International
Forum of Insurance
Guarantee Schemes

IFIGS

PRINCIPLES OF FUNDING FOR AN INSURANCE GUARANTEE SCHEME

AUGUST 2015

FOREWORD

You are holding in your hands the final version of the document entitled: PRINCIPLES OF FUNDING FOR AN INSURANCE GUARANTEE SCHEME.

The **purpose** of this funding paper is:

a) to inform stakeholders about the different funding methods chosen by the various Insurance Guarantee Schemes (IGS) to meet their needs and their stakeholders' needs and;

b) to provide the basis for constructive discussion and debate on funding for IGSs.

The present work is the result of a collective effort of the Working Group, consisting of Gordon Dunning, Assuris (lead writer) and the representatives of the Polish IGS, Marek Monkiewicz and the Greek IGS, Nikolaos Pavlopoulos, supported by Renée Levasseur, Harry Li (both Assuris) and Nikolaos Zacharopoulos (PLIGF), and the Executive Committee (ExCo). We would like to thank all of them for their great support and effort.

The high level of responses to the questionnaires and the comments made in the interim versions of the paper were very important. It is worth noting that all the comments and remarks were taken under consideration. Hence, you will find details on local specificities and experiences from each jurisdiction represented by our members. These facts make this paper valuable, not as a simple academic research paper but as a reference document aimed at providing "food for thought" on this specific issue. I'd like to thank all IFIGS members for their support.

In its first term since its formal launch in October 2013, the Executive Committee (ExCo) initiated drafting a paper about funding an IGS. The document will be distributed as an IFIGS paper, although in this particular case, due to the specifics of each jurisdiction, the conclusion of is not to provide advice or recommendations for a funding method.

Since IGSs, however they operate across the world, are serving the common scope of consumer protection and are vital for the development of an appropriate financial stability system, we hope to have provided a constructive contribution with this paper. IFIGS continues to work further in good faith to foster an open dialogue between all stakeholders and inform with future publications to the ongoing discussion about recovery and resolution issues. So please consider this paper as an invitation to a fruitful discussion. Your feedback is recommended and welcome!

Nikos Pavlopoulos
Chairman of the Executive Committee
International Forum of Insurance Guarantee Schemes

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1. Overview

The purpose of this paper

The purpose of this paper is to describe considerations that should be taken into account when designing the funding of an Insurance Guarantee Scheme (IGS). The paper makes no recommendations on how an IGS should be set up but reviews existing practices.

The appendices contain brief descriptions of the different funding methods IFIGS Members have chosen to meet their needs and their stakeholders' needs.

This paper focuses only on the last-resort policyholder protection provided by IGSs. It does not consider other policyholder protection provided by solvency supervision, capital standards, disclosure and earmarked assets.

The purpose of an Insurance Guarantee Scheme

IGSs provide last-resort protection against loss of all or part of the benefits under an insurance contract when an insurer fails and is unable, or likely to be unable, to fulfil the commitments under its insurance policies.

An IGS can offer protection by paying compensation to policyholders, beneficiaries and claimants or by securing continuity of the insurance. Policyholders, beneficiaries and claimants are defined in the "IFIGS Funding Definitions" appendix at the end of this paper.

Other protection schemes

IGSs are part of a framework of last-resort protection schemes within the financial services sector. There are deposit guarantee schemes in many countries in the world and an increasing number of investor protection schemes.

In particular, deposit guarantee and investments compensations arrangements exist in all EU Member States, and minimum protection standards have been harmonized at the European level through implementation of the 1994, 2009 and 2014 Deposit Guarantee Schemes Directives and the 1997 Investor Compensation Scheme Directive. There are similar schemes in many other countries. This paper does not provide any analysis of depositor and investor schemes.

Stakeholders

The main stakeholders in an IGS are the:

- policyholders, beneficiaries and claimants;
- insurance industry; and
- government, national and supra-national regulators and supervisors.

A policy's beneficiaries and claimants are the recipients of the protection provided by the IGS. In most jurisdictions, policyholders are the ultimate funder, either through a direct charge or more typically through the cost of the IGS being passed on in premiums.

The insurance industry wishes to maintain the industry's reputation of paying the promised benefits. It is also typically the direct funder of the IGS.

Governments and their appointed regulators and supervisors are interested in protecting policyholders and maintaining the overall confidence in the financial system, at both a national and supra–national level.

Funding Needs

The funding sources of an IGS need to cover:

- the direct costs of protecting policyholders;
- the immediate liquidity needs of a failed insurance company; and
- the administrative costs of operating the IGS.

The IGS will either pay compensation or arrange for the continuity of cover to the levels of protection that it has promised. The assets of the failed company are unlikely to be sufficient to cover all the benefits under the insurance contracts. Funds will be required to meet this shortfall and may also be required to fund a transfer of the policyholder obligations.

An IGS also needs funds to meet its operational costs, that is, the cost of employees and overheads.

This paper outlines the various options and considerations that have been taken into account by policymakers when establishing an IGS. It describes the principles, methods and sources of funding, as well as the assessment bases and rates for securing those funds.

Each IGS defines the regional scope of protection differently. Some IGSs protect all policyholders in their jurisdiction even if the insurance company is resident in another jurisdiction. In European terms they provide "Host-State" protection. Other IGS protect all policyholders of a company in their jurisdiction even if that policyholder is resident in another jurisdiction. In European terms they provide "Home-State" protection. Some protect both home and host state insurance policies.

2. Principles of funding

Covering losses and immediate liquidity needs

The funding system of an IGS must raise sufficient funds to meet the guarantee of protection made to the policyholders, beneficiaries and claimants. This includes having sufficient funds to meet the immediate liquidity needs at the time of failure and the long term cost of covering the guarantees.

Meet liquidity needs

The IGS needs access to liquid funds if the failed company assets are not immediately available on failure in order to pay policyholder benefits. That is a best estimate of how much cash is needed in the first few days, weeks and months including the planning of liquidity back up resources, taking not only most probable but also plausible scenarios with lower probability into account.

This may happen because the company's assets are illiquid such as real estate or loans. An immediate sale of these assets in a time of crisis may result in higher losses. A better outcome may be achieved using a structured process of sales supported by temporary bridging financing from the IGS. Liquid assets such as bonds and equities may also be illiquid at the time the company fails if there is disruption in the capital markets.

The assets in the failed company may also be subject to legal restrictions imposed by an insolvency court proceeding or litigation over ownership. This may sometimes be overcome by providing the insolvent estate with an appropriate indemnity.

The lack of liquid funds from the failed company may lead to the need for the IGS to have available funds in excess of the eventual cost of protecting the policyholders.

The liquidity needs will also be different if the primary resolution option for the IGS is an immediate compensation of benefits, a portfolio transfer with additional cash, a portfolio transfer with an additional guarantee by the IGS or the run-off of the business over an extended period. The immediate payment of compensation requires a much greater amount of liquidity than the other options.

Cover the worst plausible scenario

The funding must be sufficient to cover not only a best estimation of a failure but also the worst plausible scenario. This requires developing realistic and possible scenarios of failures the IGS would be expected to handle.

Although it is impossible to place an accurate statistical measure on the funding capacity for an IGS, this could be stated as needing funding capacity to deal with tail events with a low probability. The White Paper on Insurance Guarantee Schemes issued by the European Commission estimates that the probability of default for European insurers in normal times is 0.5% and in stressed times 1%. That is, there is a risk of between one in 200 to one in 100 insurers failing in any year. Based on such statistics, the variance of the probability distribution, and the individual insurance market, an IGS can determine the plausible worst failure .

If a failure does occur, it may have small to moderate net losses. For example, in the larger insolvencies in Canada and the United States, the losses have not exceeded 20% of policyholder benefits. In the largest case, Confederation Life, the support of the IGSs in both Canada and the United States was essential to provide guarantees while the business was restructured. However there was no ultimate loss to policyholders or the IGSs involved. In another example, there was a 6% loss at the time of settlement in the only life company failure that has occurred in Germany.

However, the IGS has to have the funding capacity to deal with the scenario where there is a large loss from a single company failure or the failure of several insurers at the same time. The IGS does not have to have the funding capacity to deal with failures that could theoretically happen but in practice are extreme. For example, in a diversified and well supervised company with many lines of business it is highly unlikely that all the lines of business will encounter difficulties at the same time. Also, in the failure of a company it is highly unlikely that there are no assets remaining and all the policyholder benefits have to be funded by the IGS without any recovery.

Fair to the funders

Typically, it is insurance companies that fund the IGS. The funding mechanism should seek to allocate the cost of providing policyholder protection fairly.

The design of the funding mechanism may place the cost on the shareholders of the company or on the policyholders. In most cases, the ultimate cost is borne by the policyholders, occasionally by a direct fee, but usually by being passed on in the premium the policyholder pays for the insurance coverage.

In designing a fee that is be fair, policymakers should consider relevant factors such as the comparative size of the companies, the types of business, the amount of risk that each company has introduced to the system and their risk of failing.

The IGS should also consider that companies may be more willing to pay for protecting policyholders of failed companies in the similar lines of business, in the same region and same regulatory regime. For example, life and non-life insurance may be protected by the same or by different schemes. Schemes may be regional or State based like in the United States or national as in most other countries.

Generally post-funding and prefunding share the cost of protection differently. In a post-funded scheme, the failed company has not contributed to the cost of the failure. The cost is entirely borne by the surviving companies. But this can also happen in a prefunding scheme if the levies are not accounted as cost on the profit and loss account at the time of payment but as an asset on the balance sheet. For example due to legal provision in Germany members of the German IGS "Protektor" show the cumulative levies like an investment on their balance sheet but without having any rights resulting from this "investment". If an insurer fails this "investment" of the failed insurer has to be allocated in one of two ways: either the IGS repays the levies or the amount will increase the deficit. In both cases the capacity of the IGS will be reduced and the failed company will not contribute to its own failure in the end like it is the case for post-funded schemes.

Pre-funds are sometimes risk-weighted so that companies that are taking more risk, and seen as more likely to fail, pay higher fees.

Must not cause other companies to fail

Raising funds to protect policyholders of a failed company must not cause contagion. The fees must not be so large that they cause other companies to fail. This can be a serious risk if the IGS is completely or partially post-funded. Contagion through IGS funding can become a systemic risk unless the funding is carefully designed. Companies that write long term business with fixed premium or are in run-off are particularly vulnerable as they cannot pass the additional cost on to the policyholders through increased premiums. Pre-funding, which is accounted as costs on the profit and loss account of members at the time of payment, limiting the maximum amount that can be raised in any year and emergency funding from government, are some of the techniques to reduce this risk.

Must raise enough money to cover its own administration costs

As well as the direct costs incurred by the IGS to protect policyholders and beneficiaries of insurance contracts, the IGS also incurs other direct costs. These include staff and office expenses, but also in some countries the cost of public or industry awareness programs, solvency monitoring of companies, failure simulations, resolution preparedness and resolution planning. It is essential to take these costs into account when planning the funding of an IGS.

Calculation taking into account the levels of protection

The amount of funding required is very closely linked to the nature, amount and level of protection provided by the IGS. The greater the monetary amount or percentage of the protection provided the greater the need for funds.

Some IGSs, especially those that protect non-life policy benefits, exclude protection for contracts held by corporations or non-consumers. This can significantly reduce the funding requirements on the failure of those companies.

If such exclusions are planned it is important to analyse the needs of small and mid-sized companies carefully. In some lines of business their need could be very close to the needs of consumers.

Supervision and resolution regime

The supervision, capital requirements and the resolution regime also needs to be considered in assessing the level of funding needs. Based on capital regulation, strong supervision and a commitment to start resolution proceedings as soon as an insurer is non-viable will reduce the losses to policyholders and the IGS. Good relations and open confidential communication between the supervisor and the IGS are vital for an effective regime.

Systemically Important Insurers

Systemically Important Insurers (SII) are defined in the IAIS paper "Global Systemically Important Insurers: Initial Assessment Methodology" as "…insurance dominated financial conglomerates whose distress or disorderly failure, because of their size, complexity and interconnectedness, would cause significant disruption to the global financial system and economic activity."

The role of IGS in the resolution of systemically important insurers is still being discussed at both the international and national level. The role of the government, the supervisor and the IGS in resolution planning, resolvability assessment and the actual resolution is still to be decided in many countries.

According to the report "Progress and Next Steps towards Ending – Too Big to Fail" of Financial Stability Board (FSB), the failure of a Global Systemically Important Insurers (G-SIIs) could be prevented or their failure managed by orderly recovery planning. More specifically, large insurance organisations will be subject to a set of policy measures consistent with the framework which comprises: recovery and resolution planning, enhanced group-wide supervision and higher loss absorbency requirements.

If these new measures of recovery planning are effectively implemented the risk of policyholder loss may be reduced significantly. However there may still be a chance of failure and the IGS may need to be prepared to protect the policyholders. In some jurisdictions this may require liquidity or funding support from government.

3. Resolution methods of an IGS

The design of the funding method should be appropriate to the types of resolution for which the IGS provides funding. As shown on figure 1, these may include:

- A transfer of the policies by transferring the whole business to a third party through the sale of the shares of the company or through the sale of the assets and liabilities.
- The transfer of single lines of the business such as wealth management, automobile insurance, individual life, group life, retirement products or other specialist portfolios to a third party. Transfers can be effected by assumption reinsurance or by the provision of substitute policies.
- Promising guarantees such as on asset or liability values or providing stop loss reinsurance on certain blocks of problematic business. This can facilitate the transfer of the whole business or individual portfolios by lowering the risk to the acquiring third party.
- A transfer of the whole or individual portfolios to a company related to the IGS. This might be a "bridge institution" or a "work out" corporation.
- The run-off of the business by paying the claims or benefits as they come due and collecting premiums until the renewal date.
- A refund of premium on some policies, in particular non-life policies.
- The termination of policies and payout of assessed policy values.

Each of these different methods has a different cash flow pattern. For instance, the immediate transfer of the business of the failed company will probably require more immediate funding than a run-off of the business. The termination of policies and immediate refund of premiums will require immediate funds. Guarantees may not require any immediate funds if the IGS has a good credit rating or its commitments are backed by a government. However, funds may be needed to provide collateral for the guarantees.

