



International
Forum of Insurance
Guarantee Schemes

IFIGS

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Financial Stability Board
Bank for International Settlements
Centralbahnplatz 2
CH-4002 Basel
Switzerland

Re: Resolution Funding and Interconnectedness Practices for Insurers: Stakeholder feedback

We would like to begin by commending the Financial Stability Board (“FSB”) for its very strong analytical work on the important topic of effective insurer resolution and the varying mechanisms for funding resolution activities. While much of the focus for supervisors since the financial crisis has been on resolution solutions for distressed banks, we believe the topic of insurer resolution is also worthy of serious attention – especially as climate change creates material shifts in the way risk now materializes relative to experience-based models.

We would also like to briefly introduce International Forum of Insurance Guarantee Schemes (“IFIGS”) to you. Founded just over a decade ago, we are a network of almost 30 insurance guarantee schemes (“IGS”) from 24 jurisdictions across all continents. We exist to provide a platform for the exchange of best practice among our Members and also as a discussion partner with other stakeholders interested in enhancing the effectiveness of the global financial services safety net. Over the last several years, we have had direct engagement with European Insurance and Occupational Pensions Authority (EIOPA), International Association of Insurance Supervisors (IAIS) and the World Bank. Of particular focus, we have developed a set of “Core Principles” - documented in the form of published Framework Guidance – designed to offer a rubric for evaluating current IGS mechanisms and to establish a defined set of benchmarks for jurisdictions considering how best to establish a new one. You can learn much more about us and our work at www.IFIGS.org.

Now briefly to summarize our perspective on the key questions you raise in your Practices paper on Resolution Funding for Insurers. First, just to amplify that the diverse membership of IFIGS - with its (very) varied governance models - serves to powerfully amplify that “one-size-does-not-fit-all”. In our view, and based on our Member’s experience, many different designs can achieve the same desired objective - effective policyholder protection. Second, is to affirm that we believe firmly in the idea that is better to “institutionalize” risk rather than “socialize” it.



By this we mean that ensuring that effective institutions for risk transfer are established - in advance – delivers much better outcomes for society than simply having all citizens absorb losses from adverse events via their governments after the financial or natural catastrophe disaster. So, engaging private industry to be part of the solution – however this is structured - brings with it significant net benefit to society as a whole. We are not a “lobby group” – but we do all believe that jurisdictions with some form of IGS in place are better positioned to protect their citizens from tail risk/worst-case scenarios than jurisdictions which do not. And thus, we encourage prudential supervisors and other financial services regulators to more formally endorse that an IGS/policyholder protection scheme (“PPS”) mechanism of some form is a best practice.

Now to the concept of “resolution” specifically. Your Practices paper on this is particularly timely as we are now mid-way through a comprehensive research stream regarding the degree to which each of our Members has the legal capacity and the structural capabilities to engage in resolution activities. The answer varies. Obviously, some of our Members are government entities with wide-ranging authority to act in the public interest as they deem it. However, we also have a range of public/private partnerships as well as pure private industry funds – some of which also have resolution powers/capabilities embedded. Our expectation is that we will be in a position to publish initial findings from this work mid-year of 2022 and we would welcome the opportunity to share early conclusions with the FSB.

Your Practices paper asks some very specific questions and in this brief letter we can only offer high-level feedback. Discussions regarding mobilization of internal and external funding for instance begs significant questions regarding the relative merits of *ex-ante* and *ex-post* funds. Suffice it to say that our Member’s diverse approaches to this key topic demonstrate that – if structured properly in advance – either approach can work. There is detailed and technical input on our best practice experiences in this regard and we would be pleased to share on this and other topics in follow-up stakeholder discussion.



With regard to your question regarding “conditions for the use of other sources” of funding in resolution, there are some important themes to incorporate including issues around moral hazard and the potential use of private industry funds to “resolve other industry players”. Different Members have different approaches to this topic – with some having developed very defined metrics/protocols to guide decision-making in such scenario. Further, where the IGS is not the resolution authority, there should be a clear legal framework on the use of its funds for resolution of insurers other than liquidation. We would be pleased to walk through some of these unique models with you and share whatever we know.

Your very practical questions around conglomerates and cross-border issues serve to amplify both the complexity of resolution as well as the importance of your work on this subject. In many of our jurisdictions, industry consolidation and the globalized nature of the insurance industry itself, mean that these issues are very real and significant. There is one best practice we could offer where there is simply no debate – ensuring that whatever IGS/PPS mechanism does exist is firmly at the crisis management table early in situations of evolving distress is essential. And we can flag certain jurisdictions where documented Guides to Intervention define exactly how/when an IGS/PPS is brought “inside the circle”, even in cases where that IGS is a private industry fund. We would be pleased to share more on this as well in follow-on discussion.

Thank you for the opportunity to engage directly with the FSB on this important topic. We would welcome the opportunity to be part of the dialogue you plan in Q2 2022 to help you optimize the results of your crucial work.

Sincerely,

Ms. Afiza Abdullah

Chair
IFIGS

Mr. Alister Campbell

Chair, Profile Enhancement Working Group
IFIGS