International
Forum of Insurance
Guarantee Schemes
IFIGS

Perspectives on Insurance Guarantee Schemes

- EIOPA Workshop on
Resolution and Recovery
November 18, 2022

Alister Campbell, Chair IFIGS
Policy and Profile Working Group
Javier Bonhome, Consorcio

Agenda

- IFIGS – Brief Introduction
- Our Perspective - Insurance Guarantee Schemes
- Introduction to Consorcio CCS

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IFIGS – Brief Introduction

Full Members	Associated Members	Observer
Legally Established Insurance Guarantee Scheme (IGS)	**In the Process of Establishing an IGS**	**By Invitation**

26 Full Members from 21 Jurisdictions	
Continent	**IGS**
Europe (13)	Greece, Isle of Man, France, Germany, Denmark, Norway, France, Germany, Poland, Romania, Spain, United Kingdom, Kazakhstan
Asia/Pacific (7)	Thailand, Australia, Thailand, Korea, Malaysia, Singapore, Taiwan
Americas (5)	Canada, United States, Canada, United States, Ecuador
Africa (1)	Kenya
Associated Members (3)	Ukraine, Egypt, Hong Kong

Life Insurance Guarantee Scheme – Non-Life Guarantee Scheme – Life & non-Life Guarantee Scheme

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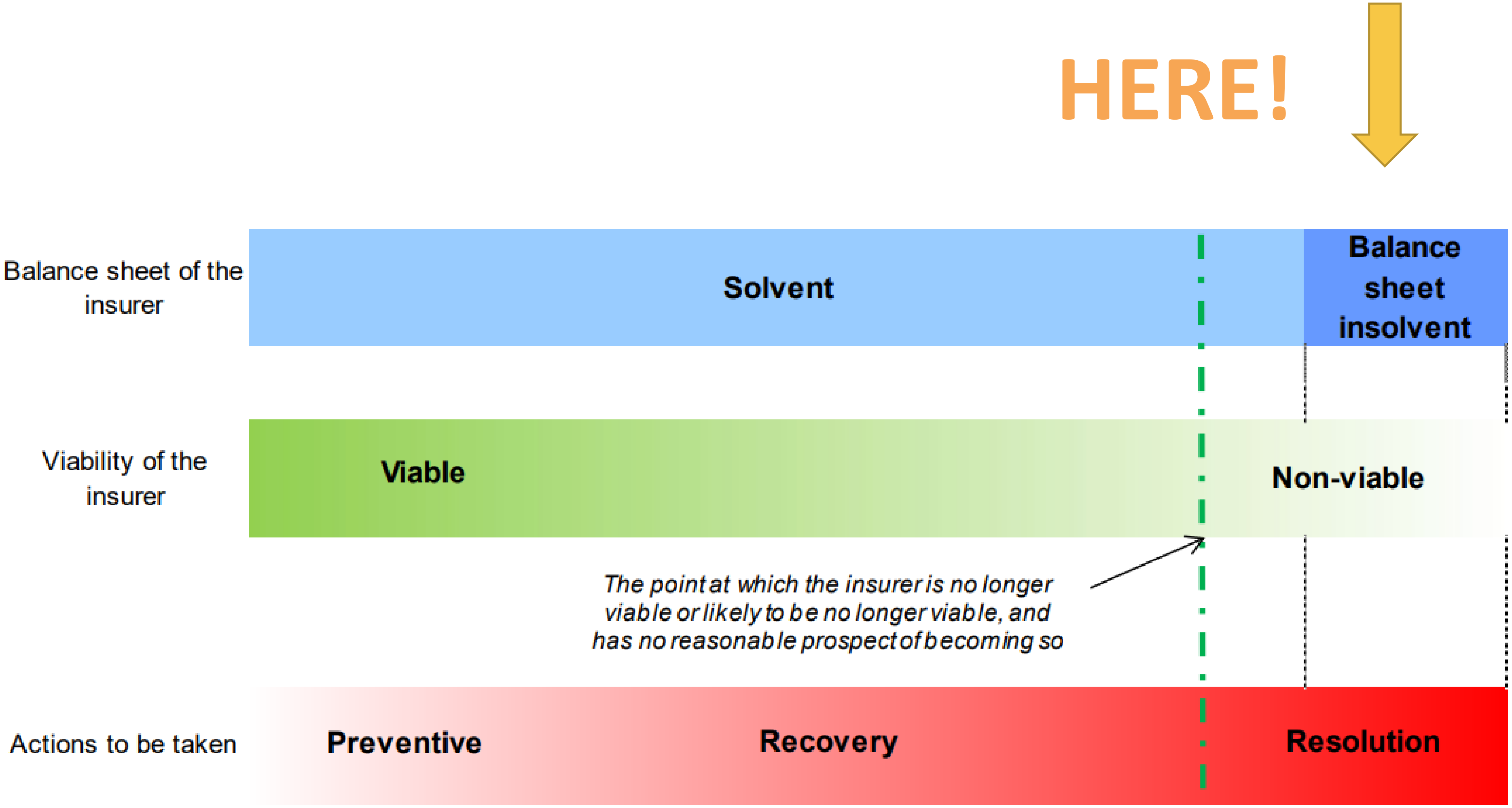
Where does an IGS fit in?



