

## **GFIA response to IAIS consultation on Draft Issues Paper on roles and functioning of Policyholder Protection Schemes**

The Global Federation of Insurance Associations (GFIA) welcomes the opportunity to provide input on this paper and appreciates the work already undertaken by the International Association of Insurance Supervisors (IAIS) on policyholder protection schemes (PPS). This current consultation is a welcome addition to the IAIS' previous work on PPS.

While GFIA does not have extensive comments on the paper, it wishes to highlight four key aspects:

- The importance of having a jurisdiction-specific approach.
- The need for clear roles and responsibilities of supervisors, resolution authorities and PPS.
- The need to have an overall balance of a prudential framework including any PPS;
- The importance of having appropriate funding requirements.

GFIA welcomes the IAIS' acknowledgment that the development of PPS is not a requirement of the ICPs or of ComFrame. GFIA firmly believes that the development of PPS should remain jurisdiction-specific to account for the differences in regulatory and legal frameworks across countries. A jurisdiction-specific approach allows for tailor-made solutions that address the unique needs and characteristics of each market.

The paper highlights a number of possible roles for PPS, including that of providing support for insurers in recovery situations. GFIA believes that the paper would be strengthened by introducing additional wording to highlight the need for clear delineation of the various roles and responsibilities of supervisors, resolution authorities and PPS, both before and during any period of potential failure.

A key consideration in designing a PPS is striking a balance between the protection offered by the scheme and the level of protection provided by the solvency regime. Continuing the IAIS's previous approach, the paper recognises that solvency regimes and effective supervision do not create a zero-failure environment. However, just as balance is needed in creating a viable solvency regime, so too, is balance needed in designing a PPS that does not cause distortions in the marketplace. A PPS should complement the solvency regime, rather than undermine it. As noted in the paper, a PPS that is too generous may create a moral hazard by encouraging insurers to take on excessive risks, which may ultimately hurt policyholders.

The funding requirements for PPS must also be carefully considered. It is essential to avoid imposing undue burdens on the insurance industry as this would ultimately result in costs for policyholders. Many solvency regimes already contain significant prudence which is likely to limit the financial impact on policyholders arising from an insurance failure. Along with any separate resolution financing provisions, prudence in the solvency regime could also be a source of financing for the implementation of resolution measures, when applicable.

Any funding requirements for PPS should be proportional and account for the industry's size and capacity. Such requirements should also take into account the long-term sustainability of the PPS and the potential costs associated with its operation. In addition, it is considered beneficial to separately manage the operating costs and funds for policyholder protection. GFIA suggests that some best practices in this regard could be a useful addition to the paper.

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### About GFIA

The Global Federation of Insurance Associations (GFIA), established in October 2012, represents through its 40 member associations and 1 observer associations the interests of insurers and reinsurers in 68 countries. These companies account for 89% of total insurance premiums worldwide, amounting to more than \$4 trillion. GFIA is incorporated in Switzerland and its secretariat is based in Brussels.