

## Template for comments on draft Issues Paper on policyholder protection schemes

This ICP material is presented for consultation with IAIS Members and Observers.

The deadline for comments is Tuesday 20 August 2013.

Comments should be sent to the Secretariat ([peter.cooke@bis.org](mailto:peter.cooke@bis.org)).

Name/organisation	Paragraph reference	Comment	Proposed resolution (for use of the Secretariat only)
Insurance Europe	5	<p>It is not possible to build a viable system that provides a 100% guarantee that no insurer will ever fail. When designing a regulatory system, it must be kept in mind that protection comes at a cost, ie the higher the level of the guarantee, the higher the cost for policyholders and the economy as a whole. A balance has to be struck to ensure insurers can offer affordable, yet sufficiently safe insurance products. Given this balance is important, we suggest reflecting it also in the introduction, not only in paragraph 22, and suggest amending paragraph 5 as follows:</p> <p><i>Solvency regimes do not create a zero-failure environment and may not protect consumers from losses in the event of a failure. When failures do occur, governments can come under strong pressure to provide a safety net. In light of this, many jurisdictions have established one or more policyholder protection schemes (PPSs) to provide a minimum layer of protection to policyholders in the event that the safeguards within the supervisory regime are insufficient. <u>However, in the same way as prudential regimes, policyholder protection schemes must strike a balance between protection and insurers' ability to offer affordable, yet sufficiently safe insurance products as protection comes at a cost.</u></i></p>	
Insurance Europe	27, 57	<p>There is no EU legislation on PPS. We therefore suggest that the example boxes only refer to individual EU member countries rather than to the EU as a whole. This is already the case in the example boxes under paragraph 36, 58, 68, 70, 81 and 86. We suggest also deleting the European Union description in paragraph 27 and 57.</p> <p>The European Union description can however be maintained in paragraph 89 and 105 because it refers to a specific EIOPA report.</p>	

Name/organisation	Paragraph reference	Comment	Proposed resolution (for use of the Secretariat only)
Insurance Europe	85	<p>The involvement of a PPS before insolvency proceedings should be considered carefully in light of the existing solvency regime. In Europe, for example, Solvency II foresees supervisory intervention when insurers no longer meet the capital requirement thresholds. The intervention intensifies when an insurer's financial situation continues to deteriorate with the aim to capture any ailing insurers before a serious threat to policyholders' interests occurs. A last-resort intervention step is to transfer all the insurer's liabilities to another insurer and the license will be withdrawn or the insurer will be closed to new business and its in-force business will be liquidated thus minimising any disruption or loss to its policyholders. We suggest amending paragraph 85 as follows:</p> <p><i>Often a PPS's involvement in the case of a troubled insurer occurs before insolvency proceedings begin. The effective intervention of a PPS can help to reduce the cost of an insurer solvency <u>if appropriate in light of the existing prudential regime and the supervisor's intervention powers.</u></i></p>	
Insurance Europe	116	<p>Paragraph 59 reflects it is important that a balance is found between what can be expected by policyholders and what a PPS can be expected to cover. We suggest this consideration is also reflected in the conclusions and therefore propose amending paragraph 116 as follows:</p> <p><i>Where they exist, PPSs are part of the financial safety net, providing <u>appropriate</u> protection to policyholders in the event of an insurer's insolvency. They aim to provide benefit not only to individual policyholders but also to society and the economy, by promoting confidence in the insurance industry. PPSs can support the IAIS's objectives of developing and maintaining fair, safe and stable insurance markets for the benefit and protection of policyholders and contributing to global financial stability.</i></p>	
Insurance Europe	117	<p>Paragraph 17 discusses that a PPS may cause moral hazard issues for insurers as well as policyholders. The conclusions however only explicitly refer to reduced discipline in relation to insurers. We therefore suggest amending paragraph 117 as follows:</p> <p><i>The features of a PPS aim to meet public objectives and mitigate</i></p>	

Name/organisation	Paragraph reference	Comment	Proposed resolution (for use of the Secretariat only)
		<p><i>risks. When designing a PPS, factors such as how it will be funded and the kinds and extent of claims it will cover need to be considered. A PPS should be designed in light of the nature of the insurance industry in the jurisdiction, as well as the jurisdiction's cultural and legal framework. However, consideration should also be given to features that could give rise to risks such as reduced discipline <del>in the insurance industry</del> and moral hazard <u>for insurers and policyholders</u>, arising, for example, where high or no limits apply to the PPS's coverage. The costs of a scheme will also be a factor in an overall assessment of the contribution that a PPS may make in a jurisdiction.</i></p>	