

4. Review of Insurance Guarantee Schemes

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ABI Lead Committees: Financial Regulation & Taxation

Other interested committees: European

Issue: The Commission is considering a Directive that would oblige all Member States to establish a scheme to protect consumers against the failure of an insurance company.

Status: In response to the De Larosiere report in March 2009 the Commission announced its intention to issue a White Paper and a related impact assessment before the end of the year. In order to gather input from stakeholders on IGS policy and design options, the Commission held two roundtable meetings. Whilst at the first roundtable in May the Commission expressed a preference for a minimum harmonisation scheme, at a roundtable in June, the Commission said that its favoured option was a pan-European IGS solution with a mutual bailout system. They highlighted that such a mutual support regime would have the advantage of being consistent with the current EC thinking in the banking sector.

The Commission wrote to CEIOPS requesting assistance on how such a scheme should be designed. CEIOPS responded in July recommending that any directive should be on a minimum harmonisation basis. Their recommendations remained silent on the proposed mutual bail-out system.

In August, the Commission sent out a detailed questionnaire to all national associations. The questionnaire sought to collect industry-specific data to help the Commission with preparing an impact assessment.

The Commission have not taken a final decision on a scheme at this stage and have said that all options remain possible and will be investigated further. They intended to issue a White Paper by December 2009, however this has been deferred to Spring 2010, as the Commission want to see what is proposed in the Deposit Guarantee Scheme consultation before issuing their recommendations. Speaking at the recent CEA Consumer Conference in December, Karel van Hulle made it quite clear that the Commission wants a scheme in which policyholders are protected in whatever Member State they are in. He indicated that the Commission was favouring a pan-European scheme that would be in-line with the protection scheme being developed for banking customers.

ABI Action: The UK insurance industry maintains support in principle for a European Directive on insurance guarantee schemes, explaining how important it is to provide consumer protection and for maintaining the industry's reputation. The ABI has always argued that the absence of a scheme, or where the scheme was limited in other Member States, was a barrier to the development of a Single Market in insurance. We were careful to explain that whilst supporting a Directive mandating the establishment of an IGS in all Member States, we wanted this to be on a minimum harmonisation

basis. The Commission desire to use deposit guarantee schemes and bank resolution as a model is a major source of concern, as very different issues apply in the insurance industry.

The CEA have tentatively welcomed the idea of a European IGS and have emphasised that the Commission must take into account the diversity of national insurance markets in the EU, which differ in size and concentration. The CEA have argued that it would be very hard to frame a pan-European solution harmonising IGSs in all Member States, and concluded that Member States must be provided with enough flexibility to develop their own schemes.

The ABI worked on responding to the Commission questionnaire issued in August. The questionnaire was extremely detailed and much of the information requested was not held by any European national associations. Despite this, the ABI answered as many questions as possible and submitted the data in mid-October.

The ABI has also met with HM Treasury to explain the industry position on IGS and to explain our concerns around a maximum harmonisation Directive with a mutual bail out system. They understand our concerns and are engaged in the debate on IGS at a European level.

Background: The ABI is in favour of a Directive in principle, provided it is on a minimum harmonisation basis. However, the CEA and most other National Associations remain opposed to the introduction of a Directive, but accept that there is a need to study the issue in the light of the Oxera Report. ABI's support in principle is based on two conditions: that the Directive should not be detrimental to the UK's Financial Services Compensation Scheme and that funding mechanisms should be left to Member States. The ABI favours an ex-post funding system for insurance.

Useful documents

[Oxera study](#)

[ABI response](#)

[DG Market response to IGS consultation](#)

[European Commission – minutes of IGS Roundtable](#)

[CEIOPS response to the European Commission on IGS](#)