



## Public consultation on the European Commission's White Paper on Insurance Guarantee Schemes – The Comments of Slovak Insurance Association (SLASPO)

Bratislava, 30 November 2010

Dear Madam or Sir,

Slovak Insurance Association has been following the agenda of Insurance Guarantee Schemes (IGS) since quite a long time. In general, we consider the present (technical provisions guarantee) and the future system of customer protection (Solvency II regime as from 2012) as fully sufficient. We therefore consider the EC's initiative in the IGS area as creating duplicity in customer protection area.

We would like also to remind that there are too many differences between banking and insurance sector – in business model, and in the appropriate system of customers protection, as well. The banking solutions therefore are not always the best basis to start such initiatives from.

*Our comments to the White Paper on IGS could be divided into the following sections:*

**1) Increase of the cross-border activity:** This argument of the EC is not backed by the appropriate and relevant facts. There is no evidence that such system would in fact raise the volume of cross-border activities in insurance sector. The main reason of the actual low level of cross-border activities lies in completely different area (language barriers, difficulties with communication betw. insurer and potential foreign client, confidence in home-based insurers, and low confidence in unknown, cross-border insurers, etc.). The setting-up of the guarantee system therefore does not solve the core of the problem.

**2) The scope of IGS:** As suggested in the White Paper, the Commission considers to cover all insurance products – in Life, and in Non-Life area, as well. Such system might bring some sense and logic in Life insurance products with reserve-creating function (endowment, capital life insurance, investment-linked insurance products, etc.), as these products contain capital accumulation factor – and therefore there really is something to be guaranteed at all. But there is problem with all other kinds of insurance products, especially in Non-Life area. In case of insurer's insolvency, the client might easily change the insurer, without losing a single penny of his/her money. In this case, we strongly doubt the efficiency of IGS system, as the scheme should be funded from the whole amount of the Premium written in Non-Life area. The impact of insolvency of the insurer in pure-risk products are more than 100-times lower than in reserve / capital accumulation products.

**3) Persons eligible:** According to the White Paper, all natural persons and selected legal ones might be considered as eligible claimants – as the EC very correctly judged that the IGS covering all legal

persons would not be sustainable. The core problem is the wording „selected“, as it is not clear which criteria would be taken into account in determining who the eligible claimant is, and who is not. Even in the most careful attention approach to this issue, the differentiation of the legal persons from the other ones could not be fair.

On the other hand, if the main purpose of the IGSs is to protect customer, it would be adequate to cover only the natural persons, especially in the context of the previous paragraph, as the legal persons does not participate in the insurance products with capital accumulation (that are usually the „Insurance of the Person“ products).

Last, but not least is the question of compensation limits. We strongly oppose the 100% compensation level, as it creates the moral hazard risk among the customers. Therefore, at least minimum level of customer participation should be set-up.

**4) Funding:** As suggested, the national IGS should be funded up to the 1,2% of the total gross written premium, during the transition period of 10 years. On the Slovak insurance market, it would mean (according to the present figures) around 25 mil. € of extra costs. There are serious doubts that such sum of money would be enough to compensate all damages caused by the bankruptcy of any important insurer on the market. SK insurance market is very concentrated one, when Top 5 insurers make some 80% of the whole market. Ex-post funding also raises the concerns and questions of handling another bankruptcy / insolvency case while the fund still not reaches 1,2% target.

Further comments and explanation of funding issues in markets with high concentration are provided in the attached document showing the joint statement to the IGS, that was completed and agreed also by the other Central European insurance associations.

**5) Mutual Borrowing Facility:** The previous suggestion contained the creation of Mutual Bail—out System (MBOS), that was (for obvious reasons) strictly refused by the majority of Member states. The possibility of any transfer(s) between national IGSs we therefore perceive as a cover-version of MBOS. It is very naive to believe that, in the globalised insurance environment, the insolvency of a large- or middle-sized insurer would not affect its mother / daughter companies across the EU. In such case, the borrowing possibilities would certainly be limited, as at the end of the day there will not be anyone who could lend the money from the IGS to the others. The mutual borrowing facility therefore creates nothing less than a huge moral hazard risk in the future.

In case of any further questions, please do not hesitate to contact me.

With kind regards,

Miroslav Cemek  
Policy Advisor of Life Insurance  
Slovenska asociacia poistovni  
Drienova 34  
821 03 Bratislava  
Slovakia

## **About SLASPO:**

Slovak Insurance Association is a professional association of commercial insurance companies. Our aim is to represent, protect and promote common interests of our members towards the state administration organs, other legal entities, wide public and abroad. We are active mainly in the field of legislation, education and promotion of insurance industry as a whole.

On 30 June 2010, 20 insurance companies had a licence from Slovak National Bank to operate in the insurance industry. 12 companies are composite, 5 life insurance companies and 3 non-life insurance companies. There are 19 companies and three branches of foreign insurance company associated within Slovak Insurance Association.

Slovak section of the International Association of Insurance Law - AIDA, Slovak Insurers' Bureau and EXIMBANKA SR are permanent associate members of Slovak Insurance Association.

Slovak Insurance Association is a regular member of European Insurance Federation (CEA), that associates national insurance associations from Europe. Through insurance magazine Poistné rozhľady is Slovak Insurance Association a member of Presse Internationale des Assurances (PIA).