

No mandatory establishment of national IGS

Insurance Sweden strongly opposes any common standards for insurance guarantee schemes (IGS) and, thereby, harmonization at EU-level implying mandatory establishment of national IGS. Sweden does not have any IGS and the existing framework of Solvency II together with strong national supervision has resulted in very high and more than sufficient protection for Swedish policyholders.

Introducing common standards and, in particularly, requirements of national IGS should only be done if a thorough assessment shows on a national basis, strong evidence of a real need and the benefits materially exceed the costs. Otherwise, the common standards will only impose even more costs and complexity for the insurance companies that will run counter to the commitments to simplify and reduce burden and costs of regulations in EU. New legislations should only be added when it is truly necessary, which is not the case for IGS.

The total costs of IGS are often underestimated. They go beyond the direct costs of setting up and maintaining them, creating for example moral hazard and potentially changes to product cover. For a country like Sweden, where consumer protection is already very strong, the disadvantages of IGS outweigh the benefits.

To avoid unnecessary and unjustified burdens and costs, it is key to maintain the current national discretion on the establishment and the features of the IGS. Instead of legislative harmonization, the European Commission could provide good practice guidance on IGS. Such guidance could be very helpful for those Member States who want to introduce or expand their IGS.

Adequate protection for Swedish policyholders without IGS

Insurance Sweden is not aware of evidence for Sweden and the rest of EU that justify the introduction of mandatory establishment of IGS and EU-harmonization. Only the protection of policyholders, particularly consumers, can justify the establishment of IGS, since insurance companies do not create systemic stability risks that motivate deposit guarantee schemes for banks. In Sweden, as in the rest of the EU, policyholder rights are protected by a strong legal framework under Solvency II. This framework requires insurers to maintain assets that match their liabilities to customers, plus a buffer large enough to ensure with very high probability that the company will remain solvent.¹

In addition to solvency rules, insurers are subject to extensive governance and internal control requirements designed to manage risks. The Swedish NSA (Finansinspektionen) supervises companies to ensure compliance and take corrective measures if obligations are at risk. The current multiple layers of

¹ The buffer consists of *technical provisions valued with conservative discount rate + Risk margin + MCR + the additional capital needed for to reach the SCR + the additional capital held by the company to meet its own internal risk appetite and risk management requirements.*

protection for policyholders have worked well in Sweden and there is no need for additional protection for the policy holders in the form of IGS.

If, in the rare case that an insurer nevertheless becomes insolvent, policyholders have preferential rights over the company's assets that correspond to their claims, giving them strong protection even in the event of failure.

Although no system can eliminate insolvency risk entirely, in Sweden there have been only a few isolated, pre-Solvency II, cases where consumers even risked non-payment. This lack of failures should be considered when weighing the potential benefits and costs of requiring a Swedish IGS. Furthermore, there are other ways to protect consumers, for example, transferring insurance portfolios to another insurer that can assume the obligations.

The only insurance policies for which there could be a need to have a similar treatment regarding IGS is motor insurance policies. These policies are unique as being mandatory and similar in all Member States and especially likely to involve cross-border use and claims. However, Article 10a of the Motor Insurance Directive (MID), establishes a requirement for a body that pays compensation if an insurer fails for 3rd party motor policies. Thus, due to its unique characteristics and that it is already covered by an EU IGS requirement, motor insurance cannot be used as argument for having IGS requirements for other insurance policies. It can also be noted that Article 10a recognises the need for wide flexibility for the Member States on how to setup the body that pays compensation, for example in regards of funding (ex-ante/ex-post).

Consumer confidence in insurance is high in Sweden. For example, around 97 per cent of the Swedish population are covered by extensive home insurance policies that besides damages to the home and theft also covers claims that arise e.g. while traveling and due to liabilities, legal expertise, and natural catastrophes. Confidence in insurance is influenced more by product design and claims handling than by the existence of IGS. The fact that a few individuals choose to remain uninsured or are otherwise underinsured is not attributable to the absence of IGS. Rather, it reflects a lack of awareness among individuals regarding the risks they face when they are uninsured.

Solvency II provides very strong protection and reduces the need for IGS

Solvency II has ensured very high levels of policy holder protection across all EU countries by linking capital requirements to actual risk and through high capital buffers, supported by extensive reporting, governance, supervisory monitoring and supervisory intervention tools.