IAIS Core Principles and ComFrame - 2019

The Core Rationale for an IGS

Why many countries choose to establish IGSs…

- Ensures the “institutionalisation rather than socialisation of default risk”
    - Protects consumers…
    - Protects governments…
    - Provides clarity around coverage/benefits and source(s) of funding…
    - Ensures citizens/taxpayers not “on the hook” for corporate failure
- Can recognize the role of all industry participants in overall industry health
- Helps to maintain consumer confidence in the financial services system
- Provides safety net to minimize adverse impacts on policyholders, beneficiaries or other adversely affected third parties – designed to respond as a <u>last resort in worst case scenarios</u>!
- A logical component of an integrated Supervisory framework

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IGS vs PPS - terminology

- Our view is that an effective IGS provides protection to more than just “policyholders”
- Value can also be delivered to other insurance contract creditors:
  - Beneficiaries of a policy
  - Third-party claimants against a policy
- Through this broad scope of protection the IGS “safety net” effectively protects those most exposed in worst case scenarios

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Our Perspective

1. Failure of insurers happens more often than one would like to think…recently…
   a) USA (Florida, Louisiana, California)
   b) Europe (Denmark, Luxembourg, Netherlands)
   c) Asia (China, Thailand)
   d) Other (New Zealand)
2. Policyholder protection schemes are an essential component of a fully-functioning financial services safety net
3. Critical to appreciate distinction between Resolution via Continuation (essential for long-term policies) and Resolution via Liquidation with Compensation (normal for short-term contracts)

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Our Perspective

4. Critical to appreciate difference between banking and insurance – demand for/timing of cash flows

5. There is no “one-size-fits-all” solution for funding mechanisms –
    - Our Membership encompasses deposit insurer models, as well as public/private funds and exclusively private industry funds (some with pre-funds and some funded entirely ex-post)…
    - <u>All of these different models have performed effectively when called upon</u>…best solution is best determined at national jurisdictional level based on structure of local market

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Our Perspective (cont.)

6. Industry-funded mechanisms help create mutual interest in system solvency among all stakeholders
7. Where an IGS/PPS is in place, it is essential to incorporate them into Crisis-Management Working Groups prior to insolvency

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IGS Role in Recovery & Resolution

- This is currently an area of evolving public policy
- Where Supervisors and IGS are functioning in partnership, early "runway" can enable engagement on development and potential implementation of "resolution" scenarios (facilitating transfer and assumption, M&A, provision of reinsurance support, bridge facility, etc.)
- Some of our Members have legal capacity to provide funding in "resolution" to avert liquidation scenarios…
- But industry-funded mechanisms <u>do not</u> generally support funding for "recovery"
    - State-funded mechanisms may have a different view on this point – especially in cases of systemically important insurers

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The Arguments against an IGS

Why have so many countries chosen not to establish IGSs…?

- Assumption that failures will not be possible/incredibly rare as Supervisory regimes become more effective
- Comfort that regulators will be able to manage consequences of rare failure through “normal” ad-hoc crisis management process
- Resistance from private industry regarding potential costs
- No recent experience of insurer failure in local jurisdiction
- Views regarding “moral hazard”

A few points on “Moral Hazard”

- Insurance policyholders in developed economies need to trust their prudential supervisors! Modern accounting standards (e.g. IFRS 9 and 17) make financial statements incomprehensible to non-professionals
- Insurance executives are self-interested “optimists” and “profit maximizers” – they <u>do not</u> deliberately seek to run their business recklessly simply because of the existence of an IGS to protect their policyholders
- Caveat: it may be reasonable to ask more sophisticated buyers to self-insure for a portion (some/all?) of a risk, in case of insurer failure, thereby mitigating the risk of moral hazard among especially informed corporate buyers

