International Forum of Insurance Guarantee Schemes
IFIGS

EIOPA Seminar

Recovery and Resolution In Insurance

Role of IGSs in Resolution

Amsterdam, 25-26 October 2018

Role of IGSs in Resolution

- **Introduction**
- Are IGSs necessary?
- Funding methods of IGSs
- The role of IGS in recovery & resolution process
- The U.S. Insurance Guaranty System
- Conclusion

Introduction

International Forum of Insurance Guarantee Schemes (IFIGS):

- Established in 2013
- Mandate:
  - Promote cooperation between IGSs
  - Exchange experiences in providing policyholder protection
- Goals to achieve:
  - Indemnification of consumer
  - Promoting confidence
  - Preserving the going insurance concern
  - Protecting stability of the financial economy
  - Minimizing the costs to stakeholders
  - Promoting a competitive marketplace

Introduction

Activities of IGSs per jurisdiction:

- Compensate insured persons or/ and
- Portfolio transfer process or/ and
- Run-off of life portfolio or/ and
- Participation in resolution process

In other words …

IGSs aspire to participate in policyholder protection mechanism

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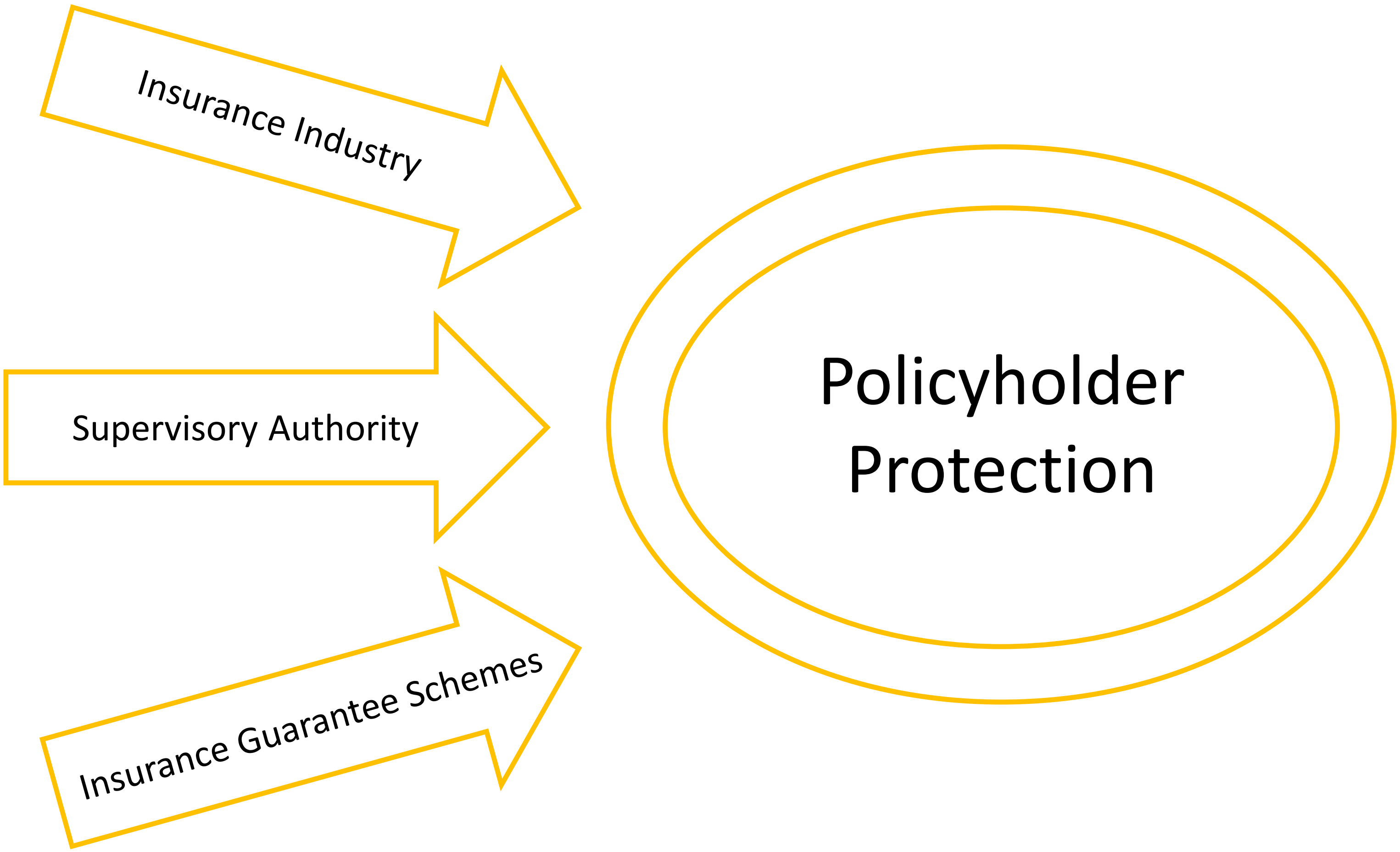
Are IGSs necessary?