Resolution Methods

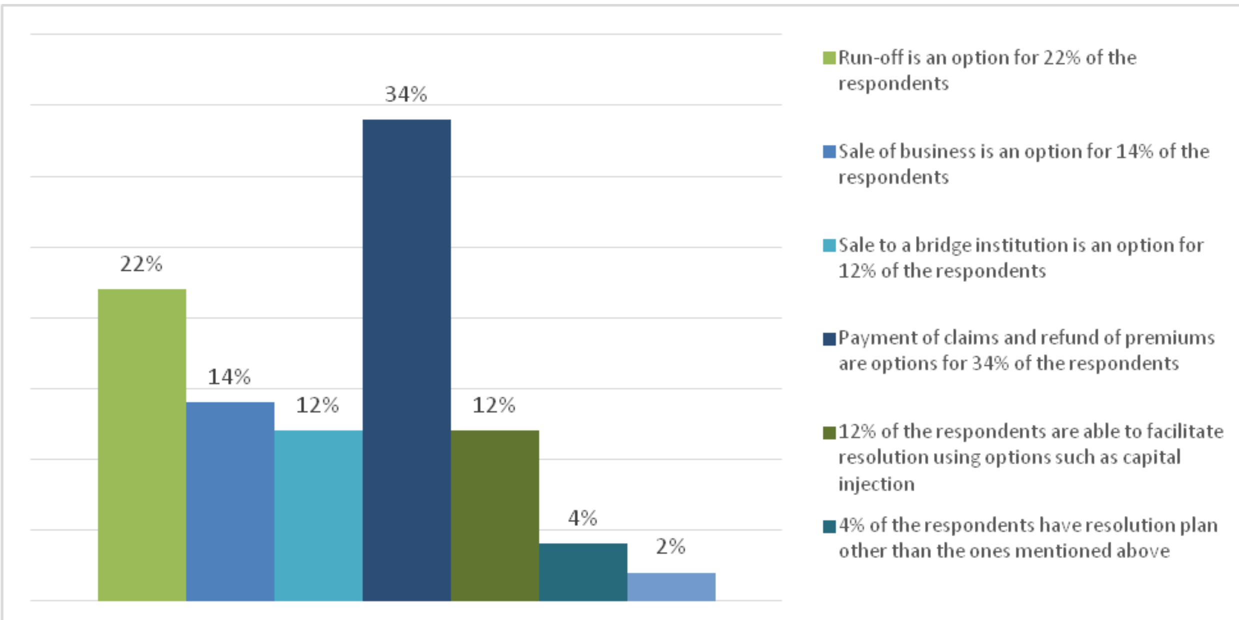

Figure 1: Various resolution methods used by the IGSs

4. Methods of funding

Pre-funded or post-funded

One of the major funding decisions is to whether to pre-fund or post-fund or use a combination to cover the cost of protecting policyholders of a failed company. That is, should an IGS build up a pre-fund so that if a failure happens it has the funds immediately available to protect policyholders, or should the IGS only raise funds after the failure when it knows they are needed, or should the IGS implement a mixed fund model holding both a pre-fund and be able to also post-fund?

Method of Funding

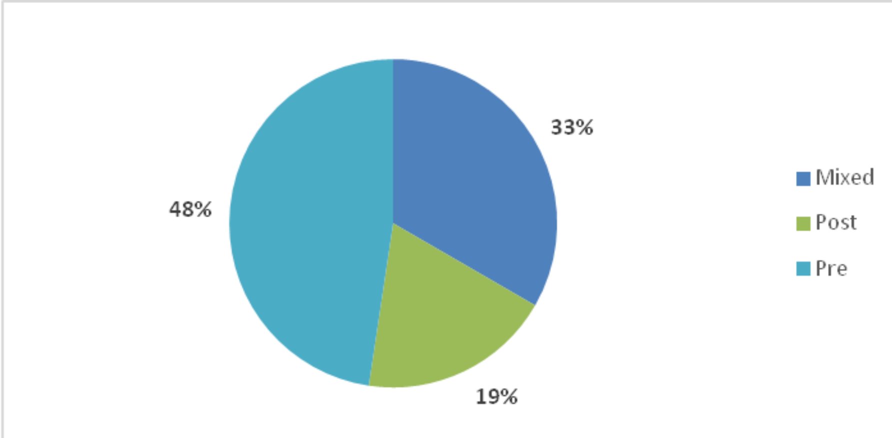

Figure 2: Percentage of IGSs using each Funding method

Advantages of Pre-funding	Advantages of Post-Funding
1. Liquidity	1. Uses capital efficiently
2. Credibility with stakeholders	2. Lower administrative costs
3. Investment income	3. Encourages good risk management
4. Appropriate allocation of costs	4. Encourages creative solutions
5. Raises funds in "good times" – in periods of profitability	5. Lowest cost to the industry
6. Fair to funders - the failed company will have contributed to the fund	6. Engages the industry in solvency concerns
7. Avoids pro-cyclicality	7. Appropriate where the probable cost is low

Advantages of a pre-fund[1]

1. Liquidity – A pre-fund can ensure there is sufficient cash on hand to meet the immediate liquidity needs in the initial phase of a failure. The liquidity needs on failure will be dependent on the size and the type of business written by the insurance companies. Where insurance companies have written large amounts of policies that the policyholders can surrender on demand for cash, the immediate liquidity demands could be very high. This type of business may have a liquidity profile similar to banks where the deposit insurance

[1] Some advantages are realised only if the funding is accounted in members' profit and loss account at the time of payment.

organisations nearly always have a pre-fund. However, this will depend on the limit and the structure of the protection.

Where the business written is long term policies that cannot be surrendered on demand, there may be little or no immediate liquidity concerns on failure. If the investments in the company to back these policies are market-traded e.g. bonds, the liquidity needs may be even lower as there is a ready secondary market.

2. Credibility – It is important that all stakeholders (policyholders, industry and government) believe that IGS can protect the policyholders if there is a failure.

   Clients may be reluctant to buy non-compulsory insurance products if they are concerned about the potential failure of the company and the IGS lacks credibility. They may decide not to purchase a product or they may purchase a product from a different sector. Some insurance products compete with products from other sectors, such as the banking sector, which may have more established or credible depositor protection schemes.

   Where the client is required to buy insurance, for example, motor vehicle insurance is compulsory in most countries, the credibility of the IGS at the point of sale is less important. However, there is greater pressure on governments that impose the insurance on the consumers to ensure that the benefits are paid when needed to policyholders and third party claimants.

   A pre-fund can provide a tangible demonstration that the IGS has the resources it needs to protect policyholders. This may be particularly important where the IGS does not have an explicit government guarantee or support.

3. Investment income – a pre-fund provides a source of investment income that can finance the operations of the IGS. This can remove the need for the IGS to bill for its administrative costs on an annual basis.

4. Appropriate allocation of cost – when a pre-fund has been established and is built up by annual charges to the industry, the industry is paying for the risk of future failure. The industry may take this into consideration when pricing its policies. On the establishment of the pre-fund the price will only be passed on to new business and annual renewable policies but over time will have been passed on to all or most policies.

5. Raises funds in good times – a pre-fund charges the cost of failure to the companies in periods of market profitability. This is a period in which the companies and the policyholders can absorb the cost most easily.

6. Fair to the funders – a pre-fund ensures that all insurance companies bear the costs of IGS funding. Post-funding puts none of the cost on the failed company as the cost is borne by only the surviving companies. The fairness can also be increased by charging higher fees for high risk companies under a risk based contribution method.

7. Avoids pro-cyclicality – companies often fail at times of stress to the whole industry. Pre-funding avoids charging the industry additional fees after the failure which would increase the stress on the industry and potentially cause additional failures.

Examples of IGSs that maintain pre-funds are FGAO (France), PLIGF (Greece), PCF (Kenya), KDIC (Korea), MDIC (Malaysia), Fond de Garantare (Romania), LIF (Thailand), GIF (Thailand) and TIGF (Chinese Taipei).

It is always difficult to calculate the right amount to hold in a pre-fund. One common method is to use a statistical model that takes into account the likelihood of failure and the probable cost. This is similar to the banking methodology of predicting loan losses by measuring the probability of default, the exposure at default and the loss given default. This calculation is difficult for IGSs because the small number of failures is not sufficient to provide accurate statistical measures.

The methodology can also produce a fund size that is too large for the failure of one or more small companies and inadequate for a large company failure. Where the estimated net loss is low, it makes sense to only pre-fund for the liquidity needs and post-fund for extraordinary losses.

Advantages of post-funding

1. Uses capital efficiently – raising funds from the industry only when needed ensures a more efficient use of its capital. The funds can be used by the companies to support their insurance operations and provide higher economic return than if they are funding an IGS pre-fund.

2. Lower administrative and operational costs of IGS management – the IGS does not have to incur additional administrative and operational costs to manage the process of collecting the pre-fund fees and managing the investments.

3. Encourages good risk management – in a post-funded scheme the IGS has to collect the funds at the time of failure and provide explanation of the needs to the funders. This can add an additional layer of control and discipline over the costs of administration of the failure.

4. Encourages creative solutions to failure – the absence of funds on hand may encourage creative resolution strategies that maximise the realisation of asset value and minimise the need for immediate liquidity. This is in line with the economic principle that the scarcity of resources creates the most efficient use of that resource.

5. Lowest cost to the industry – the IGS only collects the amount that is required for the actual costs of protecting policyholders of a failed company.

6. Engages the industry in solvency concerns – post-funding encourages all insurance companies to take an interest in the solvency of other companies, as the cost of a failure of another company will be borne by them. This will encourage them to support good supervisory policies and to express concerns to supervisors about risky behaviour of other companies.

7. Appropriate where estimated net loss is low – an estimated net low or zero loss, is achieved when the supervisor is committed to intervening when there are enough assets to cover policyholder liabilities. The probability of achieving low or zero cost is enhanced in those countries where policyholders have a priority over other creditors as in an insolvency the rate of recovery will be much higher. Where the estimated or probable cost is low or zero, IGS protection is still needed to provide confidence and to cover the possibility of a high cost insolvency.

Examples of IGSs that are post-funded are: APRA (Australia), Assuris (Canada), and FSCS (United Kingdom).

Mixed, pre and post-funding

Some IGS have found a balance of pre-funding and post-funding. The reasons for implementing such a funding method and the practical application may vary from one country or jurisdiction to another.

Some countries have chosen to keep the level of the pre-fund adequate to meet all plausible liquidity needs and the cost of protecting policyholders at the level of expected failures. Such IGSs then have a post-funding mechanism for the larger failures that are unlikely but plausible. In this mixed funding model when a pre-fund has reached the target level, the annual fees can be reduced or eliminated.

Some countries have chosen different funding options for different types of business. For example in Germany, the scheme for life assurers (Protektor) is mainly pre-funded but also has a post-funded component. The scheme for private health insurers (Medicator) is completely post-funded. UFG (Poland) is prefunded for non-life insurers providing certain compulsory insurance for certain motor and farmers insurance but is post-funded for non-life insurers providing other compulsory insurance, for example farm building insurance, and for life insurance.

5. Funding sources

The large majority of IFIGS members in the survey are primarily funded directly by the industry. The funding sources are at figure 3.

Many funds have direct access to the assets of the failed company to assist in paying for the protected policyholder benefits. Some schemes, for example PACCIC (Canada), fund all claims from fees collected from the industry and then make a claim for a recovery against the assets of the failed company that is in liquidation.

The costs charged to the industry are usually ultimately borne by the policyholders. In a pre-funded scheme, the cost to the company can be included in the companies’ calculation of the premiums it charges to the policyholders or be a reduction of the profit participation of contracts. In a post-funded scheme there is a less immediate direct charge to policyholders and the company’s profits and surplus will bear the initial cost of the failure. However, the companies will seek to recover this cost from future premium income.

Only one IGS in the survey, Consorcio (Spain), is primarily funded by a direct charge on policyholders in the form of a premium tax. PLIGF (Greece) and PCF (Kenya) are funded 50% by the industry and 50% by the policyholders. For APRA (Australia), the initial payout and expenses were funded by the government.

Funding Sources

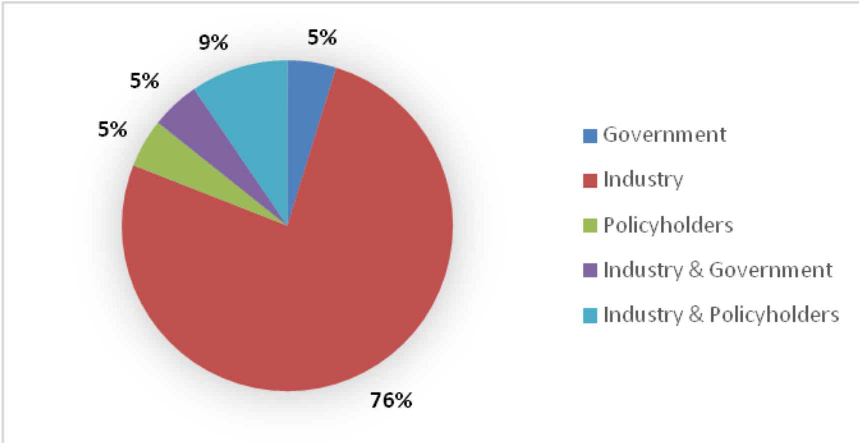

Figure 3: Major funding sources of IGSs

6. Other sources of funding

If an IGS is pre-funded or has some administration funds, the investment income on these funds provides an additional source of income.

7. Back-up funding sources

Many IGSs have back-up sources of funds. Some of these arrangements are formal and others are informal. Back-up funding sources are needed if the cost of a failure is greater that their combination of pre-fund and post-fund capacity. Potential sources of back-up funding are bank loans, the central bank or government, as shown on figure 4.

Many IGSs are associated with government and can ask for additional funds if they are needed. Some examples are APRA (Australia), TIGF (Chinese Taipei), KDIC (Korea), PCF (Kenya), LIF (Thailand), MDIC (Malaysia) and FSCS (UK).

In Germany, the governmental fund for life business can, if necessary, ask for additional funding from the industry via separate private commitments of all life insurers. The capacity of the governmental scheme of 2‰ of total net technical provisions of the industry will be increased to 1% of total net technical provisions.

Where an IGS has multiple funds for different lines of business or different geographical regions they may have an ability to allow one fund to borrow from the other funds at the time of a failure. For example, FSCS (UK), as an integrated scheme, can borrow between their funds although it must be repaid each year.