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Our Perspective - Bottomline

Insurer failures do and will continue to occur

- Despite improved prudential supervision
- Despite increased rigour regarding capital requirements
- An IGS functions as a form of “insurance” against rare but inevitable events

Some form of IGS mechanism is a logical component of a comprehensive Recovery/Resolution supervisory framework

It is better to have a comprehensive safety net available – in advance - for “worst case/last resort” scenarios:

- More responsive to urgent needs of policyholders/beneficiaries/other third party claimants
- Ensures costs are borne (at least in part) by market participants
- Specialized expertise is available to support supervisors in these rare and particularly complex scenarios
- Increases confidence in the financial services eco-system

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The Best Design and Structure?

Our experience? No “one-size-fits-all”…

- Our membership reflects diversity of options for effective design and structure of an IGS operating model
  - Public sector and/or private sector
  - Integrated across financial services or distinct entities for different Lines of Business
  - Ex-ante or ex-post funding models
  - Unlimited obligation or defined limits on coverage/benefits
  - Key differences between “compensation” and “continuation” scenarios (one generally for annually-renewable P&C and other for long-term contracts)
  - Role in resolution scenarios (none/some/all)
- Our Membership and their varied experiences with insurer failure show that different models can <u>all deliver effectively against their mandates</u>

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Why the diversity in structure?

Because each country is different!

- Different nations will have different:
  - Industry structures – integrated or distinct
  - Competitive environment – more or less industry consolidation
  - Mix of foreign vs domestic players
  - Comfort with risk/failure
  - Views regarding “moral hazard”

Consorcio de Compensación de Seguros (CCS)

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Consorcio de Compensación de Seguros (CCS)

Insurers covered:

Only those headquartered in Spain.

- P&C insurance
- Life insurance
- Individuals and legal persons are covered including those resident in other countries

Type of fund

Ex ante – levy on premium of **all contracts covering risks located in Spain** (except life assurance and export credit insurance) **must participate in funding.**

Actual flat rate **0,15%**

Fund size

Amount raised in 2021: **66 million €.**

Cumulative amount at September 2022: **2.406 million €.**

Total industry assets in 2021:

365.000 million €

Total industry primes in 2021: **62.000 million €**

If access to emergency or back-up finding is required, CCS has access to private markets – including the issuing of bonds and funds from private sources

Resolution tools

Portfolio transfer

Liquidation

Coverage

Unlimited coverage

Failures handled since 1984

306

Consorcio de Compensación de Seguros (CCS)

- The CCS is a public business entity established in 1955 by the *Royal Decree-Law* of 1940 .
- The general winding-up scheme has been in operation since 1984, originally by the Insurance Company Liquidation Committee (CLEA), which in 2002 was integrated into the CCS.
- The CCS is attached to the Ministry of Economy Affairs and Digital Transformation through the Spanish Supervisor for Insurance and Pensions Founds , the head of the Supervisor acts also as Chair of CCS's board of 18 directors. Half of the board is integrated by representatives of the insurance industry and half from the Public Administration.
- Although a public business entity, the CCS has its own legal identity and full capacity and its own assets, and operates independently from the Spanish Government budget.

Consorcio de Compensación de Seguros (CCS)

Scope of coverage and payment limits	The primary function of the CCS is try to transfer the portfolio of the insurer (all life and non-life insurance policies are included in the scheme, without exclusion) when it goes into liquidation.
	If a transfer is not possible, the CCS acquires all of the obligations at a higher price than beneficiaries would receive upon completion of the liquidation process. There is no limit to the coverage offered by CCS, and the coverage ratio for both P&C and life insurance is 100% .Payments are made directly to the claimants and are transferred through a credit purchase agreement
	This is because under Article 186 LOSSEAR 14/7/2015 the Private Insurance Regulation and Supervision Act the price paid by the CCS to acquire the unsellable portfolio is calculated by applying a number of accounting benefits to the insurer's assets and liabilities (i.e., excluding some provisions from the liabilities, selecting the higher value of the market price for assets), so the percentage to be paid is greater than the one that would result of the liquidation.

