guarantee schemes** over the past few years
 - Significant interaction between both topics
 - In both areas, there is no harmonised approach at the EU level
- Main aim of the work:
 - (i) Is there a need for harmonisation?
 - (ii) What should be the principles for harmonisation?
- Currently, **work is ongoing** on the European Commission's **Call for Advice** on the 2020 review of Solvency II
 - Consultation Draft Advice on harmonisation of IGSs (finished in Oct `19)
 - Consultation Draft Advice on Recovery & Resolution (ongoing)
 - Final Advice planned for June 2020

A) Recovery and Resolution

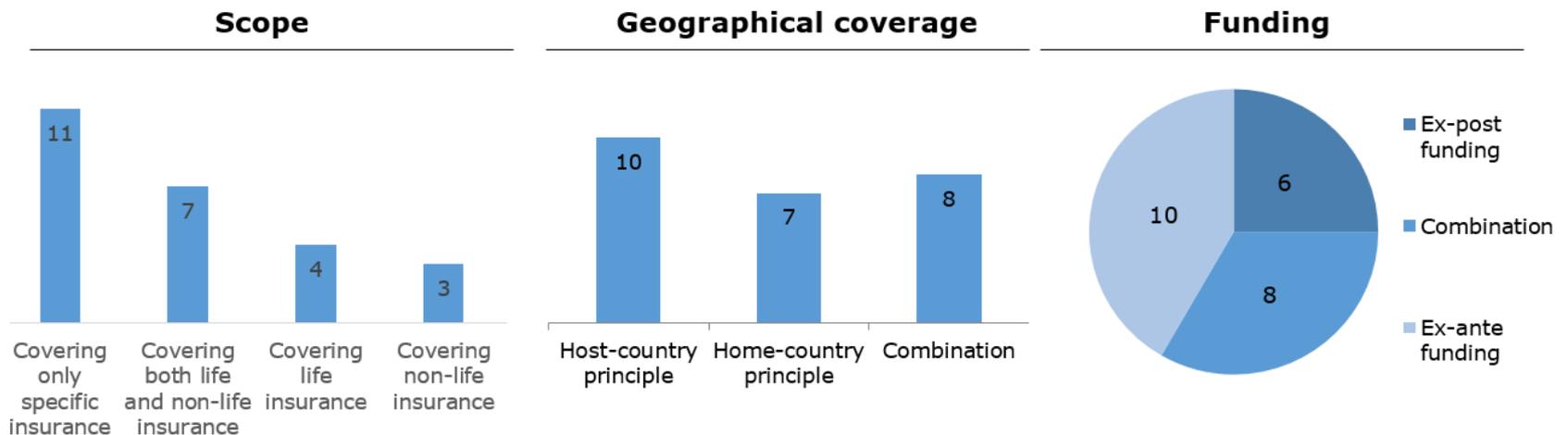
- Lack of harmonisation in recovery and resolution practices **complicates cross-border cooperation and coordination** in crises
 - A patchwork of national rules could impede the orderly resolution of cross-border insurers
 - Potential legal uncertainty, unequal treatment of policyholders, and potential spill-over effects
 - Effective recovery and resolution measures are necessary to have in place in all Member States
- EIOPA is of the view that a **minimum** harmonised recovery and resolution framework should be established for (re)insurers across the Member States of the EU

- EIOPA is of the view that the following principles on recovery and resolution should be harmonised
 - **Proportionality** should be a key guiding principle

Building blocks	
Recovery measures	
Preparation and planning	Requirement for pre-emptive recovery planning
	Requirement for resolution planning, incl. resolvability assessment
Early intervention	Introduction of early intervention powers
Resolution measures	
Resolution	Designation of an administrative resolution authority
	Clear resolution objectives
	Introduction of resolution powers, subject to safeguards (e.g. NCWO)
Cooperation & coordination	Establishment of cross-border cooperation and coordination arrangements
Triggers	
Early intervention	A significant progressive drop in solvency position (before SCR-breach)
Recovery	Maintain triggers in Solvency II (SCR- and MCR-breach)
Resolution	Point of non-viability

