Basic information

2011/2010(INI) INI - Own-initiative procedure	Procedure completed
Insurance guarantee schemes **Subject** 2.50.05 Insurance, pension funds 4.60.06 Consumers' economic and legal interests	

Key players

European Parliament

Committee responsible	Rapporteur	Appointed
ECON Economic and Monetary Affairs	SKINNER Peter (S&D)	23/11/2010

Committee for opinion	Rapporteur for opinion	Appointed
IMCO Internal Market and Consumer Protection	GRECH Louis (S&D)	15/02/2011
JURI Legal Affairs	The committee decided not to give an opinion.	

European Commission

Commission DG	Commissioner
Financial Stability, Financial Services and Capital Markets Union	BARNIER Michel

Key events

Date	Event	Reference	Summary
12/07/2010	Non-legislative basic document published	COM(2010)0370	Summary
20/01/2011	Committee referral announced in Parliament		
15/06/2011	Vote in committee		Summary
21/06/2011	Committee report tabled for plenary	A7-0243/2011	
12/10/2011	Debate in Parliament		
13/10/2011	Decision by Parliament	T7-0435/2011	Summary
13/10/2011	Results of vote in Parliament		
13/10/2011	End of procedure in Parliament		

Technical information	
Procedure reference	2011/2010(INI)
Procedure type	INI - Own-initiative procedure
Procedure subtype	Initiative
Legal basis	Rules of Procedure EP 55
Other legal basis	Rules of Procedure EP 165
Stage reached in procedure	Procedure completed
Committee dossier	ECON/7/04779

Documentation gateway

European Parliament

Document type	Committee	Reference	Date	Summary
Committee draft report		PE456.981	01/02/2011	
Amendments tabled in committee		PE460.988	24/03/2011	
Committee opinion	IMCO	PE460.679	14/04/2011	
Committee report tabled for plenary, single reading		A7-0243/2011	21/06/2011	
Text adopted by Parliament, single reading		T7-0435/2011	13/10/2011	Summary

European Commission

Document type	Reference	Date	Summary
Non-legislative basic document	COM(2010)0370	12/07/2010	Summary
Commission response to text adopted in plenary	SP(2011)8720	01/02/2012	

National parliaments

Document type	Parliament /Chamber	Reference	Date	Summary
Contribution	DE_BUNDESRAT	COM(2010)0370	27/09/2010	
Contribution	SE_PARLIAMENT	COM(2010)0370	26/11/2010	
Contribution	CZ_SENATE	COM(2010)0370	14/12/2010	

Insurance guarantee schemes

2011/2010(INI) - 12/07/2010 - Non-legislative basic document

PURPOSE: to present a White Paper on insurance guarantee schemes (IGS) whic sets out a coherent framework for EU action on IGS protection for policy holders and beneficiaries, in order to guard against the need for taxpayer involvement.

BACKGROUND: Insurance Guarantee Schemes (IGSs) provide last-resort protection to consumers when insurance undertakings are unable to fulfil their contractual commitments. They thus protect people against the risk that claims will not be met if their insurance company becomes insolvent.

Although not at the root of the crisis the insurance sector has proved far from being immune. Some important European insurers have reported particularly severe losses and have been forced to important injections of new capital.

Of the 30 EU-EEA countries, only 12 operate one or more general insurance guarantee schemes. This means that, measured in terms of gross written premiums, one third of the entire EU-EEA insurance market is not covered by any IGS in the event of an insurance company going bankrupt. Some 26% of all life insurance policies and 56% of all non-life insurance policies are unprotected.

Where IGSs are in place, they differ frequently in coverage. The lack of harmonised IGS arrangements in the EU hinders effective and equal consumer protection. This may lead to a loss of consumer confidence in the relevant markets and may ultimately put at risk market stability. It may also impede the functioning of the internal insurance market by distorting cross-border competition.

In order to remedy the existing regulatory loopholes and inconsistencies caused by the fragmented IGS landscape in Europe, the Final Report (Recommendation 5) of the de Larosière Group recommended setting up harmonised IGSs throughout the EU.

The same recommendation is included in the Preamble to the recently-adopted Solvency II Framework Directive. Furthermore, the Commission announced in its Communication of 4 March 2009 ‘Driving European recovery’ that it would review the adequacy of existing guarantee schemes in the insurance sector by the end of 2009 and make appropriate legislative proposals.

CONTENT: this White Paper raises a number of issues in relation to the introduction of a legally binding EU solution for Insurance Guarantee Schemes (IGSs) which provide last-resort protection to consumers when insurance undertakings are unable to fulfil their contractual commitments and to ensure a fair and comprehensive level of consumer protection in the EU as well as to guard against the need for taxpayers to foot the bill in case an insurance company is to collapse.

The Commission proposes **introducing a Directive** to ensure that all Member States have an IGS that complies with a minimum set of design requirements.

The Commission sets out its **preferable options** as follows:

Level of centralisation and role of the IGS: the idea of setting up a single EU-wide IGS covering all life and non-life policies written and purchased within the European Union has not gather sufficient political support. It may be considered at a later stage.

The Commission advocates the establishment of an **IGS as a last-resort mechanism** in each Member State. An IGS with the wider role of preventing insurance insolvencies would be able to guide a troubled insurer through its financial difficulties, enabling it to stay in business. It follows that IGS may step in when other protection mechanism have failed in order to prevent or mitigate the impact of an insurer's collapse.

Geographical scope: the Commission advocates harmonising the geographical scope of IGSs on the basis of the ‘**home country**’ principle.The main advantage of the home country principle is its consistency with the ‘home country control principle’ which makes it easier to handle insurance default cases. Home country supervisors are responsible for prudential regulation, including solvency requirements, and for starting the winding-up process. Moreover, the home country principle is also in line with the deposit guarantee scheme in the banking sector and with the investor protection scheme in the securities sector.

Policies covered: the Commission advocates that IGSs should cover both **life and non-life insurance policies**. It does not extend to **pension funds** as defined by Directive 2003/41/ECor to **reinsurance**.

Eligible claimants: the Commission advocates that IGSs should cover **natural persons and selected legal persons**.

Funding: For an IGS to work effectively, appropriate fund-raising mechanisms are crucial. The Commission advocates that IGSs should be funded on the basis of ***ex-ante*** **contributions by insurers, possibly complemented by** ***ex-post*** **funding arrangements in case of lack of funds**, which should be calculated according to the individual risk profiles of the contributors. An appropriate target level for funding should be set, with a suitable transition period.

The Commission is ready to consider harmonised compensation limits and other reductions in benefits, provided that appropriate coverage of policyholders and beneficiaries is guaranteed for all relevant classes of insurance and in all Member States.

The Commission advocates that IGS should at least and within a pre-defined period of time compensate policyholders and beneficiaries for losses when an insurer becomes insolvent.

The Commission calls upon all interested parties to provide their views on these options by 30 November 2010.

Insurance guarantee schemes

2011/2010(INI) - 13/10/2011 - Text adopted by Parliament, single reading

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.