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Consorcio de Compensación de Seguros (CCS)

Liquidations and bankruptcys assumed (Data as of 30-09-2022)

Liquidations assumed
296

Solvent entities
50

Insolvent entities
246

Completed
287

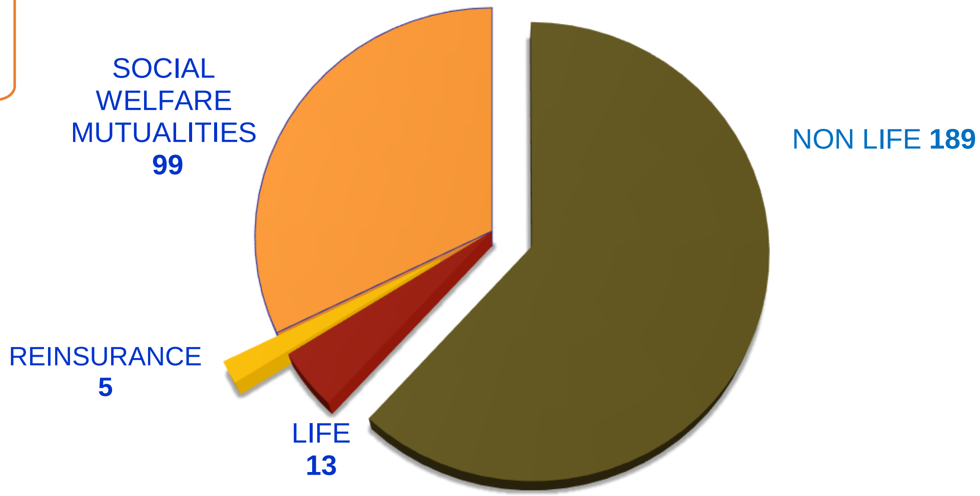
Liquidations in process
9

Bankruptcys assumed
10

Completed
8

Bankruptcys in process
2

Distribution by insurance branches in which the insurers in liquidation and bankruptcy acted



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CASE TO STUDY: CAHISPA GROUP WINDING UP PROCESS

CAHISPA VIDA, BACKGROUND INFORMATION

- In the Spanish insurance market since 1929.
- Life insurance company.
- Holding company of Cahispa Group
- 58 employees
- Life Insurance Portfolio December 31st 2012.

Products	Policies	Premiums
Long term guarantee	21,692	€12.1 M
Unit Link	2,873	€3.4 M
Systematic saving individual plans (PIAS)	198	€0.21 M
Short term guarantee	1,568	€22.62 M

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CONSORCIO DE COMPENSACIÓN DE SEGUROS

CASE TO STUDY: CAHISPA GROUP WINDING UP PROCESS

CAHISPA VIDA, BACKGROUND INFORMATION

- Since 2007 the Spanish Supervisor has been taking the corrective measures necessary to protect policyholders by TYING and prohibiting the free disposal of all the assets.
- By Decision on January 14th 2013 the Spanish Supervisor took the measure that consisted on FORBIDING Cahispa from providing new insurance contracts.
- By Ministerial Order January 25th 2013 the Ministry of Economy and Competitiveness:
  - Ordered the disolution of Cahispa Vida
  - Triggered the CCS to wind-up the Company
  - and withdrew its licence to operate in the insurance sector.
- All the insurance contracts were cut-off by the Insurance Supervisor from February 28th 2013.

CASE TO STUDY: CAHISPA GROUP WINDING UP PROCESS

CAHISPA GENERALES, BACKGROUND INFORMATION

- In the Spanish insurance market since 1946.
- Non-Life insurance company.
- 109 employees
- Non-Life Insurance Portfolio December 31st 2012.

Business line	Policies	Premiums
Accidents	13,729	€2.6 M
Car insurance	14,849	€5.1M
Home insurance	24,558	€4.2 M
Decease	26,733	€5.1 M
Rest of bussiness	9,382	€2.8 M

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CASE TO STUDY: CAHISPA GROUP WINDING UP PROCESS

CAHISPA GENERALES, PORTFOLIO TRANSFER INFORMATION
• Since 2007 the Spanish Supervisor has been taking the corrective measures necessary to protect policyholders by TYING and prohibiting the free disposal of all the assets.
• The Company decided to transfer the insurance portfolio. The public disclosure took place on February 4th 2013.
• The best offer came from ALMUDENA SEGUROS (for decease bussines line) and GES (for the rest of the portfolio). The whole transfer price was: - €10M - occupation for 40 employees of the Group

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CASE TO STUDY: CAHISPA GROUP WINDING UP PROCESS

CAHISPA VIDA WINDING-UP

LIQUIDATION TRIGGER:
CCS´ TAKEOVER

M.O.

01/25/13

- Portfolio transfer, if possible
- Branches close
- Decisions on the personnel (collective dismissal)
- Public attention
- Audit reports
- Application of accounting benefits
- Provisional balance
- Decisions about group and associated companies
- For insolvent entities, clarify and report criminal responsabilities.