B) Insurance Guarantee Schemes

- At present, there is no harmonised approach on IGSs in the EU
- Member States have chosen their own approach as of a result of which **significant differences** occur across the EU
 - 27 national IGSs across 21 Member States
 - Substantial differences in technical features of the IGSs (e.g. scope, geographical coverage and funding)



- The dispatch of national approaches have **implications** for...
 - Policyholder treatment: Policyholders might be treated differently following the failure of an insurer
 - Internal market: Level playing field and hence proper functioning of the internal market in the EU might be impeded
- A **European network of national IGSs** is needed for the benefit of policyholders and financial stability as a whole
 - Every Member State should have a national IGS in place ...
 - ... which are sufficiently harmonised
- Harmonisation of IGSs should be **regarded in relation to**
 - Recovery and resolution
 - Supervisory convergence

- The national IGSs should be harmonised on the following **principles**
 - Role and functioning
 - Geographical coverage
 - Eligible policies
 - Eligible claimants
 - Coverage level
 - Funding
 - Disclosure
 - Cross-border cooperation and coordination

➤ What should be the role of IGSs?

- IGSs should be set up with the **primary aim to protect policyholders**
 - Pay compensation swiftly to policyholders for their losses when an insurer becomes insolvent;
 - Ensure the continuation of insurance policies
- The continuation of policies more likely for life-policies

- What should be the geographical coverage of IGSs?
 - National IGSs should be harmonised on the basis of the **home-country principle**
 - In accordance with the home-country control principle applied in supervision
 - Operational challenges to be mitigated by cooperation and coordination with other national IGSs

- Which policies should be covered by the IGSs?
 - IGSs should cover a **range of life policies and non-life policies**
 - Policies where the failure of an insurer could lead to considerable financial or social hardship for policyholders;
 - Lines of business with a high market share in cross-border business in Europe
 - Further work is needed to define the exact range of eligible policies

- Who should be protected by the IGSs?
 - IGSs should cover **natural persons and micro- and small-sized legal entities**
 - Restrictions for connected (natural and legal) persons
 - Micro- and small-sized entities need to be defined

- What should be the coverage level of IGSs?
 - IGSs should have a harmonised **minimum coverage level**
 - Policyholders (and beneficiaries) should not be exposed to considerable financial or social hardship, while bearing in mind the cost of funding of IGSs
 - Further work is needed to define the appropriate coverage level

➤ How should the IGSs be funded?

- IGSs should have **adequate and credible funding systems** in place
 - IGSs should be ex-ante funded, if needed complemented by ex-post funding
 - Contributions into IGSs by insurers – calculation method for contributions to be further defined
 - An appropriate target level needs to be set
 - Upper limits to annual contributions into IGSs should be introduced

- What should be the disclosure requirements?
 - Requirements for **adequate, clear and comprehensive** disclosure to consumers
 - Should not turn into a marketing-tool

- Should there be cross-border cooperation and coordination arrangements?
 - Cross-border cooperation and coordination arrangements between national IGSs should be established
 - Safe and secure information exchange is essential



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Thank you for your attention!

1. What aspects need to be considered for an effective implementation of the home-country principle?
2. In your view, which policies would meet the criteria of “significant financial and social hardship for policyholders”?
3. What are your views regarding the timing of the funding, i.e. ex-ante versus ex-post funding? Should there be a target level for the ex-ante funding?
4. In case of ex-ante funded schemes, what are important considerations to be taken into account (e.g. How to manage the funds of the schemes)?
5. What are your views regarding the way of collecting the contributions from the industry, i.e. fixed, variable or risk-weighted? In case of risk-weighted contributions, how should this be designed?
6. What are the important elements for effective cross-border cooperation and coordination between national IGSs?
7. In terms of disclosure, what should be the role of IGSs in the communication with consumers? How should insurers inform consumers without turning an IGS into a marketing tool?
8. Who should be protected by the IGSs? Should IGSs cover natural persons as well as micro- and small-sized legal entities?