Back-up Funding

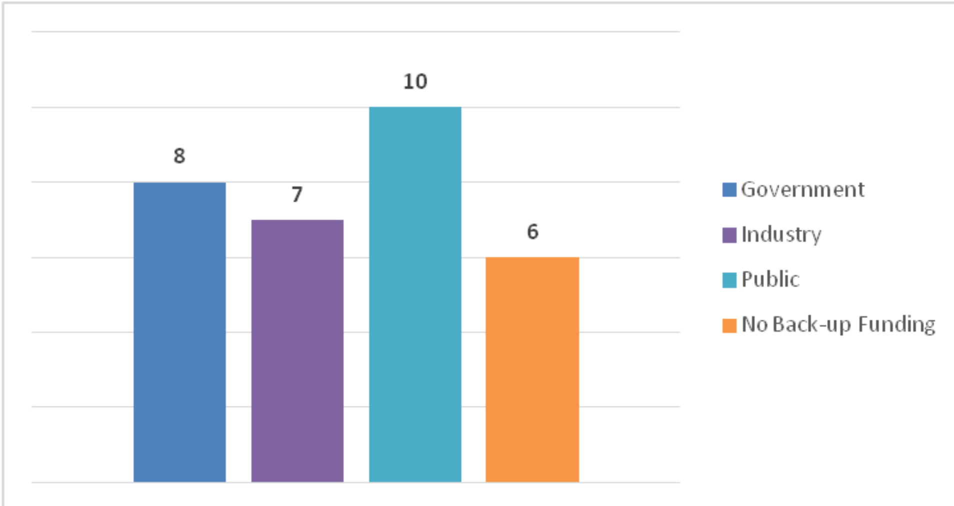

Figure 4: Back-up funding sources used by IGSs
** Note that some IGSs have more than one source of back up funding*

8. Assessment base for calculation of fees payable to IGS

There are a number of different funding bases, as set out on figure 5.

Premium income

The most common form of funding from the insurance industry is a fee based on premium income. This recognises the principle that larger companies should contribute more than small companies and uses premium income as a measure of size. It also makes it easy for the insurance company to pass the cost onto policyholders. This is especially true for IGS that charge a regular annual fee to build up a prefund. It does not work for long term contracts where the premium is fixed over life time. Funding based on premium income does not represent the risk accurately as it does not consider the weight of the risk taken by each company, for example, a company holding premium free, paid-up, contracts.

Required capital

One form of funding is based on regulatory required capital. This method also recognises the principle that larger companies should contribute more than small companies. It is used by Assuris (Canada) as the measure of the size of risk that a company contributes to the system.

Liabilities

For Medicator as well as for Protektor (both Germany), the funding is liability-based. FSCS (UK) levies are based on both premium and liability. For some, liabilities are a fair measure of company risk. The reason for taking liabilities is often that the IGS will deal with long term business like life and health where premiums are fixed over lifetime. In that case it is possible that the payment of premiums will happen only over a part of the contracts lifetime but the liability will still exist over the complete period.

Fixed charge per contract

This method calculates a fixed charge based on an average premium of the market.
Some companies may reduce their premium rates to increase their business. By decreasing the premium but keeping the same obligations to the policyholder, the company is increasing its risk exposure.

If the IGS charge is based on actual premiums, it will result in the income to the IGS decreasing even though the company risk has increased. By basing the IGS charge on average premiums, the IGS' income will remains constant.

This method is suited to short-term insurance contracts, mainly in general insurance products. This method is currently being used for the Greek car insurance market.

Assessment Base for Funding

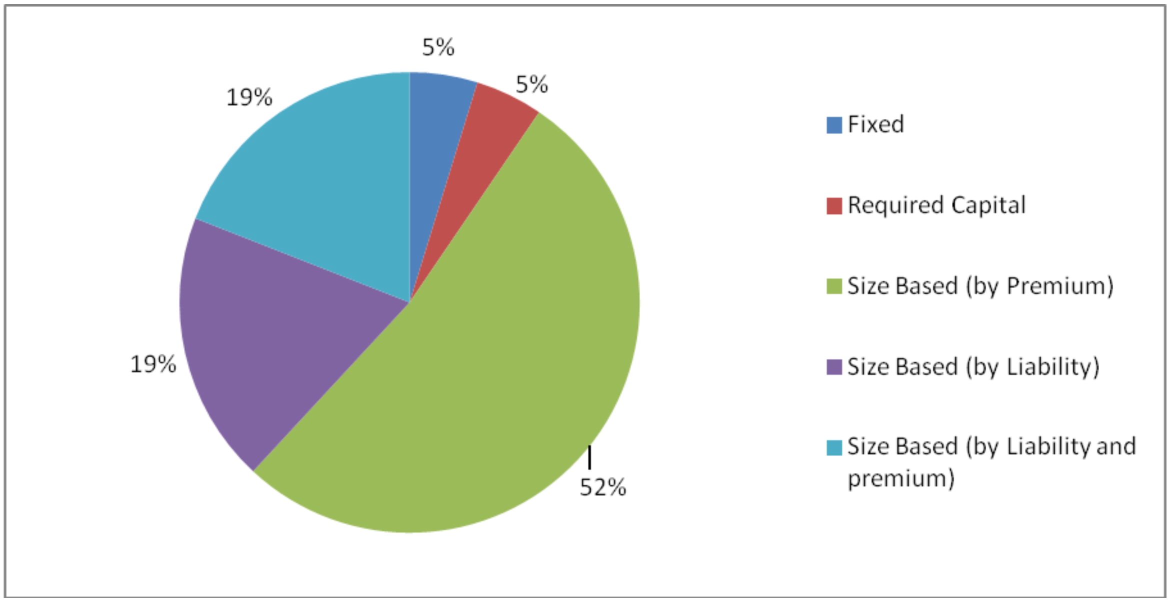

Figure 5a: IGS Assessment Base Calculation

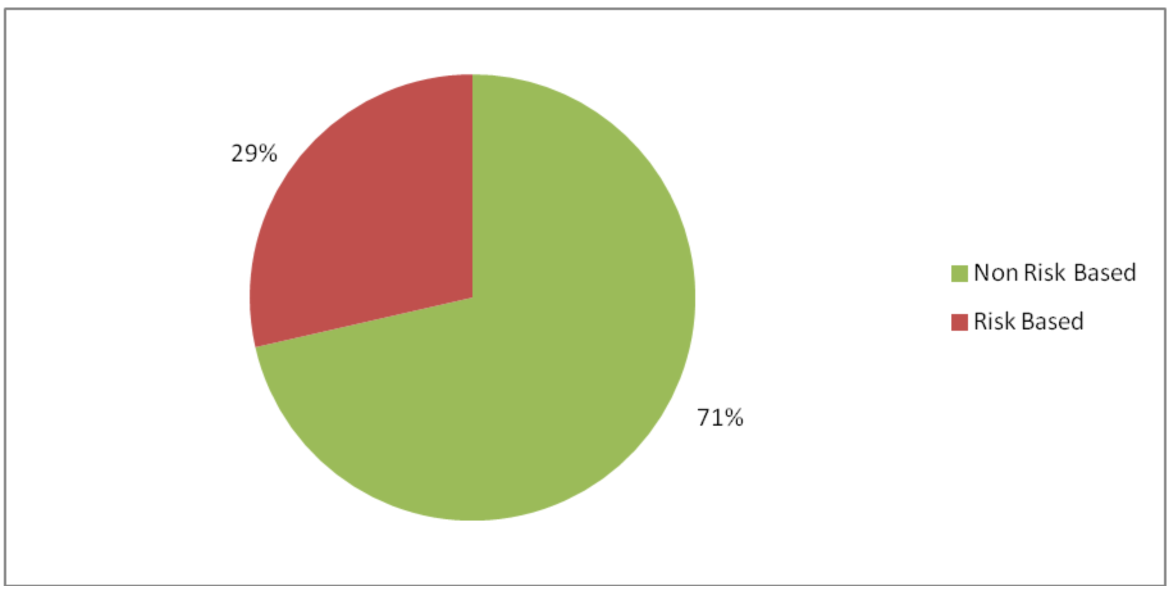

Figure 6b: IGS Assessment Base Calculation

Fee Rate

Most IGSs charge the same fee rate to each company. This is typically a percentage of premium income. Examples of this are: PACICC (Canada), PCF (Kenya), Garantiordningen for Skadeforsikring (Norway) and Fond de Garantare (Romania).

Some IGSs charge a larger fee to companies that have a greater risk of failure or risk of higher costs on failure. MDIC (Malaysia), KDIC (Korea), Protektor (Germany) and TIGF (Chinese Taipei) raise risk-based fees.

The assessment of the risk and costs of failure can be difficult and it is ideally based on objective criteria. When the judgement of the IGS is used to determine the risk weighting, it may be challenged by the companies.

9. Calculating how much is needed – and when

Every IGS should understand how much may be needed for an insolvency or a series of insolvencies.

In the case of a pre-funded scheme, the IGS needs to determine the target size of the fund, a reasonable time to reach that target and the amount of annual fees it will charge to meet these two objectives. The IGS must ensure that the amount of annual fees does not result in contagion.

In the case of a post-funded scheme, the IGS needs to be sure it can raise sufficient funds quickly enough to meet the costs of protecting policyholders and any immediate liquidity needs.

Where the industry is fairly homogenous, a stochastic model that uses probability theory may be the best way to calculate the target size of the fund. A homogeneous industry would be one in which there is a spread of large, small and medium sized companies that approximates a normal distribution and the risk profiles of the companies are similar. The stochastic model generates a very large number of random failure scenarios. Each scenario is a combination of different sizes of companies failing with different levels of loss. SDIC (Singapore) is an example of an IGS that uses this methodology.

Where the industry is less homogeneous, a deterministic set of scenarios may be a better method of setting the target fund. A fund might wish to have a prefund that can cover all but the largest 10% of insurance companies. It would then have a supplementary post-insolvency fee to cover the risk that one of the largest companies fails.

The problem of all theoretical calculation is on the one hand, that a sufficient number of failures in the past have to be available to create statistics, on the other hand economic circumstances could change in the future so that conclusions from the past could be wrong for the future.

Many IGSs use a combination of pre-fund and post-funds. They estimate the amount of funds they will need for the failure of a small company, or the immediate liquidity needs of a larger insolvency, and pre-fund this amount. They then rely on post-fund fees to raise any additional funds they need to deal with a larger insolvency.

Some IGSs have chosen to compromise between pre-funding and post-funding by requiring all companies to keep capital in the amount of an anticipated maximum fee they would be required to pay on a failure of another company. This capital could then be called upon by the IGS when needed. A further development of this is to require the companies to segregate the assets backing that capital requirement in order to ensure that the funds could be accessed by the IGS quickly.

Garantiordningen for Skadeforsikring (Norway) allows its member companies to set aside capital on the balance sheet for future capital calls. FGAP (France) allows member companies to keep half of unpaid contributions in the form of reserve to FGAP (France). Leaving funds with the company allows them to use the assets to generate income and assist in meeting liquidity and solvency ratios.

Whatever method is chosen, policymakers should periodically review the composition of the industry, the loss assumptions and the calculations to ensure that it continues to have sufficient resources.

10. Risk pools and segregation of different funds within the IGS

Some IGSs have a single risk or funding pool. A single fund pays the whole cost of protecting policyholders of every failed insurer. Other IGSs have different risk pools for different business lines. Some typical separate risk pools are life, health, accident, wealth and non-life.

For example, TIGF (Chinese Taipei), and KDIC (Korea) have separate risk pools for accident and other non-life insurance. FSCS (UK) has separate funding classes for life and non-life business.

For NOLHGA (USA), the costs of protecting health policyholders are charged to the health pool and costs of protecting life insurance policyholders are charged to the life pool. The funds in the two pools are kept separate. The health fund is replenished by fees charged to companies based on their health business and the life pool is replenished by fees charged to companies based on their life insurance business. This split is also applicable in Germany.

Geographical risk pools

Other risk pools are geographical by region. For example there is a separate life and health IGS for each State in the United States.

Special risk pools

Some IGSs have special risk pools. An example of this is the Malaysian Takaful risk pool. Malaysia has a significant number of insurance companies that provide Shariah-compliant products. Takaful is a form of mutual insurance that observes the rules and regulations of the Islamic jurisprudence. It is important that MDIC (Malaysia) keeps the funds raised to protect the Takaful policies separate and use these funds to protect any Takaful policyholders of a failed company. The funds held in this special fund by MDIC (Malaysia) must also be handled and invested in compliance with Shariah principles.

Other funds

UFG (Poland) maintains a different pool for providing financial loans to companies who are applying to take over the portfolio of another insurer that is failing. This funding is subject to certain conditions.

11. Management of IGS funds

Most IGSs have conservative investment policies that focus on capital preservation to avoid significant losses of assets. Pre-funded IGSs invest in liquid assets that can be quickly converted to cash to support policyholders of a failed insurance company. Their investment portfolios tend to be invested in market traded bonds with a high credit rating. These portfolios often have a concentration of government issued or guaranteed securities. All the countries surveyed have indicated their IGS invests heavily in government issued bonds or guaranteed securities.

For example PLIGF (Greece), the investments are short-term (up to 12-month) in order to provide liquidity to the Fund. The allocation of investment capital is up to 85% in treasury bills or bonds and the rest in time deposits.

Often IGSs invest in governmental or other fixed interest bonds/deposits of issuers seated in their own country. This could raise problems if the economy and/or the banking system of this country enter into financial trouble. Especially in these situations insurers could fail and policyholders require protection

If the objective of an IGS is continuing the insurance contracts, the liquidity of investments could be reduced because an immediate availability of liquid funds would not be necessary.

12. Tax implications

In most jurisdictions, the funds paid to the IGS are deductible from income tax of the company as it is a cost of doing business. In most states of the United States, the fees paid to the guarantee associations are deductible in the calculation of State premium taxes. This passes some of the cost to the State by reducing their revenue from premium tax. Only 14% of the countries surveyed indicate no preferred tax treatment is in place for IGS levies. For some countries, the tax implications may be different. For example, in Germany, IGS fees (e.g. levies to Protektor, Germany) are shown as assets on the balance sheet of members and are treated like an investment. Therefore tax treatments follow general rules of valuation of assets.