Are IGSs necessary?

Since IGSs contribute to cover financial gaps left by insurance companies under liquidation, the question we have to answer is not **WHETHER**, but **WHEN** and **TO WHAT EXTENT** IGSs have to participate in recovery and resolution process.

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Principles of funding for IGSs

- Cover losses and immediate liquidity needs
- Meet liquidity needs
- Cover the worst plausible scenario
- Be fair to the funders
- Not cause other companies to fail
- Not rely on public funding to cover their administration costs
- Take into account the Level of protection, the Supervision and Resolution regime
- Be prepared for the failure of Systemically Important Insurers

IGSs **cover financial gaps** and they have to know how these gaps arise

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Recovery plans

<u>Recovery plans</u>

- Realistic recovery scenarios in order to address insolvency problems,
- In case of Europe, ORSA considered being a **proactive** <u>recovery plan</u>. Supervisory Authorities require insurers to describe how they intend to moderate their own risks.
- In the past, many of these "stress tests" failed to consider the size and the duration of these shocks. Under-estimations or over-estimations lead to failures. The key is to find the appropriate balanced solutions for both insurance undertakings and policyholders.
- Supervisory Authorities take into consideration <u>Assets</u> & <u>Liabilities</u>, according to
  - solvency requirements
  - liquidity needs and
  - the risk profile of the Insurance Undertaking.

Therefore, recovery plan is an **internal job** between Supervisory Authorities and Insurance Undertakings, having as a result the involvement of IGSs not be so effective.

Resolution plans

Resolution plans

IGSs considered being the **last-resort** of policyholder protection mechanism.

A mechanism that succeeds:

- **Portfolio transfer** (ensuring continuity of insurance portfolio)

or

- **Run off insurance business**
  (ensuring a minimum level of coverage)

or

- **Compensation payment**

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Resolution plans

Resolution funding methods:

- Assets and Liabilities of the failure insurer

or

- National resolution funds

or

- National IGSs

or

- Mixed funding method

In any case adequate funding has to be ensured !

Resolution plan

<u>IGS Resolution Principles</u>

Although IFIGS represents pluralism, there are some principles generally accepted.

Generally accepted principles:

- In case of resolution of Systemically Important Insurers
  ➡ focus on **systemic risk** and **policyholder protection**
- In case of resolution of non-systemically important insurers
  ➡ focus on **policyholder protection**
- The role of all stakeholders (Supervisory Authority, IGS, Liquidator) have to be <u>clear</u> and <u>distinct</u>
- Experience of IGSs in resolution process is important to ensure effective resolution
- Early intervention of IGSs saves money and maximizes policyholder protection

