Insurance guarantee schemes

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The European Parliament adopted a resolution on **Insurance Guarantee Schemes**in response to the Commission in response to the Commission White Paper on the subject.

The financial crisis has demonstrated that consumer confidence in the financial system can be quickly undermined in the absence of adequate compensation processes for consumer losses incurred as a result of the failure of financial institutions. Insurance Guarantee Schemes (IGSs) can be a valuable tool in reducing the risks facing policy-holders or, where appropriate, beneficiaries in the event of the failure of an insurance entity.

The **lack of harmonised IGSs at European level** and the diversity of regimes in Member States have led to ineffective and uneven protection for insurance policy-holders and have slowed down the functioning of the insurance market by distorting cross-border competition.

Accordingly, Parliament calls on the Commission, with regard to the rules and definitions set out in Directive 2009/138/EC (Solvency II) and the new supervisory framework, to come forward with proposals for a cross-border standardisation directive establishing a coherent and consistent cross-border framework for IGSs across Member States.

According to the resolution, the key elements of a Directive on IGSs should be the following:

(1) The geographical scope of IGSs should be on the basis of "home country" principle whereby policies written by an insurer, regardless of location of sale, are covered by the 'home' IGS. The Commission is called upon to:

- conduct an impact assessment and public consultation with stakeholders on the inclusion of life insurance as a matter of priority and on the practicality of including non-life insurance in a cross-border IGS to ensure an appropriate level of consumer protection and a level playing field between Member States;
- stipulate a single own-language process and point of contact for consumers within their national supervisor for all insurance-guarantee compensation claims, regardless of the location of the 'home' IGS.

(2) The funding model for national IGSs should be covered by the subsidiarity principle, reflecting the 'home' country principle of supervision and the diversity of models used by existing IGSs. The Commission is urged not to advocate a uniquely ex-ante approach to funding.

(3) IGSs should fully cover valid policy claims across all forms of insurance, and the claims compensation process should provide consistency of consumer experience:

- the information available to consumers in the event of an insurer's insolvency should be easily accessible, comprehensive and easy to follow, with clear indications as to which authority the consumer should approach when making claims or enquiries;
- the Commission is called upon to stipulate a single own-language process and point of contact for consumers within their national supervisor for all insurance-guarantee compensation claims, regardless of the location of the 'home' IGS;

- a mechanism similar to the European Standardised Information Sheet (ESIS) should be introduced for insurance policies, which would include clear, mandatory risk warnings on complex insurance-linked investment products.

(4) The European framework for IGSs functions as a last resort by providing policy-holders (or, where appropriate, beneficiaries) who are eligible with compensation for losses to the fullest possible extent or the possibility of portfolio transfer within a reasonable period of time should an undertaking declare insolvency.

(5) At this stage, IGS should be limited to natural persons, although individual Member States may choose to include legal persons. The Commission should re-evaluate the case for including select legal persons once a legally binding definition of what constitutes a small or micro-undertaking has been agreed.

Members consider that 'home' and 'host' supervisors should **cooperate fully with the IGS** concerned and the European supervisory framework in order to minimise disruption for policy-holders or, where appropriate, beneficiaries in a 'host' country in the event of the failure of an insurer.

Lastly, Parliament insists that Member States should ensure that tests are carried out on their IGSs and that they are informed should the competent authorities detect problems in an insurance company that are likely to give rise to intervention under the relevant scheme, and it suggests that such tests should take place at least every three years.