13. Summary of the funding survey

This paper has described the considerations that need to be taken into account when designing the funding of an IGS.

The paper does not recommend any funding approach and therefore it has made no recommendations on how an IGS should be set up but reviews existing practices.

Nevertheless, analysis of the funding questionnaire responses from 21 different countries, including a response from the USA representing the majority of States, and in-depth research, shows some trends in IGSs funding arrangements:

- The design of the funding method in a given jurisdiction should be appropriate to the types of resolution for which the IGS can provide funding. The most common resolution method exercised by IGSs is the payment of claims with almost one-third of the IGS using this method and run-off with about one-quarter using this method.
- The most common funding method adopted by IGSs is pre-funding, almost half of the IGSs, and mixed funding, over one third.
- The main funding source for the majority of IGSs is direct industry funding, over two-thirds of respondents. Half of all respondents based their funding fees on premium income, with most of them charging the same fee rate to each company. Another common basis for charging funding fees is based on liabilities, almost one fourth. Almost one-fifth of all respondents reported that their fees were risk rated.
- Almost three-quarters of IGSs have formal or informal back-up sources of funds. 45% have government backing and 36% have industry access to additional funds from industry.
- Practically all the IGSs surveyed have additional revenues from their investments. The investment policies are conservative, focusing on capital preservation with a concentration in bonds and guaranteed securities.
- 86% of IGS reported that the funds paid to the IGSs are deductible from income tax of the insurance companies as it is a cost of doing business.

IFIGS Funding Survey Highlights

IGS	Organisation Type	Mandatory Membership	Industry	Funding Type	Cost Sharing	Access to Estate[2]	Funding Formula
Australia	Governmental	Yes	Non-Life	Post	Government	No	Fixed, Non Risk Based
Canada Assuris	Private	Yes	Life	Post	Industry	Yes	Required Capital, Risk Based
Canada PACICC	Private	Yes	Non-Life	Mixed	Industry	No	Size Based (by Premium), Non Risk Based
Chinese Taipei	Hybrid	Yes	Life & Non-Life	Pre	Industry/Government	No	Size Based (by Premium), Risk Based
France FGAO	Private	Yes	Non-Life	Pre	Industry	No	Size Based (by Premium), Non Risk Based
France FGAP	Private	Yes	Life	Mixed	Industry	No	Size Based (by Liability), Non Risk Based
Germany Medicator	Hybrid	Yes	Health	Post	Industry	No	Size Based (by Liability[3] and premium), Non Risk Based
Germany Protektor[3]	Hybrid	Yes	Life	Mixed	Industry	No	Size Based (by Liability)[4] Risk Based
Greece	Private	Yes	Life	Pre	Industry/Policyholders	No	Size Based (by Premium), Non Risk Based
Kenya	Governmental	Yes	Life & Non-Life	Pre	Industry/Policyholders	No	Size Based (by Premium), Non Risk Based
Korea	Governmental	Yes	Life & Non-Life	Pre	Industry	No	Size Based (by Premium), Risk Based
Malaysia	Governmental	Yes	Life & Non-Life	Pre	Industry	No	Size Based (by Liability and premium), Risk Based
Norway	Governmental	Yes	Non-Life	Mixed	Industry	No	Size Based (by Premium), Non Risk Based

[2] The term “Access to Estate” should include both circumstances: either that given IGS has immediate direct access to the funds of the estate of the failed company prior its intervention (so called direct access to estate) or that certain IGS is subrogated following payments claims to policyholders, beneficiaries and claimants (so called indirect access to estate).

[3] Protektor also covers of specific type of pension funds (“Pensionskassen”) which are comparable with life insurers, the membership for pension funds is optional.

[4] Liabilities are represented by total net technical provisions.

IGS	Organisation Type	Mandatory Membership	Industry	Funding Type	Cost Sharing	Access to Estate[5]	Funding Formula
Poland	Private	Yes	Life & Non-Life	Mixed	Industry	Yes	Size Based (by Premium), Non Risk Based
Romania	Public	Yes	Life & Non-Life	Pre	Industry	No	Size Based (by Premium), Non Risk Based
Singapore	Hybrid	Yes	Life & Non-Life	Mixed	Industry	No	Size Based (by Liability and premium), Risk Based
Spain	Governmental	Yes	Life & Non-Life	Pre	Policyholders	No	Size Based (by Liability), Non Risk Based
Thailand LIF	Governmental	Yes	Life	Pre	Industry	No	Size Based (by Premium), Non Risk Based
Thailand GIF	Governmental	Yes	Non-Life	Pre	Industry	No	Required Capital, Non Risk Based
United Kingdom	Public	Yes	Life & Non-Life	Mixed	Industry	Yes	Size Based (by Premium), Non Risk Based
USA NOLHGA[6]	Governmental	Yes	Life & Health	Post	Industry	Yes	Size Based (by Premium), Non Risk Based

[5] The term "Access to Estate" should include both circumstances: either that given IGS has immediate direct access to the funds of the estate of the failed company prior its intervention (so called direct access to estate) or that certain IGS is subrogated following payments claims to policyholders, beneficiaries and claimants (so called indirect access to estate).

[6] The information are based on majority of the local GAs in each state.

Country	Back-up Funding Sources	Resolution Methods
Australia	Government	Payment of valid claims
Canada Assuris	Industry	Run-off business, sale of business, transfer business to a bridge institution, and other resolution facilitations
Canada PACICC	Government, Industry, Public	Payment of claims and refund of premiums
Chinese Taipei	Industry, Public	Run-off business, sale of business, transfer business, payment of claims, refund of premiums and other resolution facilitations
France FGAO	Industry	Payment of claims
France FGAP	Industry	Payment of claims and refund of premiums
Germany Protektor	Industry	Primarily run-off business, may transfer business to another company
Germany Medicator	Industry	Transfer the business to members after recapitalization
Greece	Public	No resolution or resolution, only indemnity payments after licence withdrawal
Korea	Government, Public	Run-off business, sale of business, transfer business, payment of claims, refund of premiums and other resolution facilitations
Kenya	Government, Public	Payment of claims and refund of premiums
Malaysia	Government, Public	Run-off business, sale of business, transfer business, payment of claims, refund of premiums and other resolution facilitations
Norway	No Back-up Funding	Run-off business and payment of claims
Poland	No Back-up Funding	Payment of claims, providing repayable loans
Romania	No Back-up Funding	Payment of claims and refund of premiums
Singapore	No Back-up Funding	Run-off business, sale of business, payment of claims and refund of premiums
Spain	No Back-up Funding	Payment of claims and refund of premiums
Thailand LIF	Government, Public	Run-off business and payment of claims
Thailand GIF	Government, Public	Run-off business, payment of claims and refund of premiums
United Kingdom	Government, Public	Run-off business, sale of business, payment of claims, refund of premiums and other resolution facilitation
USA NOLHGA	Industry, Public	Run-off business, sale of business, transfer business, payment of claims and refund of premiums

Country	Tax Treatment	Investment Objective
Australia	Not applicable as it is unlikely for APRA to make special levy	Not applicable as APRA is not pre-funded
Canada Assuris	IGS levies deducted from company's income	Capital preservation, liquidity and low risk
Canada PACICC	IGS levies deducted from company's income	Capital preservation
Chinese Taipei	IGS levies deducted from company's income	Capital preservation and low risk
France FGAO	Not provided	Capital preservation and low risk
France FGAP	IGS levies deducted from company's income	Capital preservation
Germany Protektor	No preferred tax treatment as levies not accounted as costs	Capital preservation, liquidity and low risk
Germany Medicator	No preferred tax treatment as levies not accounted as costs	Capital preservation, liquidity and low risk
Greece	IGS levies deducted from company's income	Low risk
Korea	IGS levies deducted from company's income	Low risk
Kenya	IGS levies deducted from company's income	Capital preservation, liquidity and low risk
Malaysia	IGS levies deducted from company's income	Capital preservation, liquidity and low risk
Norway	IGS levies deducted from company's income	Capital preservation
Poland	IGS levies deducted from company's income	Capital preservation, liquidity and low risk
Romania	IGS levies deducted from company's income	Liquidity and low risk
Singapore	IGS levies deducted from company's income	Capital preservation and liquidity
Spain	Not applicable as IGS levies are paid directly by policyholders	Capital preservation, liquidity and low risk
Thailand LIF	No preferred tax treatment for IGS levies	Capital preservation and liquidity
Thailand GIF	No preferred tax treatment for IGS levies	Capital preservation and liquidity
United Kingdom	No preferred tax treatment for IGS levies	Capital preservation and liquidity
USA NOLHGA	IGS levies deducted from company's income	Capital preservation, liquidity and optimizing return

IFIGS Funding Definitions

Beneficiary: The person who will receive the benefits under an insurance contract. This may include eligible third parties.

Bridge institution: An insurance company owned by the IGS, the supervisor or the Government that can assume the obligations of a failed insurance company in recovery or resolution. The bridge institution could assume all the, the systemically important or the unsalable, policyholder liabilities.

Claimants: Persons who claim under an insurance policy. This includes eligible third parties.

Client: The consumer or business that purchases insurance.

Failure (Fail): The state of an insurance company that is no longer viable and IGS protection of policyholders has been initiated.

The company may be insolvent, bankrupt, under supervisory control, in restructuring, rehabilitation, recovery or resolution.

Fees: The amount of money charged to the members of an IGS to support its operations and provide funds to protect policyholders.

Other names used for fees: Levies, Assessment, Contribution.

Insolvency: The inability of a person or organisation to meet current ("illiquid") or future obligations ("overindebted").

Insurance Guarantee Scheme – IGS: A body that is mandated to provide last protection against loss or all benefits under the insurance contracts to policyholders, insured parties, beneficiaries or other eligible third parties, when an insurer is unable (or likely to become unable) to fulfil commitments under its insurance contracts. While an Insurance Guarantee Scheme may possess broader powers, an Insurance Guarantee Scheme provides protection by paying compensation or by securing the continuity of the insurance contracts.

Policyholder: The person who has entered into a contract of insurance with an insurance company, the insured party.

Post-fund: A fund of money collected to provide for the costs of a realised insolvency.

Post-funding: The collection of fees to provide for the costs of a failure that has occurred.

Pre-fund: A fund of money collected to provide for the costs of a potential but unknown future insolvency.

Pre-funding: The collection of fees to provide for the costs of a potential but unknown future failure.

Premium: The amount to be paid by the policyholder to the insurer for the protection and future benefits.

Recovery: The return to financial health of a company without insolvency or resolution proceedings being taken. Recovery is achieved while the company is still solvent and under control of the company's board of directors and management.

Resolution: The dissolution or winding up of the company under the control of the supervision authority, resolution authority, IGS or the courts.

Risk based calculation of funding needs: capital / fund requirements are aligned with the underlying risks of the company

Run-off: The resolution of insurance business by keeping the portfolio, collecting any periodic premiums and paying the policyholder claims as they come due.

Takaful: A form of mutual insurance that observes the rules and regulations of Islamic Law.

Transfer of portfolios: The resolution of insurance business by transferring the policyholder obligation to another company. This may be achieved by entering into an assumption reinsurance agreement.

APPENDICES

IGS OVERVIEW – AUSTRALIAN PRUDENTIAL REGULATION AUTHORITY, AUSTRALIA

Contact

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Industry Overview (June 30, 2014)

Members
115 – Non-life insurance only

Mandatory Insurance
Compulsory Third Party and Worker's Compensation insurance are statutory requirements and are required by law.

Industry Assets
Non-life: A$114.4 billion (US$ 107.76 billion)

Industry Total Annual Net Premiums
Non-life: A$31.2 billion (US$ 29.39 billion)

Industry Total Policyholder Liabilities
Non-life: A$73.1billion (US$ 68.86 billion)

Mission/Mandate

The mission of the Australian Prudential Regulation Authority (APRA) is to establish and enforce prudential standards and practices designed to ensure that, under all reasonable circumstances, financial promises made by institutions they supervise are met within a stable, efficient and competitive financial system. APRA is also responsible for the administration of the FCS and for making payments to policyholders.

The purpose of the Financial Claims Scheme (FCS) is to protect certain policyholders and other claimants (individuals, small businesses, family trusts and not-for-profit organisation) who make valid claims on a general insurer in a situation where the insurer is insolvent.

The protection afforded by the FCS in respect of insurance applies to non-life insurance business only.

Organisation Overview

APRA is a governmental organisation, with three members appointed by the government and no Board of Directors. It is independent from the industry. The FCS itself is not an entity and does not have a Board of Directors or management. The FCS was established in 2008 to protect depositors of banks and policyholders of general insurance companies.

Membership

The FCS applies to most insurance policies provided by non-life insurance companies authorised by APRA.

Types of Recovery and Resolution that Require Funding

If certain conditions are met, APRA will pay an amount to the policyholder to cover a valid outstanding claim made against the insolvent non-life insurance member company. APRA also provides coverage to policyholders of the insolvent non-life insurance company for a period of 28 days following the activation of the FCS, to give the policyholders time to seek alternative coverage.

Funding Basics

The FCS is post-funded. The amount paid out under the FCS, and expenses incurred by APRA in connection with the FCS, are initially funded by the Government and if necessary, may be subsequently funded by non-life insurance companies.

Government provides APRA with a standing appropriation of up to $20.1 billion AUD per insolvency. Payouts and expenses under the FCS would then be recovered via a priority claim against the assets of the insurer in the liquidation process. Only if there is subsequently any shortfall may the shortfall be recovered from surviving insurers by a special levy of up to 5% of premiums from non-life insurance member companies.

There are no tax implications for the insurance companies as they do not make regular contributions to a fund in advance of the FCS being activated. A special levy collected from surviving non-life insurance companies (described above) is possible, but unlikely.

As the FCS is post-funded, APRA does not have a target for the cost of protecting policyholders under the FCS. In addition, APRA does not maintain separate funds for different business or different geographical locations.

Back-up Funding

To the extent that Government funds are available immediately, they will be used. There is also power for APRA to temporarily borrow money to the extent that Government funds are not immediately available. Further funding beyond the $20.1 billion referred to above would require Parliamentary approval.

Fund Management Investment Policies

Not applicable as APRA does not maintain a pre-fund.