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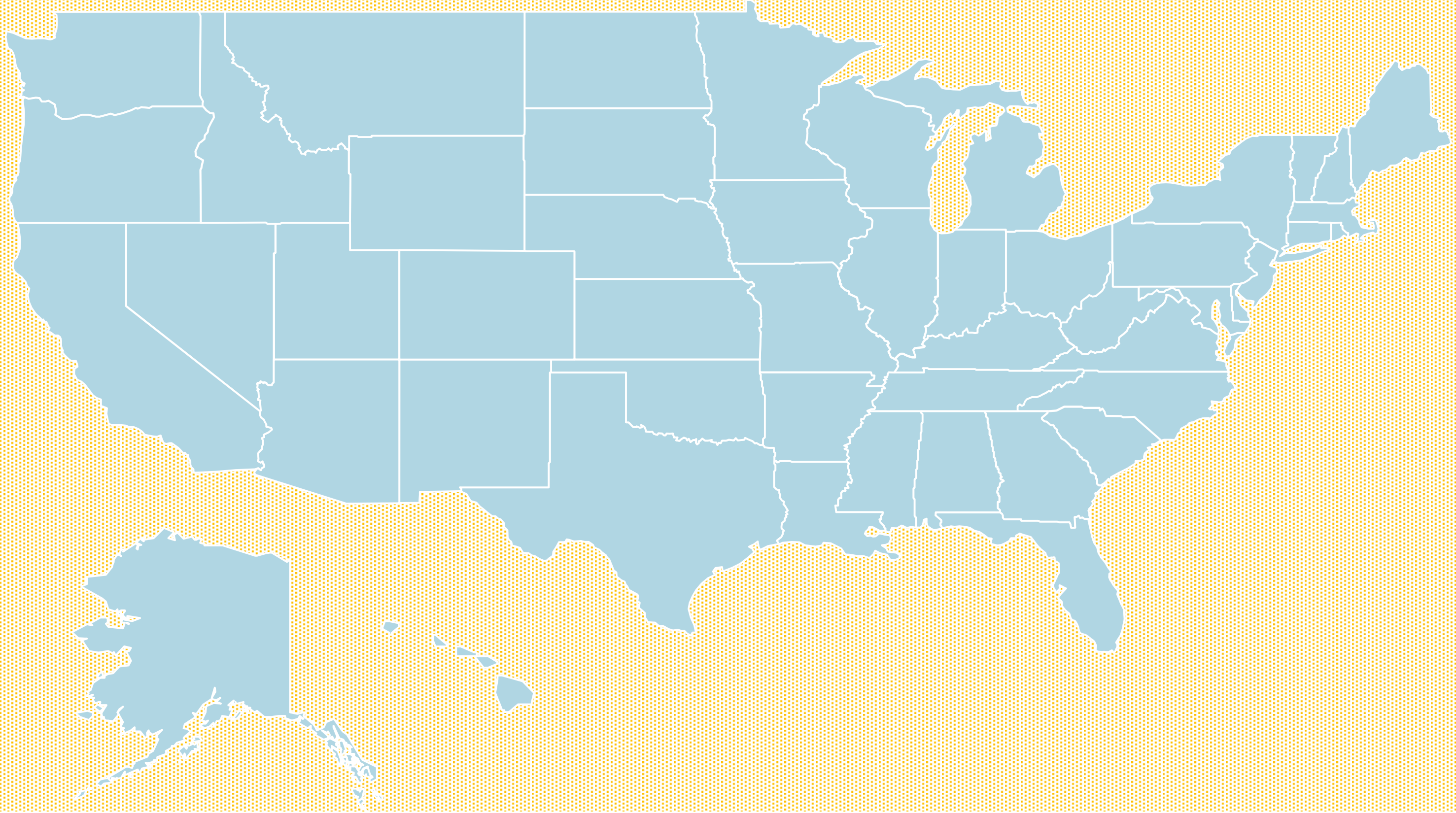
The U.S. Insurance Guaranty System

National Conference of Insurance Guaranty Funds NCIGF℠

nolhga National Organization of Life & Health Insurance Guaranty Associations

A Unified System with Many Parts



The Big Picture

- Separate systems for life/health and property/casualty insurers
- Core mission: work with receivers to provide consumers with financial protection against insurer insolvencies
- Not a “bailout” mechanism for failed insurers