FIRST PART

- CDAL determines level of protection of policyholders
- CCS purchases insurance contract credits
- Realise the assets
- Recognise liabilities
- Cut-off reinsurance and coinsurance contracts
- Manage the insurance company
- Winding-up Balance

BOARD OF DIRECTORS AGREEMENT

04/23/13

PURCHASE OF INSURANCE CONTRACTS CREDITS

MEANWHILE

- *CAHISPA GENERALES HAS TRANSFERRED NON-LIFE PORTFOLIO*

SECOND PART

CAHISPA VIDA: PURCHASE OF INSURANCE CONTRACT CREDITS		
TOTAL INSURANCE CREDITS	€195.2M	31,108
CREDITS PURCHASED	€189.6M	26,135
CREDITS NOT PURCHASED	€5.6M	4,973

CREDITORS MEETING

- Peformance of the liquiation plan: CAHISPA VIDA : lost liquidation expenses for CCS €6.9M and recovery of €81M 43% of purchased credits.
  CAHISPA GENERALES: recovery of liquidation expenses for CCS €1.2M 100% and recovery of €1.2M 100% of purchased credits.
- Payments and deposits
- Final balance
- Return to shareholders, for solvent entities: CAHISPA GENERALES €0.5M for CAHISPA VIDA
- Extinguish and cancell of the insurance company

THIRD PART

Final thoughts

Examples from the IFIGS Network – Harmonization in a "federation"…

- US migration to Host model across all 50 states over a (brief) period of years might be an example to learn from
- Canadian implementation of a common national framework across all 10 provinces and 3 territories would be a counter example to learn from…
- Spain's Consorcio an interesting example of how to create a large, policyholder "pre-funded" scheme – with no government or industry support: is a ex-ante flat rate paid by the policyholders on premium of all contracts, collected by insurers and delivered to Consorcio.

- Canada's PACICC an interesting example of an industry, post-funded scheme that has responded effectively in all scenarios to-date
- We are happy to continue to share best practice with any/all interested EU Member States

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Other Sources of Information

- **IFIGS** – Framework Guidance available on our website – IFIGS.org (now available in English/French/Spanish)
- **Financial Stability Board** – Resolution Funding for Insurers – published January 2022
- **Toronto Centre** – “Exit policy – Taking supervisory action to deal with non-viable financial institutions” (authored by L. Savage
- **World Bank Paper** – Establishing Efficient and Effective Insurance Guarantee Schemes – to be published by end of 2022 (est)
- **IAIS** – Application Paper on Policyholder Protection Scheme (update to their 2013 paper) – to be published in 2023

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Appendix

Consorcio de Compensación de Seguros (CCS)

Mission and functions

To ensure the effective and transparent operation of the insurance industry in Spain, and to provide the Spanish insurance system with a more complete and universal framework, socially responsible, stable and efficient, and ultimately, cheaper for consumers.

Consorcio appears closely linked to the cover of extraordinary risks, as the central figure in a compensation system for disaster damages that is unique all over the world. But throughout its history, it has taken on other duties, such as those related to export credit insurance, combined agricultural insurance, compulsory civil liability motor vehicle insurance, compulsory travel insurance, compulsory hunting insurance and civil liability insurance for nuclear risks, in a range of alternative activities and with a guarantee fund. Its activity has also extended to the field of environmental risks, entering to form part of the Spanish Pool of Environmental Risks and, since 2002, the liquidation functions of the insurance companies that the CLEA (Insurance Company Liquidation Committee) had been performing.

Consorcio de Compensación de Seguros (CCS)

Purchase of claims from insurance contract creditors

	ISSUED			AGREED		
	NUMBER	FACE VALUE	CASH	NUMBER	FACE VALUE	CASH
Up to 2008	769.154	753.369.862	562.555.976	656.001	630.330.249	474.850.910
2009	10.101	6.607.615	6.606.283	8.625	6.064.941	6.063.798
2010	41.224	79.941.978	79.935.999	31.654	72.780.359	72.779.119
2011	13.812	23.034.928	22.833.294	8.496	20.010.133	19.924.916
2012	12.984	12.379.104	12.364.003	12.832	8.762.996	8.748.072
2013	67.910	202.862.931	202.862.545	67.165	184.649.617	184.649.319
2014	6.511	19.028.827	19.021.333	6.353	17.300.851	17.299.371
2015	3.713	15.266.599	15.246.450	2.664	3.518.438	3.507.478
2016	9.030	3.927.909	3.779.560	8.939	2.394.367	2.246.676
2017	1.961	2.033.484	2.016.094	1.186	1.849.747	1.832.368
2018	1.231	1.286.026	1.281.012	633	818.349	818.349
2019	1.242	592.109	592.109	658	432.619	432.619
2020	5.733	6.791.962	6.791.962	820	1.435.081	1.435.081
2021	315	385.068	385.068	185	309.766	309.766
TOTALES	944.921	1.127.508.402	936.271.689	806.211	950.657.514	794.897.841