The voluminous regular reporting requirements provide supervisors with early warnings of financial deterioration. Solvency II includes a supervisory ladder of intervention that is designed to firstly allow for a recovery plan but also so that, if needed, the supervisor can take over the company while there is still surplus capital (i.e. technical provisions valued with conservative discount rate, the risk margin and the minimum capital requirement).

With the amendments to the Directive and the delegated Act in the current review, Solvency II will become even stricter for most insurance companies. This includes a number of changes designed to address past issues some countries have had with policies sold cross-border.

There has not yet been a comprehensive study on how Solvency II has changed the risk that an insurance company fails or how it has affected the need for IGS. Such an assessment should be conducted before any common standards for IGS is discussed. This assessment should also consider the changes of Solvency II in the current review.

Insurance Sweden is also strongly against IRRD as it is not needed for the Swedish insurance market or for the Swedish policy holders. IRRD will lead to higher burdens and, thereby, costs for Swedish insurance companies that will in the end be paid by Swedish policyholders. However, those who advocate for IRRD claim that it will increase the protection for policy holders. Therefore, the assessment of the potential need for IGS should also consider how IRRD has changed this need. In addition, no thorough impact assessment has been conducted of IRRD that includes, for example, the expected costs of the financing arrangement and the extensive requirements proposed by EIOPA on level 2 and 3.

Disadvantages of IGS outweigh potential benefits

The existence of IGS in some Member States does not justify requiring that all countries must have it. Some Member States may need IGS due to evidence of unacceptable levels of customer losses, greater reliance on insurance linked to their welfare systems or that some insurance policies are mandatory. In others, including Sweden, such justification is lacking and could even be harmful, especially if it leads to great costs for the insurance that will in the end be paid by the policyholders by higher premiums. In turn, higher premiums might lead more consumers to go uninsured, thereby reducing the overall household protection.

There is also an evident risk that the introduction of IGS could lead to increased problems with moral hazard. Insurance is largely about assessing and pricing risks. The implementation of IGS may enable new, weaker and less reputable insurance companies to enter the market by offering underpriced premiums. This is because IGS reduces the incentive for these companies to conduct thorough risk assessments and price risk correctly as such companies do not perceive themselves as fully accountable to their policyholders.

Customers may also become less diligent when choosing an insurance provider if they are, due to IGS, not affected by potential problems within insurance companies. A fundamental issue with IGS is therefore that well-managed and financially stable insurers—and their policyholders—will ultimately bear the costs caused by less stable and poorly managed companies.

IGS can alter behaviour among insurance companies, and policyholders, and regulators. For example, the coverage of insurance policies can be changed, which would reduce the overall insurance protection for households.

The cost of IGS is often underestimated and go beyond the direct costs of setting up and maintaining them. For a country like Sweden, where consumer protection is already strong, the disadvantages of IGS outweigh the benefits.

Differences between Member States calls for differences in IGS

There may be valid reasons for IGS in some Member States, but these reasons do not apply everywhere. Even with minimum harmonization, protection levels would still differ due to differences in market structures and the insurance policies.

Instead of introducing common standards for IGS, potential cross-border issues should be addressed by stronger cooperation among supervisors, as EIOPA has begun to pursue and will be reinforced by the changes implemented by the Solvency II Review. Early warning signs—such as rapid growth, unusually low premiums, or narrow product ranges—can signal risk in cross-border insurers. Closer oversight of such companies would protect policy holders more efficiently than IGS.

Guidance instead of harmonization

Harmonization of IGS and, thereby, mandatory establishment would lead to unjustified burdens and unnecessary costs. To avoid these burdens and costs, it is key to maintain national discretion regarding IGS at least on the establishment, product and policyholder scope, compensation limits, funding (ex-ante/Ex-post), and contribution methods.

Instead of harmonization, the European Commission could provide good practice guidance on IGS. Such guidance could be very helpful for those Member States who want to introduce or expand their IGS. There are good recent examples when the Commission has developed good practice guidance in the context of the Savings and Investment Union, for example the blueprint of savings and investment account and the recommendation on auto-enrolment of occupational pension.

If the EU nonetheless decides to introduce minimum common standards for IGS, MS must have wide flexibility to design systems suited to their markets, deciding which products and policyholders to cover and how to fund the scheme. Such flexibility is essential to reflect the diversity of insurance markets and welfare systems across Europe and to minimise the new regulatory burdens.