The Component Parts

- The life/health system and property/casualty system are each made of guaranty associations in all 50 states, the District of Columbia, Puerto Rico and (for P/C) the U.S. Virgin Islands
- Each state's guaranty association is a separate legal entity governed by its own law, which is based on a model law adopted by the National Association of Insurance Commissioners
- The guaranty association laws in each state are very similar because they are based on a common model
- There is one NAIC model law for L/H guaranty associations and another for P/C guaranty associations
- The NAIC revises the model laws from time to time

National Coordination

- Coordinating bodies: National Organization of Life and Health Insurance Guaranty Associations (NOLHGA) and National Conference of Insurance Guaranty Funds (NCIGF)
- NOLHGA and NCIGF were created to support the activities of the state guaranty associations
- They perform a coordinating role in multi-state insolvencies, so that protection can be delivered to consumers in all states as quickly as possible

Protecting Consumers

- Life/health guaranty associations primarily provide consumers with continuing insurance coverage, often by placing a consumer's policy with a healthy insurance company
- Property/casualty guaranty associations pay claims to policyholders covered by an insolvent insurer, typically through a 30-day grace period after the company enters liquidation proceedings
- Protection generally is provided by the guaranty association in the state where the consumer resides or, in the case of property insurance, where the property is located
- The amount of coverage provided by each guaranty association is determined by its governing law

Sources of Funding

- Assets left in the failed insurer (which usually are substantial) make up the largest source of guaranty association funding
- Assessments paid by other insurers bridge the gap between the guaranty associations' obligations and the assets left in the failed insurer
- Assessments are made as-needed, on a post-insolvency basis
- Most states cap assessments at 2% of an insurer's annual premium, and they permit cost recovery through tax offsets, premium increases or policy surcharges

Protection Provided

- The U.S. insurance guaranty system has been protecting consumers for over 40 years
- In total, the system has:
  - Directly paid out more than **30 billion USD** (about 26 billion EUR) to pay policy benefits
  - Guaranteed another **25 billion USD** (about 22 billion EUR) in insurance coverage
  - Protected consumers affected by more than **650** insolvencies
- While most of these insolvencies involved very small insurers, a number of these cases involved simultaneous insolvencies of multi-billion dollar insurance companies operating in multiple states

Working with Regulators and Receivers

- The U.S. insurance guaranty system has been involved in almost all of the significant U.S. insurer insolvencies over the past 4 decades
- It continually plans for the contingency of large and complex receiverships, both on its own and in conjunction with regulators and receivers
- NOLHGA and NCIGF participate in model law development
- They also attend meetings of the NAIC’s Receivership Financial Analysis Working Group, which is charged with assisting and advising supervisors on appropriate regulatory strategies and actions with regard to insurance receiverships

Thoughts on Resolution Standards

- Insurance guarantee schemes can and should play an important role in developing or assessing resolution strategies
- They should be part of or otherwise support crisis management groups and other coordination efforts
- Early involvement of insurance guarantee schemes is a critical part of policyholder protection
- Insurance liabilities should not be restructured in a way that deprives policyholders of the protection afforded by an insurance guarantee scheme

Thoughts on IGS standards

- Insurance guarantee schemes can be established to accomplish several goals, not all of which are endorsed by every jurisdiction. Goals include:
  - *Indemnification (partial or total) of the consumer*
  - *Promoting confidence in the insurance market*
  - *Preserving the going insurance concern (i.e., rescuing or “bailing out” a troubled company)*
  - *Protecting the stability of the financial economy*
  - *Minimizing the costs to stakeholders of insurer failures*
  - *Promoting a competitive marketplace*
- Jurisdictions that endorse these goals may assign them different priorities
- NOLHGA and NCIGF believe that each jurisdiction should have the ability to choose which of the goals to endorse and prioritize