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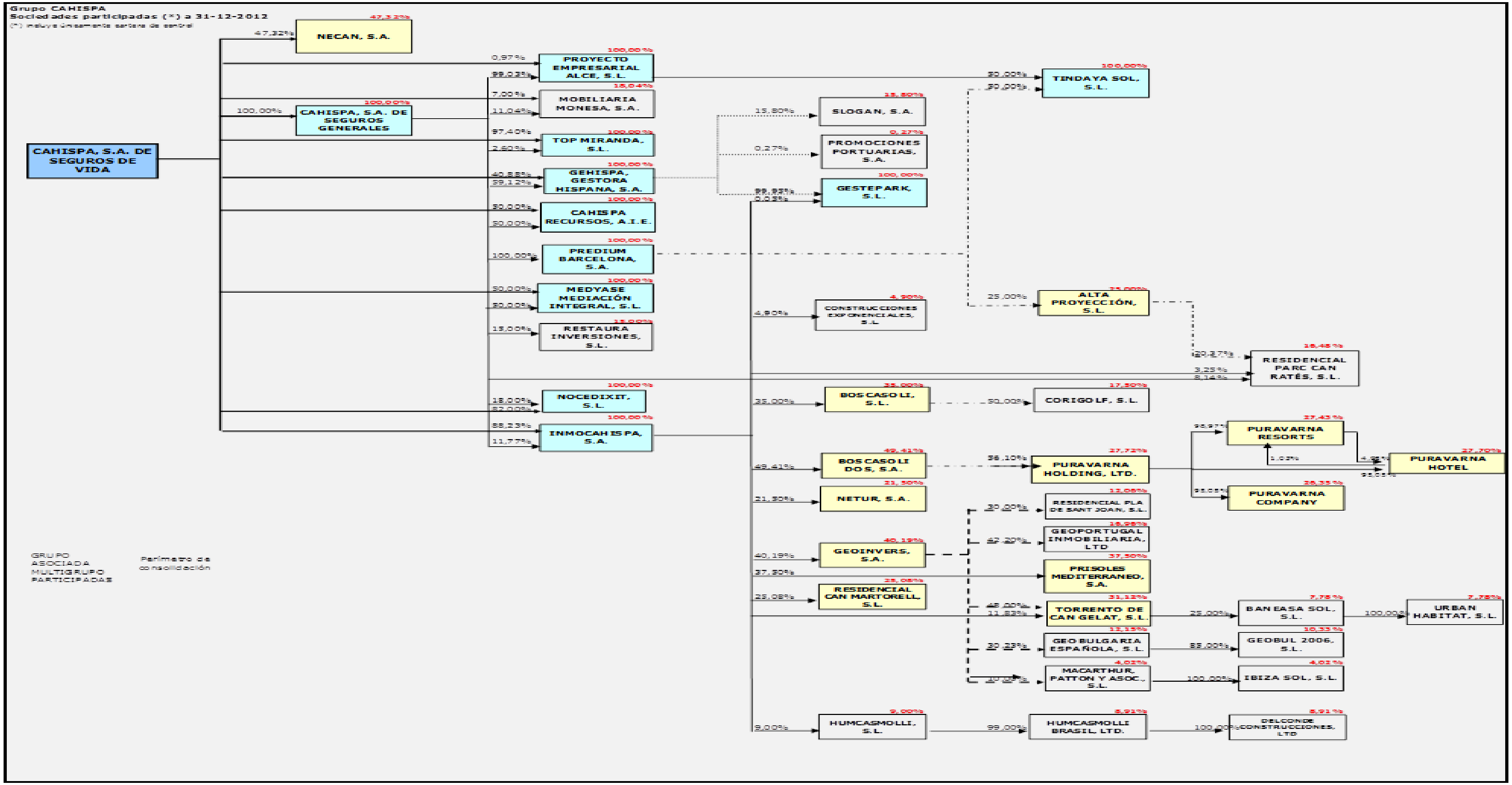

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