IGS OVERVIEW – ASSURIS, CANADA

Contact

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Industry Overview (Year-End 2013)

Members
82 - Life insurance only

Mandatory Insurance
Canadians are not required to obtain life insurance

Industry Assets
Life: C$ 434 billion (US$ 379.79 billion)

Industry Total Annual Gross Premiums
Life: C$ 68 billion (US$ 59.51 billion)

Industry Total Policyholder Liabilities
Life: C$ 383 billion (US$ 355.51 billion)

Mission/Mandate

To protect policyholders if their life insurance company should fail.

Organisation Overview

Assuris is a private organisation, governed by an independent Board of Directors elected by the life insurance company members. Assuris is incorporated under the *Canada Not-for-profit Corporations Act.*

Assuris protection is applied to policyholders of life insurance business only.

Membership

Assuris membership is mandatory. Every life insurance company authorized to sell life insurance policies in Canada is required, by the federal, provincial and territorial regulators, to become a member of Assuris.

Types of Recovery and Resolution that Require Funding

Assuris' role is to protect policyholders by minimizing the loss of benefits and ensuring a quick transfer of their policies to a solvent company, where their protected benefits will continue.

If certain conditions are met, Assuris can fund recovery plans for a non-viable but solvent company that include run-off, sale of business, transfer to a bridge institution, guarantees and loans.

Once a company is declared insolvent, Assuris can fund all the above types of solutions as resolution options without restrictions.

Funding Basics

Assuris funding is provided by member life insurance companies. Assuris is a post-funded organisation. Assuris collects an assessment from the members following the insolvency of a life insurance company. The funds collected from the members are based on required capital. Required capital is calculated by the supervisor and is based on level of risk. Therefore riskier insurers are charged higher fees. Assuris has three types of assessments in place for post-insolvency funding; Specific Assessments, Loan Assessments and Extraordinary Assessments.

- A Specific Assessment is used to cover the cost of protecting policyholders of a failed member.
  - The Specific Assessment must not exceed four-thirds of one percent (4/3 of 1%) of a member's required capital in Canada.

- A Loan Assessment is used to secure cash needs that exceed what is available from other sources (i.e. Liquidity fund or Specific Assessment).
  - Used as an interim measure to meet short term funding needs.

- An Extraordinary Assessment is levied where the Specific and Loan Assessments are inadequate to cover funding required for a failed member.
  - Based on premium income written after the date of insolvency and is unlimited.

This method was chosen because it proportionally represents the size of the insurance company.

Assuris holds at least $100 million in a Liquidity Fund to provide an immediate source of funds in the first few days after an insolvency.

Other sources of funding include access to funds from the insolvent estate and investment income from the Liquidity Fund.

Assuris' operational costs are funded by the investment income of the Liquidity Fund which can be supplemented by an Administrative Assessment of members, if necessary. For an Administrative Assessment, each member pays $6,000 in addition to a variable amount based on required regulatory capital. Members may deduct fees paid to Assuris through an Administrative Assessment against their income tax.

Being post-funded, Assuris does not have a target fund for the cost of protecting policyholders. In addition, Assuris does not maintain separate funds for different lines of business or for different geographical locations.

Back-Up Funding

In order to meet liquidity demands, Assuris may borrow from life insurance companies. The Loan Assessment can be made against member companies and can raise up to 8% (a percentage which cannot be exceeded) of the regulatory required capital in Canada.

Fund Management Investment Policies

Assuris' Administrative Fund and Liquidity Fund are invested with the following investment policies in mind: capital preservation, liquid assets and low risk assets. The portfolio consists of cash, money market instruments, and federal, provincial and corporate bonds.

IGS OVERVIEW – PROPERTY AND CASUALTY INSURANCE COMPENSATION CORPORATION, CANADA

Contact

Grant Kelly
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Industry Overview (June 30, 2014)

Members
202 – Non- life insurance only

Mandatory Insurance
Automobile insurance coverage is required for drivers in all provinces and territories in Canada.

Industry Assets
Life: C$ 151.9 billion (US$ 133.07 billion)

Industry Total Annual Gross Premiums (Year-end 2013)
Life: C$ 44 billion (US$ 38.50 billion)

Industry Total Policyholder Liabilities
Life: C$ 66.2 billion (US$ 57.95 billion)

Mission/Mandate

The mission of the Property and Casualty Insurance Compensation Corporation (PACICC) is to protect eligible policyholders from undue financial loss in the event that a member insurer becomes insolvent.

PACICC works to minimize the costs of insurer insolvencies and seeks to maintain a high level of consumer and business confidence in Canada's property and casualty insurance industry through the financial protection it provides to policyholders.

Organisation Overview

PACICC is a private, not-for-profit corporation governed by member insurance companies. The Board of Directors is comprised of industry representatives and independent Directors. Canadian insurance supervisors are invited to participate in every Board of Directors meetings.

PACICC protection is applied to policyholders of non-life insurance business only. This includes accident and sickness, automobile, boiler and machinery, credit protection, legal expense, liability and property insurance.

Membership

Every provincial Insurance Act makes membership in a guarantee scheme mandatory in Canada. Non-life insurers must belong to PACICC as a condition of their license to sell insurance in that province. PACICC has formal participation agreements with each province in Canada and is the national guarantee for non-life insurers.

Types of Recovery and Resolution that Require Funding

PACICC provides coverage for Property and Casualty (P&C) insurance policyholders if their insurer fails. PACICC protection includes the payment of claims and refund of pre-paid premiums. Although rules allow PACICC to assist in the run-off or sale of business before the institution is formally closed by regulators, in practice, PACICC has limited its involvement.

Funding Basics

PACICC funding is provided by P&C member companies.

PACICC is a pre and post-funded organisation based on premiums. When an insurer becomes insolvent, PACICC assesses member insurers based on direct written premiums in the provinces where the failed insurer was active. The maximum annual levy PACICC can collect from its member companies is 1.5% of the prior year's direct written premiums. In addition, PACICC is entitled to access additional funds through levies from the industry to cover the operating expenses. No higher fees for high risk companies are charged. The fees collected from the P&C member companies are exempt from tax or duty.

PACICC holds at least C$ 50 million in a Compensation Fund to ensure that PACICC is in a position to respond to immediate financial demands in case of an insolvency.

Other sources of funding includes investment income.

Being primarily post-funded, PACICC has a target fund for the cost of protecting policyholders. In addition, PACICC maintains separates funds for each past insolvency. However, PACICC does not maintain separate funds for different lines of business or for different geographical locations.

Back-up Funding

In order to meet liquidity demands, PACICC may borrow from P&C insurance companies, government, banks, bond market and central banks. There is no limit on how much PACICC can raise through borrowing.

Fund Management Investment Policies

PACICC invests conservatively in debt obligations that are guaranteed by Canada or a province of Canada with capital preservation as the principle objective.

IGS OVERVIEW – TAIWAN INSURANCE GUARANTY FUND, CHINESE TAIPEI

Contact

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Industry Overview (Year-End 2013, 1US$=29.813TWD)

Members

Life	28
Non-Life	20

Mandatory Insurance
Owners of motorcycle and motorized vehicles are required to purchase insurance policies to cover potential damages due to traffic accidents to third parties.

Industry Assets

Life:	TWD 16,496.9 billion (US$ 553.35 billion)
Non-Life:	TWD 288 billion (US$ 9.66 billion)

Industry Total Annual Gross Premiums

Life:	TWD 2,583.5 billion (US$ 86.66 billion)
Non-Life:	TWD 124.9 billion (US$ 4.19 billion)

Industry Total Policyholder Liabilities

Life:	TWD 14,157.3 billion (US$ 474.87 billion)
Non-Life:	TWD 166.7 billion (US$ 5.59 billion)

Mission/Mandate

The mission of this Fund is to protect the interests of proposers, insured and beneficiaries, as well as maintain financial stability.

Organisation Overview

Taiwan Insurance Guaranty Fund (TIGF) is a private and governmental organisation. According to the Insurance Act, TIGF is a private legal entity and the funds were originally provided by the industry. However, due to the shortage of funds available to exit KUO-HUA Life Insurance Company in 2012, the government injected over 2.8 billion USD into TIGF. It is therefore appropriate to consider that TIGF is also a government organisation. Moreover, according to the Article of Incorporation of TIGF, the regulatory authority has the power to designate over half of the Board members of TIGF. In addition, the government has the ability to step in, if needed, in regards to TIGF operations.

The Fund has a Board of Directors composed of a minimum of 13 and a maximum of 17 members. The Life Insurance Association and the Non-Life Insurance Association each have the right to designate 2 members into the board. Other members of the Board shall be designated by the regulatory authority. The board elects one of its members to be the chairperson. The chairperson presides over the board meetings internally and represents the Fund externally. The Board of Directors approves one President (or General Manager) to handle daily operations of the Fund.

TIGF's protection applies to both life and non-life insurance businesses.

Membership

TIGF membership is mandatory for all life and non-life insurance companies licensed by the supervisory authorities and/or conducting business in Taiwan.

Types of Recovery and Resolution that Require Funding

If certain conditions are met, TIGF can fund recovery plans for an insolvent member company that include run-off, sale of business, transfer to a bridge institution, payment of claims, refund of premiums, guarantees, and loans.

Funding Basics

The funding of TIGF is provided by life and non-life insurance member companies.

TIGF is technically a pre-funded organisation based on premiums. In past insolvencies, the government injected additional capital when funds were not sufficient to cover the losses. However, the "Special Reserve of Business Tax of the Financial Institutes" was created for the Financial Supervisory Commission (FSC), by the resolution of the Legislative Yuan (the Congress), for the purpose of maintaining the stability of the financial industry and markets. This resolution has the authority to stop the special tax reserve for FSC whenever it is considered necessary. TIGF does not expect that the special tax reserve will forever be in effect.

Fees collected vary among member companies. The fees paid are based on multiple factors including the Capital Adequacy Ratio and the Management and Performance Index. Current economic conditions and the ability of the insurance companies to pay are also considered according to some indexes. Fees may not be lower than $1/1000^{th}$ of gross premium income. Fees collected from the members are exempt from any tax or duty.

Other sources of funding include investment income.

TIGF does not have a target fund for the cost of protecting policyholders. However, TIGF maintains separate funds for life and non-life businesses.

Back-up Funding

TIGF can apply for "Special Reserve of Business Tax of the Financial Institutes Excluding Banking" which is collected and held by the regulatory authorities to fund the failed insurance companies and other financial institutions other than banks.

TIGF can also borrow funds from banks and insurance member companies. There is no regulation restricting the borrowing capacity of TIGF.

Fund Management Investment Policies

TIGF invests its fund in bank deposits and government bonds with capital preservation.

IGS OVERVIEW – FONDS DE GARANTIE DES ASSURANCES OBLIGATOIRES DE DOMMAGES, FRANCE

Contact

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Industry Overview (Year-End 2013)

Members
93 – Non-life insurance only

Mandatory Insurance
There are about 120 kinds of compulsory insurance in France, including Motor Third Party Liability (MTPL).

Industry Assets
Non-life: € 159.5 billion (US$ 182.27 billion)

Industry Total Annual Gross Premiums
Non-life: € 70.1 billion (US$ 80.11 billion)

Industry Total Policyholder Liabilities
Non-life: € 138.9 billion (US$ 158.73 billion)

Mission/Mandate

The Fonds de Garantie des Assurances Obligatoires de Dommages (FGAO) is responsible for compensating victims of traffic accidents caused by uninsured or unknown vehicles/persons. In addition, the organisation has other missions, including the protection of policyholders, underwriters, members or beneficiaries of insurance contracts whose subscription is mandatory under a legislative or regulation provision, against the consequences of insolvency of insurance companies authorized to act in France and subject to the State control.

Organisation Overview

FGAO is a private organisation. The governing board is comprised of multiple representatives involved in all facets of the insurance industry. The president of the Board is appointed at the general assembly of FGAO. In addition, a representative of the Ministry of Economy operates control over the management of the Fund. FGAO protection is applied to policyholders of non-life insurance business (mandatory insurance only.

Membership

FGAO membership is mandatory for all non-life insurance companies entitled to provide mandatory insurances and authorized to act in France, and subject to State control.

Types of Recovery and Resolution that Require Funding

FGAO covers claims for victims of events in the scope of its activities. If an insurance company becomes insolvent, FGAO compensates third parties who are victims of events caused by the policyholders and covered by mandatory insurance. Regarding mandatory insurance other than MTPL, in very few cases, and if certain conditions are met, FGAO can cover claims for individuals who are unable to get compensated by their non-life insolvent insurance companies. Refund of premiums are excluded from coverage.

Funding Basics

The funding of FGAO for all its activities is provided by both the policyholders of non-life insurance companies and the non-life insurance companies. When it pays for the consequences of insolvency of an insurance company FGAO also recovers funds against the insolvent estate.

FGAO is a pre-funded organisation based on MTPL premiums and past loss experience. Fees collected from the policyholders are 2% of MTPL premiums and they fund all its operations, except those related to insolvency of insurance companies. In addition, FGAO collects additional fees from its members (non-life insurance companies) based on its obligations for the settlement of claims. The additional fees are shared between non-life insurance companies proportionally to their premiums collected in the last year. No higher fees are charged for high risk companies.

Other sources of funding include investment income, penalties and surcharges. FGAO can recover losses against uninsured persons liable for damages except in the case where their insurance company is insolvent.

Actually FGAO has a target fund for the cost of protecting policyholders. In addition, FGAO does not maintain separate funds for different risk pools or different geographical locations.

Back-up Funding

In the event that the liabilities for the insolvency of insurance companies fall below €250 million for more than 6 months, FGAO may request additional funding from the non-life insurance companies to bring the amount back to €250 million.

Fund Management Investment Policies

FGAO is invested conservatively in low risk assets with capital preservation as its main objective.

IGS OVERVIEW – FONDS DE GARANTIE DES ASSURANCES DE PERSONNES, FRANCE

Contact

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Industry Overview (Year-End 2013)

Members
109 – Life insurance only

Mandatory Insurance
None for life insurance

Industry Assets
Life: € 1,632 billion (US$ 2.03 trillion)

Industry Total Annual Gross Premiums
Life: € 137 billion (US$ 170.39 billion)

Industry Total Policyholder Liabilities
Life: € 1,632 billion (US$ 2.03 trillion)

Mission/Mandate

The Fonds de Garantie des Assurances de Personnes (FGAP) aims to strengthen the protection of policyholders in the event of the failure of a life insurance company.