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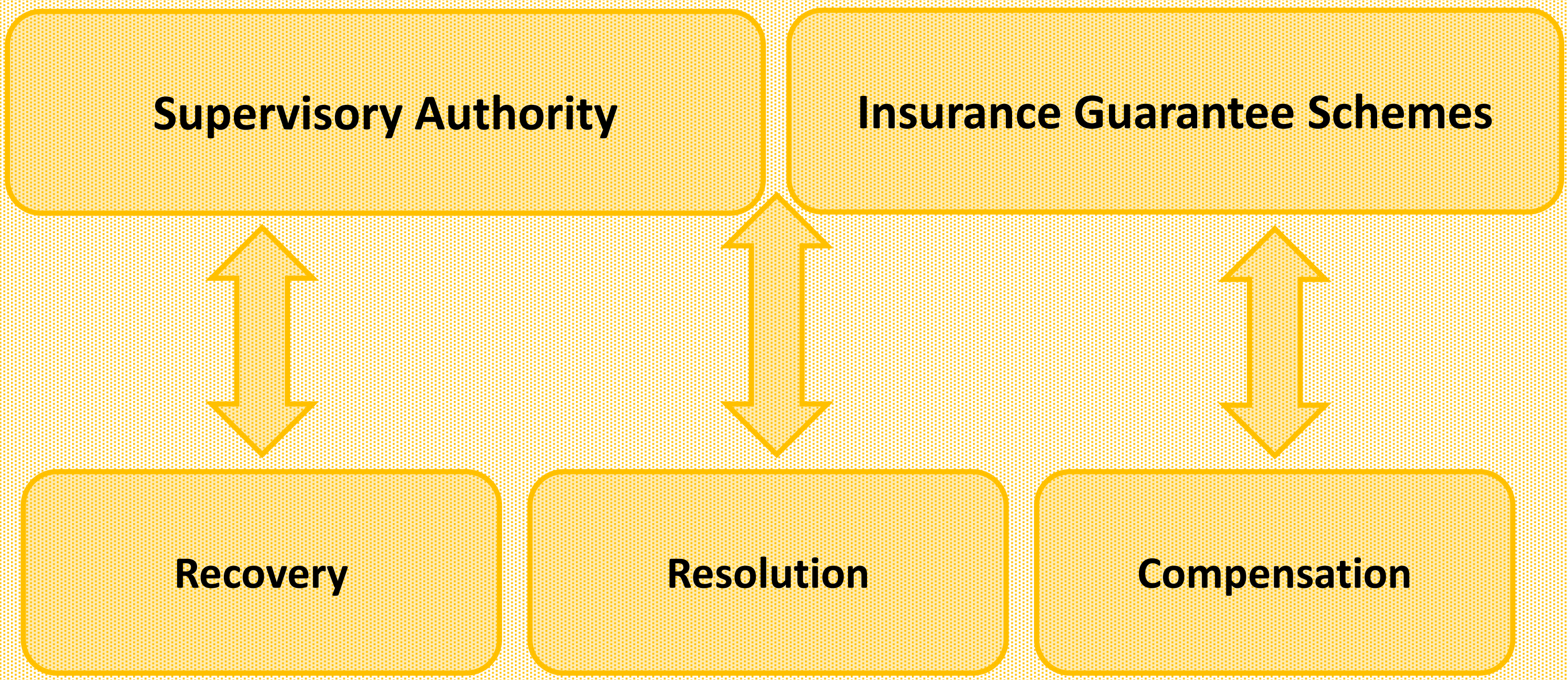
Conclusion



- Supervision and recovery process by the **Supervision Authority**
- Compensation of under liquidation insurance companies by **Insurance Guarantee Schemes**

but

- Resolution process is a task that requires cooperation!

Conclusion

Are IGS necessary **in resolution process**?

*The "**unsinkable**" Titanic went down in history not because it finally **sank…** but because there was no mechanism to properly address an unexpected event.*

Supervisors, Insurance undertakings, and IGSs could be the tools of a **Policyholder Protection Mechanism**!

Role of IGSs in Resolution

Thank you for the attention!

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