Organisation Overview

FGAP is a private organisation, governed by a Supervisory Council. The Supervisory Council is comprised of 12 members from the insurance industry, who nominate the President of the Board of Directors. The President must be approved by the Ministry of Finance. The remaining two members of the Board of Directors are chosen by the Supervisory Council based on their respective experience. FGAP protection is applied to policyholders of life insurance business only.

Membership

FGAP membership is mandatory. All life insurers, covered by the Insurance Code and authorized by the French Supervisory Authority: the Autorité de contrôle prudentiel et de résolution (ACPR), are required to be members.

There are separate guarantee funds for the mutual (Fonds de garantie des mutuelles du code de la mutualité) and paritarian institutions of social protection (Fonds de garantie des institutions de prévoyance du code de la Sécurité sociale).

Types of Recovery and Resolution that Require Funding

FGAP provides funding for payment of claims and refund of premiums. FGAP is responsible for compensating the liquidator on any un-transferred business during the liquidation process. The payment is paid to the liquidators in an event of life insurance insolvency only if the business is not fully sold to other parties. FGAP will compensate policyholders and beneficiaries up to specified limits for the unsold business.

Funding Basics

FGAP funding is provided by member life insurance companies.

FGAP is both a post and pre-funded organisation based on mathematical provisions. Fees collected are calculated as 0.05% of the total liabilities for all life insurance member companies as of December 31of the prior year. Half of this fee (0.025%) is collected upfront and the other half remains on the books of the insurance companies with the guarantee that FGAP may access the funds. No higher fees for high risk companies are charged. However for unit-linked contracts, only one quarter of the provisions are included in the calculations. An annual minimum fee of € 15,000, per firm, is required. FGAP can collect up to € 700 million per year, from the industry, for insolvency purposes. The fees collected from the members are exempt of any tax or duty.

Other sources of funding include investment income.

FGAP does not have a target fund for the cost of protecting policyholders. In addition, FGAP does not maintain separate funds for different lines of business or for different geographical locations.

Back-up Funding

If the fund is not sufficient to cover an insolvency, FGAP may borrow additional funds from life insurance companies. FGAP may borrow up to 0.05% of the total liabilities for all life insurance member companies as of December 31 of the prior year. In addition, FGAP may request a loan from the government upon approval (up to € 700 million).

The aggregate annual spending for FGAP cannot exceed € 1.4 billion.

Fund Management Investment Policies

FGAP invests conservatively with capital preservation as its main investment policy. Up to 95% of its assets are invested in low-risk instruments and up to 5% are invested in low risk equities.

IGS OVERVIEW – MEDICATOR AG, GERMANY

Contact

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Industry Overview (Year-End 2013)

Members
43 – Non-life insurance only

Substitutive Private Health Insurance Industry Assets
€ 206 billion (US$ 255.09 billion)

Substitutive Private Health Insurance Industry Total Annual Gross Premiums
€ 26 billion (US$ 32.20 billion)

Substitutive Private Health Insurance Industry Total Policyholder Liabilities
€ 214 billion (US$ 265 billion)

Mission/Mandate

Medicator AG (Medicator) is a practicable and legally founded system of portfolio transfers from nonperforming insurers to the legal guarantee institution to secure continuation of the contracts.

Organisation Overview

Medicator is a private organisation. Medicator is a joint stock company and therefore guided by a Board of Directors. The Board of Directors is made up of PKV-Verband (the association of private health insurers) board member. The sole shareholder is PKV-Verband.

Beside the private Medicator, AG policymakers established in 2004 a governmental fund (Sicherungsfonds für die Krankenversicherer). The mandate of the governmental fund is identical with those of Medicator AG but the mission is based on law. Medicator is advised by the Ministry of Finance to administrate this governmental fund also.

Medicator protection is applied to policyholders of substitutive private health insurance business only.

Membership

All insurance companies offering substitutive private health insurance must become members of Medicator and the governmental fund.

Types of Recovery and Resolution that Require Funding

If certain conditions are met, private company "Medicator" can fund recovery plans primarily by transferring business of an insolvent member to other solvent member companies, but will reimburse any proceeds from the transfer back to member companies. Medicator may manage the business of insolvent member until such portfolio transfer completes. If it is advised by the supervisory authority the business of a failed insurer will be transferred to the governmental fund. Medicator can run-off the business or transfer the business after capitalization to a solvent insurer later on.

Funding Basics

The funding of Medicator as well as the governmental fund is provided by its member insurance companies.

The private Medicator AG is pre-funded on a small level but mainly a post-funded organisation. The pre-fund relates to the organisational aspects as well as the requirement of the regulators and amounts to €1 million. In case of a failure Medicator can access the capital reserves of member companies. The fund size is guaranteed at €1 billion. The fees collected from the members are exempt from any tax or duty.

The governmental fund is post-funded. Fees are collected annually up to 2‰ of net technical provisions of members.

Medicator does not have a target fund for the cost of protecting policyholders. In addition, Medicator does not maintain separate funds for different risk pools.

Back-up Funding

The governmental fund currently has no back-up funding. Nevertheless there is a guarantee of members of Medicator AG based on a private agreement to spend up to €1 billion for protecting policyholders.

Fund Management Investment Policies

Medicator invests conservatively in low risk assets with capital preservation and liquidity as its main objectives.

IGS OVERVIEW – PROTEKTOR LEBENSVERSICHERUNGS - AG, GERMANY

Contact

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Industry Overview (Year-End 2013)

Members
110 - Life insurance only

Mandatory Insurance
None for life insurance

Industry Investment Portfolio
Life: € 796 billion (US$ 1,097 billion)

Industry Total Annual Gross Premiums
Life: € 91 billion (US$ 125 billion)

Industry Total Benefits Paid
Life: € 79 billion (US$ 109 billion)

Organisation Overview

Protektor is considered both a private and a governmental body as it is a combination of a private initiative (Protektor Lebensversicherungs-AG) and a governmental fund (Sicherungsfonds für die Lebensversicherer). The private initiative was established in 2002 and took over the business of a failed insurer in 2003. Since then, it runs off this business. As a successor of the private initiative, the government established a mandatory scheme in 2004. The activities and assets of the governmental fund are also handled by Protektor Lebensversicherungs-AG and are separated from the assets and liabilities of the private company.

Protektor's protection is applied to beneficiaries of life insurance business only.

Mission/Mandate

Protektor is the mechanism set up by German life insurers for the protection of beneficiaries' interests from private life insurance contracts. The guarantee mechanism protects beneficiaries against the consequences of a life insurer becoming insolvent and contracts are carried on. For example, retirement benefits and term coverage are maintained as well as guaranteed bonus shares already allocated.

The mandate of the governmental fund of Protektor is written in the law (Act on the Supervision of Insurance Undertakings – “Versicherungsaufsichtsgesetz”), under Protection Fund, section 125: ff (as of January 1, 2016: section 221 ff.) “Maintenance of Insurance Contracts”.

Membership

Membership in the governmental fund is mandatory for all German life insurance companies as well as German branches of life insurers located outside the European Union/European Economic Area licensed by German supervisory authorities.

Pension funds (“Pensionskassen”) are exempt from the mandatory membership, but may voluntarily join the guarantee fund for life insurers, if their financial situation is comparable. Those that choose to join the guarantee scheme in Germany must contribute in the same way as life insurers. Once they have become a member, they cannot cancel their membership at a later date.

Types of Recovery and Resolution that Require Funding

If it is advised by the supervisory authority, Protektor has to take over the insurance contracts and related assets from a failed insurer. Protektor will run-off the business. After recapitalisation Protektor may also transfer the business to another company at a later day. It will however reimburse any proceeds from the business to the member companies until the capital injection is amortized.

Funding Basics

The governmental fund of Protektor is a pre and post-funded organisation based on policyholder liabilities. Fees are collected annually based on a target fund of 1‰ of total net technical provisions. The target fund size is recalculated every year. If the actual fund size is lower than 1‰ of the net technical provisions, Protektor will collect the difference from the member companies and vice versa. In addition, fees are risk-based. This means that companies with a better solvency situation pay relatively lower fees than other companies. Subject to the law, Protektor can impose additional fees up to 1‰ of the net technical provisions, if necessary.

The fees collected from the members are balanced as assets within members’ balance sheets and therefore are not exempt of any tax or duty.

The governmental fund prepares annual accounts. Any profit is refunded back to member companies.

Other sources of funding include additional commitments of members (including the mandatory fees to the governmental fund) of up to 1% of the net technical provisions, if the financial capacity of the governmental fund is not sufficient to cover losses. Before using this funding option, liabilities from policyholders’ contracts have to be reduced by 5%. This is recommended by the supervisory authority.

Based on the structure of the guarantee scheme as a runoff scheme, Protektor does not have a target fund for the cost of protecting policyholders. In addition, Protektor does not maintain separate funds for different lines of life-business or for different geographical areas/residential status.

Fund Management Investment Policies

The governmental fund of Protektor is invested conservatively in low risk assets with capital preservation and liquidity as the main objectives.

IGS OVERVIEW – PRIVATE LIFE INSURANCE GUARANTEE FUND, GREECE

Contact

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Industry Overview (Year-End 2013)

Members

Life	11
Non-Life	36
Composite	11

Mandatory Insurance
There are 16 types of mandatory insurance (i.e. Third Party Liabilities, insurance for intermediaries, liability yacht insurance, liability insurance for tour operators etc), but only one of them is covered by an Insurance Guarantee Scheme: Motor Third Party Liability.

Industry Assets
Total Assets: €15.25 billion (US $19,64 billion)

Industry Total Annual Gross Premiums

Life Insurance:	€ 1,681 billion (US $2,165 billion)
Non-Life Insurance:	€ 2,340 billion (US $3,013 billion)

Industry Total Policyholder Liabilities

Life Insurance:	€ 8.1 billion (US $10,4 billion)
Non-Life Insurance:	€ 3.2 billion (US $ 4,1 billion)

Mission/Mandate

The object of the Private Life Insurance Guarantee Fund (PLIGF) is to ensure the transfer, in whole or in part, of the life insurance portfolio of any insurance undertaking that is in the process of liquidation to another insurance undertaking(s). If this proves to be impossible, PLIGF proceeds with the termination of the life insurance policies and the payment of an amount corresponding to the value of such policies, as well as payment of an amount for outstanding losses and payable benefits.

Organisation Overview

PLIGF is a private entity, under the supervision and control of the Bank of Greece. PLIGF is governed by a committee consisting of a Bank of Greece appointed chairman and four members elected by the General Assembly of members. PLIGF protection is applied to life insurance business only.

Membership

PLIGF membership is mandatory. All legally operating insurance companies providing life insurance services, in Greece, are required by law to become members of PLIGF providing that they are not already covered by similar guarantee funds in their country of establishment.

Types of Recovery and Resolution that Require Funding

The main objective of PLIGF is to transfer all or part of the life portfolio of an insurance company in liquidation to another insurance company. If not successful, PLIGF compensates policyholders, against the value of their contracts as well as outstanding claims and benefits payable (excluding additional coverage of hospital care), within the limits defined by law. The initial portfolio transfer process does not require funding from PLIGF. PLIGF will compensate policyholders if the portfolio cannot be successfully transferred to another company. PLIGF will cover the financial gap between the assets of the insolvent life insurance company and the compensations to be paid to policyholders.

Funding Basics

PLIGF funding is provided by member life insurance companies.

PLIGF is a pre-funded organisation based on premiums. Fees collected by members can be up to 1.5% of the total annual gross life premiums. 50% of these fees are passed on to policyholders through their premiums paid. No higher fees for high risk companies are charged. The fees collected from the members are exempt of any tax or duty.

Other sources of funding include investment income from the pre-fund.

PLIGF does not have a target fund for the cost of protecting policyholders. In addition, PLIGF does not maintain separate funds for different lines of business or for different geographical locations.

Back-Up Funding

At this time, the law remains unclear as to which organisations PLIGF may borrow from. However, if necessary, PLIGF may borrow from banks with up to two thirds of its overdue fees and future fees payable being used as collateral.

Fund Management Investment Policies

PLIGF's funds are invested conservatively in low risk assets. The funds consist of short-term time deposits and European treasury bonds.

IGS OVERVIEW – POLICYHOLDERS COMPENSATION FUND, KENYA

Contact

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Industry Overview (Year-End 2013)

Members

Life	12
Non-Life	24
Composite	12

Mandatory Insurance
Motor Vehicle Third Party and Workmen's Compensation are mandatory.

Industry Assets
KSh: 366.25 billion (US$ 4.02 billion)

Industry Total Annual Gross Premiums
KSh: 133.49 billion (US$ 1.46 billion)

Industry Total Policyholder Liabilities
KSh: 155.95 billion (US$ 1.71 billion)

Mission/Mandate

The Policyholders Compensation Fund's (PCF) mandate is to:

a) provide compensation to the policyholders of an insolvent insurer;

b) monitor, in consultation with the Commissioner where necessary, the risk profile of any insurer;

c) advise the Minister on the national policy to be followed with regard to matters relating to compensation of policyholders and to implement all government policies relating thereto;

d) participate in the statutory management of an insurer placed under statutory management by the regulator:

e) liquidate an insurer as may be ordered by a court; and

f) perform such other functions as may be conferred on it by this Act or by any other written law.

Organisation Overview

PCF is a State Corporation under the National Treasury. It is established under the Insurance Act and is governed by a Board of Trustees that reports to the Cabinet Secretary (Minister). The Board of Trustees is composed of industry representatives and members who are independent of the industry.

PCF protection is applied to claimants of both life and non-life insurance business.

Membership

PCF membership is mandatory. It is required by law that all licensed life and non-life insurers in Kenya automatically become members of the PCF.

Types of Recovery and Resolution that Require Funding

Subject to the fulfilment of prescribed conditions, PCF can fund the payment of unsettled claims for life and non-life policies written or adjusted after 2005. Life and non-life policies issued prior to 2005 are not protected by PCF.

Funding Basics

The funding of PCF is provided by both life and non-life member companies as well as by policyholders. PCF can also access funds through the insolvent estate.

PCF is a pre-funded organisation based on premiums. PCF collects 0.25% of the total gross premiums from the member companies and collects an equal amount from the policyholders for a total of 0.5% of the total gross premiums. No higher fees are charged for high risk companies. The fees collected from the members are exempt from any tax or duty.

Other sources of funding include investment income, penalties and surcharges on late payments and governmental grants.

PCF does not have a target fund for the cost of protecting policyholders. In addition, PCF does not maintain separate funds for life and non-life business or for different geographical locations.

Back-up Funding

PCF can raise back-up funding through applying for loans from the banks and/or from the government. There are no conditions or limits set on the amount PCF can raise as back-up funding.

Fund Management Investment Policies

PCF reserves are invested conservatively in short-term government instruments and bank deposits with capital preservation, low risk assets and liquidity as the main investment objectives.

IGS OVERVIEW – KOREA DEPOSIT INSURANCE CORPORATION, KOREA

Contact

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Industry Overview (June 30, 2014)

Life	25
Non-Life	23

Mandatory Insurance
National pension, health insurance, employment insurance, and industrial accident compensation insurance are mandatory.

Industry Assets

Life:	KRW 625 trillion (US$ 561.57 billion)
Non-Life:	KRW 175 trillion (US$ 157.24 billion)

Industry Total Annual Gross Premiums

Life:	KRW 52 trillion (US$ 46.72 billion)
Non-Life:	KRW 35 trillion (US$ 31.45 billion)

Industry Total Policyholder Liabilities

Life:	KRW 441 trillion (US$ 397.23 billion)
Non-Life:	KRW 136 trillion (US$ 122.2 billion)

Mission/Mandate

Depositor protection and maintenance of financial stability.

Organisation Overview

The Korea Deposit Insurance Corporation (KDIC) is a public organisation overseen by the Financial Services Commission, a government entity. Therefore KDIC is entirely government legislated and administered.

KDIC protection is applied to policyholders of both life and non-life insurance business.

Membership

KDIC membership is mandatory for all life and non-life insurance companies licensed by Korean supervisory authorities and/or conducting business in Korea.

Types of Recovery and Resolution that Require Funding

If certain conditions are met, KDIC can fund recovery plans for an insolvent member company that include run off, sale of business, transfer to a bridge institution, guarantees and loans.

Funding Basics

The funding of KDIC is provided by both life insurance and non-life insurance member companies.

KDIC is a pre-funded organisation based on premiums. Fees collected vary among member companies based on KDIC's risk assessment. The fees collected from the member companies are exempt from any tax or duty.

Other sources of funding include operating profits and investment income.

KDIC has a target fund for the cost of protecting policyholders. The target fund amount is calculated based on stochastic and deterministic modeling. When the fund reaches lower-bound of the target range, fees are reduced, when the fund reaches upper-bound of the range, fees are waived or refunded back to the member companies. In addition, KDIC maintains separate funds for life and non-life business but not for different geographical locations.

Back-up Funding

KDIC can raise back-up funding through applying for loans from the banks or from the government. KDIC can also borrow from insurance member companies and from the public by issuing KDIC bonds. There is no regulation restricting the borrowing capacity of KDIC.

Fund Management Investment Policies

The cash surplus is invested in government bonds and public bonds with capital preservation and liquidity as the principle objectives.

IGS OVERVIEW – MALAYSIA DEPOSIT INSURANCE CORPORATION, MALAYSIA

Contact

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Industry Overview (June 30, 2014)

Members

Life	25
Non-Life	31

Mandatory Insurance
Motor Third Party Bodily Injury Liability, Professional Indemnity (for brokers, financial advisors, lawyers and accountants in public practice, Foreign Workers Insurance Guarantee Scheme Foreign Workers Compensation Insurance are required by law.

Industry Assets

Life:	RM 203.71 billion (US$ 63.60 billion)
Non-Life:	RM 34.99 billion (US$ 10.90 billion)

Industry Total Annual Gross Premiums

Life:	RM 28.40 billion (US$ 8.90 billion)
Non-Life:	RM 17.640 billion (US$ 5.500 billion)

Industry Total Policyholder Liabilities

Life:	RM 117.70 billion (US$ 36.8 billion)
Non-Life:	RM 17.00 billion (US$ 5.30 billion)

Mission/Mandate

The Malaysia Deposit Insurance Corporation (MDIC) mandates as provided in the MDIC Act are to:

(a) administer the Deposit Insurance System (DIS) and the Takaful & Insurance Benefits Protection System (TIPS);
(b) provide insurance against the loss of part or all of deposits for which a deposit-taking member is liable and provide protection against the loss of part or all of takaful or insurance benefits for which an insurer member is liable;
(c) provide incentives for sound risk management in the financial system; and
(d) promote or contribute to the stability of the financial system.

In achieving its objects under paragraphs (b) and (d), MDIC shall act in such manner as to minimize costs to the financial system.

Organisation Overview

MDIC is governmental organisation. It is a statutory body established by Parliament in 2005. MDIC administers two protection schemes: DIS and TIPS. It is an operationally independent statutory body and is accountable to the Malaysian Parliament through the Minister of Finance and the public for the discharge of its duties.

MDIC is governed by Board of Directors. The Board is responsible for the conduct of the business and affairs of MDIC and is comprised of 9 directors including a Chairman with relevant private sector experience, the Governor of Bank Negara Malaysia and the Secretary General of the Treasury.

MDIC protection is applied to policyholders of both life and non-life insurance business.

Membership

MDIC membership is mandatory. Insurance companies who are members of MDIC include insurance companies licensed to conduct life (conventional and Islamic) and non-life insurance business (conventional and Islamic) in Malaysia, excluding reinsurers and financial guarantee insurers.

Types of Intervention and Resolution Actions that Require Funding

MDIC can fund and execute any of the intervention and resolution actions that MDIC is empowered to undertake, which can be broadly grouped into:

(a) loss mitigation powers – allow for corrective intervention actions to be undertaken with the objective of reducing or averting a risk to the financial system or a threatened loss to MDIC. These powers allow for MDIC to, amongst other things, provide financial assistance in the form of loans, advances or guarantees, make deposits, acquire shares or capital instruments of the member company, purchase assets of the member company, and to do all such other things as may be necessary in the circumstances.

(b) failure resolution powers – execution of resolution actions to resolve a troubled member company that is deemed to be non-viable by Bank Negara Malaysia (the supervisory authority) that allows MDIC to:
   (i) require a member company to do or not to do any actions that MDIC may consider necessary or expedient; to cease soliciting deposits or issuing/renewing policies; or to restructure the whole or part of the business;
   (ii) acquire shares of a member company from its existing shareholders;
   (iii) assume control of whole or part of a member company’s assets, liabilities, businesses and affairs;
   (iv) make an application to the High Court to appoint receiver and/or manager to manage the assets, liabilities, businesses and affairs of a member company;
   (v) transfer assets and liabilities of a member company to a bridge institution; and

(vi) make an application to the High Court to wind up a member company.

Funding Basics

The funding of MDIC is provided by both life and non-life member companies into the corresponding funds for life (conventional and Islamic) and non-life (conventional and Islamic).

MDIC is a pre-funded organisation. For life member companies, fees collected are based on total actuarial liabilities of the preceding assessment year. For non-life member companies, fees collected are based on the total net premiums received during the prior assessment year. As of 2013, based on risk rating, MDIC charges life insurance companies between 0.025% and 0.2% of total actuarial liabilities per year and for non-life insurance companies, between 0.05% and 0.4% of total net premiums per year. MDIC performs risk ratings for each life and non-life member company based on a combination of quantitative and qualitative criteria. The fees collected from the member companies are tax deductible expenses for the member companies.

Other sources of funds include investment income and recoveries from the estate of the failed insurer.

MDIC does not have a target fund for the cost of protecting policyholders at this time. MDIC maintains different funds for different lines of business such as life insurance, family solidarity takaful, general insurance and general takaful. MDIC does not maintain separate funds for different geographical locations.

Back-up Funding

In the event of liquidity needs, MDIC can borrow from the government, the capital market or any other sources deemed appropriate. There are no conditions or limits set on the amount MDIC can raise as back-up funding.

Fund Management Investment Policies

MDIC invests in low risk assets such as government bonds and high investment grade corporate bonds. The Islamic funds are invested in accordance with Islamic principles. The principle investment objectives are capital preservation and liquidity.

IGS OVERVIEW – GARANTIORDNINGEN FOR SKADEFORSIKRING, NORWAY

Contact

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Industry Overview (Year-End 2013)

Members
72 – Non-life insurance only

Mandatory Insurance
Traffic insurance for motor vehicles and occupational injury.

Industry Assets
Non-life: 225,628 million NOK (US$ 31.4 billion)

Industry Total Annual Net Premiums
Non-life: 76,383 million NOK (US$ 10.63 billion)

Industry Total Policyholder Liabilities
Non-life: 142,481 million NOK (US$ 19.83 billion)

Mission/Mandate

N/A

Organisation Overview

The Garantiordningen for Skadeforsikring is a governmental organisation. It is governed by a Board of Directors comprised of five people. The minister of Finance appoints the Board Members. Two of the five Members are appointed through industry suggestions. The other three consist of a representative of the supervisory authority, a retired professional Board Member in insurance business and an independent Board Member.

The Garantiordningen for Skadeforsikring's protection applies to non-life insurance business only.

Membership

Garantiordningen for Skadeforsikring membership is mandatory for all non-life insurance companies licensed by Norwegian supervisory authorities and/or conducting business in Norway.

Types of Recovery and Resolution that Require Funding

The Garantiordningen for Skadeforsikring can run-off the insolvent company by placing the insurer under public administration and fund payment of claims.

Funding Basics

The funding of the Garantiordningen for Skadeforsikring is provided by non-life insurance member companies.

The Garantiordningen for Skadeforsikring is a pre and post-funded organisation based on premiums. Non-life insurance member companies shall set reserves equaling 1.5% of the gross premium written on covered business on their balance sheets. These fees would be collected by the Garantiordningen for Skadeforsikring should there be an insolvency. No higher fees are charged for high risk companies. The fees collected from the members are exempt from any tax or duty.

Other sources of funding include investment income.

The basic day-to-day operating costs are covered by the supervisory authority. The Garantiordningen for Skadeforsikring is run on a pro bono basis. It holds approximately €2 million in a liquidity fund. The money was accumulated from the past insolvencies. The liquidity fund can be used to cover the operational costs during an insolvency.

The Garantiordningen for Skadeforsikring does not have a target fund for the cost of protecting policyholders. In addition, the Garantiordningen for Skadeforsikring does not maintain separate funds for different business or different geographical locations.

Back-up Funding

The Garantiordningen for Skadeforsikring does not have any back-up funding in place. If necessary, the Garantiordningen for Skadeforsikring can borrow on market terms.

Fund Management Investment Policies

The Garantiordningen for Skadeforsikring invests its liquidity fund purely in short term bank deposits with capital preservation as principle objective.

IGS OVERVIEW – UBEZPIECZENIOWY FUNDUSZ GWARANCYJNY, POLAND

Contact

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Industry Overview (Year-End 2013)

Members
28 non-life insurers. At this time, only insurers providing mandatory motor Third Party Liability (TPL) insurance and/or mandatory farmers TPL insurance are UFG members.

Mandatory Insurance
Poles are required to obtain certain non-life insurance products (mainly TPL ones).

Industry Assets
Life: US$ 34 billion
Non-life: US$ 22 billion
Total: US$ 56 billion

Industry Total Annual Gross Premiums
Life: US$ 10 billion
Non-life: US$ 9 billion
Total: US$ 19 billion

Industry Total Policyholder Liabilities
Life: US$ 28 billion
Non-life: US$ 14 billion
Total: US$ 42 billion

Mission/Mandate

N/A

Organisation Overview

Ubezpieczeniowy Fundusz Gwarancyjny (Insurance Guarantee Fund –UFG) is a private organisation governed by three legal statutory bodies; the General Assembly of the Fund Members (the insurers), the Fund's Council, and the Executive Board. The Fund's Executive Board (3-5 representatives including the Chairman and two Vice-Chairmen) is responsible for UFG's day to day activities and is appointed by the Fund's Council. The latter supervises the activities of the Executive Board. Two out of nine of the Fund's Council are representatives of the Ministry of Finance and Supervisory Authority making them the only public element of

UFG's organisational structure while the remaining seven members are elected by the General Assembly. The General Assembly of the Fund Members controls the activity of the Fund's Council. UFG's protection is applied to both life and mandatory non-life insurance lines business.

Membership

UFG's membership is mandatory. All insurers conducting business within mandatory motor TPL insurance and/or mandatory farmers TPL insurance in Poland are obligated to become members. Membership for non-life insurance companies conducting mandatory motor TPL insurance and/or mandatory farmers TPL insurance in Poland begins on the day of the conclusion of their first insurance contract of such insurances (i.e. motor TPL or farmer TPL insurance contract).

Membership for life insurance companies or non-life insurance companies conducting other mandatory than motor TPL or farmers TPL insurances begins on the day of the declaration of bankruptcy or compulsory winding-up. Life insurance or other mandatory non-life insurance membership is therefore connected with the eventual insolvency of the insurer.

Types of Recovery and Resolution that Require Funding

For life members, UFG will compensate policyholders against the value of their contracts and any outstanding claims and benefits payable (excluding premium refunds) should the member declare bankruptcy or compulsory winding up.

For non-life members, UFG will payout claims and compensate victims (in case of other mandatory TPL insurances) or policyholders (in the case of mandatory non-life insurance other than TPL), should the member declare bankruptcy or compulsory winding up. As it is the case with life members, premiums are not refunded.

For non-life members (but only those previously conducting mandatory motor or farmers TPL insurance), UFG may intervene either:

- via paying out claims and compensating victims in the case of insurable events (i.e. accidents) and through an insurer perpetrator's bankruptcy declaration or compulsory winding up. Again, as in the case with life or non-life members (but conducting only other mandatory insurances than motor and/or farmers TPL ones), premiums are not refunded (with the exception of the redemption values, under certain limits, of specified investment products).

- via transferring the insurance portfolio (i.e. motor TPL and/or farmers TPL insurance) of its non-life member threatened with bankruptcy to another non-life member conducting insurance activity within respective lines (i.e. motor TPL and/or farmers TPL insurance). A financial loan may be granted by UFG to an insurer interested in taking over the company threatened with insolvency.

Funding Basics

UFG is pre and post-funded organisation depending on the line of business. Funding is provided by member insurance companies conducting motor TPL and/or farmers TPL insurance (on a regular ex ante basis independent of bankruptcy declaration or compulsory winding up) as well as by life insurers or non-life insurers conducting business in other mandatory lines other than the ones mentioned above (on a post funded basis, i.e. following bankruptcy declaration or compulsory winding up). No higher fees are charged for high risk companies. Both life and non-life members may deduct fees paid to UFG against their income tax.

Other sources of funding include investment income, penalties and surcharges imposed on uninsured possessors of motor vehicles or farms, recoveries from uninsured possessors/responsible parties of motor vehicles or farms for causing the accident, and amounts recovered during the liquidation

UFG does not have a target fund for the cost of protecting policyholders although eventual UFG financial needs are permanently reviewed by the Financial Supervisory Authority and the Ministry of Finance. In addition, UFG does not maintain separate funds for different geographical locations.

Non-Life (referring to mandatory motor TPL and/or mandatory farmers TPL insurance only)

UFG is funded on a pre-funded basis by its non-life insurance members conducting mandatory motor TPL and/or mandatory farmers TPL insurance. UFG collects 1.3% of gross premiums written from its member companies (mandatory motor TPL and/or mandatory farmers TPL insurance only, even if the UFG member also conducts business in other voluntary or mandatory non-life insurance lines). If following an insurer's insolvency, there is a need for UFG to receive additional funds, UFG may increase the fees, pending approval from the Minister of Finance.

UFG also maintains a separate account dedicated to providing financial loans to assist other non-life insurers in taking over members threatened with insolvency (This account is specially dedicated to mandatory motor TPL and/or mandatory farmers TPL insurance only). Created in 2004, this account was financed by the non-life insurance industry (from premiums of mandatory motor TPL and/or mandatory farmers TPL insurance only). It has periodically been suspended (but may be reintroduced by the Minister of Finance if justified) and has been financed only through investment income since 2011.

Other sources of funding include investment income from the fees collected and invested in the prefund, access to funds from the insolvent estate, penalties imposed on uninsured owners of non-life insurance, and income from recourse proceedings initiated by the UFG against uninsured owners of non-life insurance who have caused injury or damage to others.

Life and non-life (referring to mandatory insurance other than motor TPL and/or mandatory farmers TPL insurance)

UFG is funded on a post-funded basis by its life insurance or non-life members (non-life members refer to insurance companies conducting business within other mandatory insurance lines of business other than motor TPL and/or mandatory farmers TPL insurance). In the case of the insurer's insolvency, UFG would collect a fixed percentage of gross premiums written from insurers conducting life or other mandatory insurance business. This fixed percentage would be set by the Minister of Finance following consultation with the Supervisory Authority and the Polish Chamber of Insurance.

Funds received from the life or other mandatory non-life insurance business would be collected in a separate account specifically dedicated to life insurance or other mandatory non-life insurance.

Back-Up Funding

UFG does not have any back-up funding sources.

Fund Management Investment Policies

UFG's funds are invested in liquid and low risk assets. The fund consists of cash, deposits, treasury bonds and corporate bonds (of the most stable companies). The catalogue of financial instruments permitted to invest for IFG is very wide and is the same as for insurers.

IGS OVERVIEW – FOND DE GARANTARE, ROMANIA

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Industry Overview (Year-End 2013)

Members

Life	10
Non-Life	20

Mandatory Insurance
General insurance such as household insurance and Motor Third Party Liability are mandatory.

Industry Assets
€ 4.173 billion (US$ 5.19 billion)

Industry Total Annual Gross Premiums
€ 1.841 billion (US$ 2.29 billion)

Industry Total Policyholder Liabilities
€ 1.030 billion (US$ 1.28 billion)

Mission/Mandate

The purpose of the Fond de Garantare (The Guarantee Fund) is to protect policyholders, insurance beneficiaries and injured third parties through payment of indemnity/insurance claims incurred by mandatory and voluntary insurance contracts in the event of an insurer`s insolvency.

Organisation Overview

The Guarantee Fund is public organisation, independent from the Government. It is administered by the Financial Supervisory Authority (FSA) who submits reports on The Guarantee Fund's activities to Parliament. The FSA issues norms providing for the establishment, management, structure and budgets of The Guarantee Fund. This includes the procedure and conditions under which payments are made to and from the Fund. The Guarantee Fund is currently undergoing a restructuring process, which will affect its transformation as a legal person of public law. In order to exercise its legal duties, the Guarantee Fund will sign in the following period a transfer protocol with the Financial Supervisory Authority (which currently still administers the Fund) for the personnel, available assets, rights and obligations. The Guarantee Fund protection is applied to policyholders of both life and non-life insurance.

Membership

Membership to The Guarantee Fund is mandatory. All life and non-life insurers licensed by the FSA must become members (i.e. established in Romania via headquarters or registered offices in the country).

Types of Recovery and Resolution that Require Funding

The Guarantee Fund provides payments to creditors in the event of insurer insolvency.

Funding Basics

The funding of the Guarantee Fund is provided by both life and non-life insurance companies.

The Guarantee Fund is a pre-funded organisation based on premiums. Fees collected are based on 0.4% of gross premiums for life insurance members and 1% of gross premiums for non-life insurance members. Subject to the law, The Guarantee Fund can increase the fees paid by members up to 10% of gross premiums in the event more funds are needed. No higher fees for high risk companies are charged. The fees collected from the members are exempt of any tax or duty.

Other sources of funding include investment income, penalties and surcharges incurred for late payments by the members, and other amounts according to the law. The Natural Disaster Insurance Pool (PAID), an insurance-reinsurance undertaking formed by the association of insurance undertakings authorized to conclude mandatory housing insurance against natural disasters, contributes to The Guarantee Fund as well. The policies issued by PAID are also protected by The Guarantee Fund.

The Guarantee Fund does not have a target fund for the cost of protecting policyholders. In addition. The Guarantee Fund maintains two distinct accounts for collecting contributions related to life and non-life insurance.

Back-up Funding

There is no back-up funding available. If the fund is not sufficient to cover the insolvency, the Guarantee Fund can increase the fee collection (up to 10% of gross earned premiums) from the industry and continue to collect annually, at this rate, until the deficit is recovered.

Fund Management Investment Policies

The goal of the investment policy of The Guarantee Fund is to mitigate risk. It invests conservatively in money market instruments, government bonds and bonds issued by local public authorities as well as in interest-bearing instruments with credit institutions and in allocations provided by law.

IGS OVERVIEW – SINGAPORE DEPOSIT INSURANCE CORPORATION, SINGAPORE

Contact

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Industry Overview (Year-End 2013)

Members

Life	21
Non-Life	41

Mandatory Insurance
General non-life insurance under the Motor Vehicles (Third Party Risks and Compensation) Act and Work Injury and Compensation Act

Industry Assets

Life:	S$ 136.18 billion (US$ 108.92 billion)
Non-Life:	S$ 9.99 billion (US$ 7.99 billion)

Industry Total Annual Gross Premiums

Life:	S$ 12.12 billion (US$ 9.69 billion)
Non-Life:	S$ 3.74 billion (US$ 2.99 billion)

Industry Total Policyholder Liabilities

Life:	S$ 130.47 billion (US$ 104.35 billion)
Non-Life:	S$ 5.75 billion (US$ 4.6 billion)

Mission/Mandate

1. Administer the Deposit Insurance (DI) and Policy Owners Protection (PPF) Schemes,
2. Collect levies and manage the DI Fund, PPF Life Fund, PPF General Fund,
3. Make compensation payouts, facilitate transfer or run-off the insurance business of a failed PPF Scheme member.

Organisation Overview

SDIC is a private organisation, independent of the insurance industry. The SDIC Board of Directors are directly accountable to the Minister. SDIC has been designated to be the deposit insurance and policy owner’s protection fund agency. This includes both life and non-life insurance.

Membership

SDIC membership is mandatory. All insurers licensed by the Monetary Authority of Singapore (MAS) to carry on direct life business or direct general business (non-life) are members of the PPF Scheme. MAS may, however, exempt life or non-life insurers from being members of the PPF Scheme.

Types of Recovery and Resolution that Require Funding

SDIC will compensate the policyholders subject to the protection under the Schemes in the event that a member company's business is terminated. If the business is transferred to another company, SDIC may fund the transfer, as long as policyholder protection under the Schemes is not reduced with the new company. SDIC may also run off the business. In this case, SDIC will provide coverage to all policyholders until all policies have matured or expired.

Funding Basics

SDIC funding is provided by member life and non-life insurance companies.

SDIC is both a post and pre-funded organisation based on target fund size and the scheme member's protected liabilities and supervisory rating. Levies collected from life insurance members range from 0.028% to 0.142% of protected liabilities and range from 0.106% to 0.529% of gross premium income for non-life insurance members. Higher levies are charged for high risk companies. The risk-based funding method is consistent with the objective of encouraging insurers to manage their operations prudently. Both life and non-life members may deduct levies paid to SDIC against their income tax.

SDIC has a target fund for the cost of protecting policyholders. The target fund is based on an internal model using the Monte Carlo simulation. The target fund size is set to meet the costs of insolvency over a one year period with a 99.9% level of confidence. The amount of funding necessary for the organisation is calculated based on the target fund size and the scheme member's protected liabilities and supervisory rating. In the event that the prefund is insufficient, SDIC is able to collect additional levies from the industry. This amount is determined between MAS and SDIC. Other sources of funding include investment income.

SDIC maintains separate funds for life and non-life businesses. SDIC does not maintain any additional separate funds.

Back-Up Funding

SDIC is currently in discussions with MAS regarding back-up funding sources. However, SDIC does not have any formal arrangement at this time.

Fund Management Investment Policies

SDIC funds are invested conservatively with capital preservation and liquidity in mind.

IGS OVERVIEW – CONSORCIO DE COMPENSACIÓN DE SEGUROS, SPAIN

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Industry Overview (Year-End 2013)

Members
There are over 400 insurance companies in Spain.

Mandatory Insurance
Mandatory insurances are mainly related to the civil liability in different fields.

Industry Assets
Life: € 180.18 billion (US$ 224.56 billion)
Non-Life: € 42.05 billion (US$ 52.4 billion)

Industry Total Annual Gross Premiums
Life: € 25.91 billion (US$ 32.23 billion)
Non-Life: € 30.35 billion (US$ 37.83 billion)

Industry Total Policyholder Liabilities
Life: € 165.82 billion (US$ 206.65 billion)
Non-Life: € 29.11 billion (US$ 36.21 billion)

Mission/Mandate

The Spanish system is regulated by law. Consorcio initiates a winding-up process after a mandate has been issued by the Ministry of Economy or the Court (the latter, in case of bankruptcy).

Organisation Overview

Consorcio de Compensación de Seguros (Consorcio) is a public business institution attached to the Ministry of Economy and Competitiveness and with many duties in the insurance industry. Among them, it manages the system protecting policyholders in case of insolvency, which applies to both life and non-life insurance business. Consorcio has its own legal status and assets independent from those of the State.

Membership

In the Spanish system, there are no members as Consorcio's coverage is applied directly to individual policyholders and it is the policyholders who provide funding to Consorcio. The

Consorcio manages a system protecting policyholders in case of the insolvency of the insurer. This includes any insurance company established in Spain (with registered offices and headquarters in the country). Consorscio carries out the winding-up process.

Types of Recovery and Resolution that Require Funding

Consorcio provides funding for payment of claims and refund of premiums during the liquidation process. Since its inception, Consorcio has dealt with 299 insurance companies in liquidation and compulsory winding up. Policyholders would generally receive higher amounts from Consorcio than they would going through a regular liquidation process. The difference is funded by Consorcio.

Funding Basics

Consorcio is funded by non-life policyholders. However coverage applies to both life and non-life insurance companies.

Consorcio is a pre-funded organisation funded via direct taxation on policyholders based on previous insolvency experience. This compulsory taxation is equal to €1.5 per thousand on premiums paid to every non-life policy. No higher fees are charged for high risk companies. Insurers collect the taxations jointly with the premiums and pay them directly to Consorcio. The insurer acts only as a collecting tool.

Other sources of funding include investment income from the fund as well as any amounts recovered during the liquidation.

Consorcio does not have a target fund for the cost of protecting policyholders. In addition, Consorcio does not maintain separate funds for different lines of business or for different geographical locations.

Back-up Funding

In an event of funding deficit, Consorcio can increase the taxation and/or issue debts to the public in order to raise capital with permission from the Ministry of Economy. There is no limit on the level of taxation mandated by Consorcio.

Fund Management Investment Policies

Consorcio is invested conservatively in treasuries and other short-term investments with low risk and high liquidity as its principle objectives.

IGS OVERVIEW – GENERAL INSURANCE FUND, THAILAND

Contact

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Industry Overview (Year-End 2014)

Members
61 – Non-life insurance only

Mandatory Insurance
Insurance for victims of motor vehicle accidents is mandatory.

Industry Assets
Non-life: 497,125 million Baht (US$ 15,438.66 million)

Industry Total Annual Net Premiums
Non-life: 203,021 million Baht (US$ 6,305 million)

Industry Total Policyholder Liabilities
Non-life: 228,561 Million Baht (US$ 7,098.177 million)

Mission/Mandate

- Protect creditors who are entitled to the receipt of repayment of debts arising from the taking of insurance, in the event that an insurance company becomes bankrupt or has its Non-Life Insurance Business license revoked; and
- Promote the development of the Non-Life Insurance Business to ensure its stability and security.

Organisation Overview

The General Insurance Fund (GIF) is a private sector organisation and is not governed by a government organization or state enterprise. It is established as a juristic person under the authorized act and is operated by the Fund Management Committee and a Fund Manager.

GIF's protection applies to non-life insurance business only.

Membership

GIF's membership is mandatory for all non-life insurance companies licensed by Thai supervisory authorities and/or conducting business in Thailand.

Types of Recovery and Resolution that Require Funding

If certain conditions are met, GIF can fund recovery plans for an insolvent member company that include run-off, payment of claims and refund of premiums.

Funding Basics

The funding of GIF is provided by non-life insurance member companies.

GIF is a pre-funded organisation based on premiums. GIF currently collects 0.25% of insurance direct premiums. Fees may not exceed 0.5% of direct insurance premiums. No higher fees are charged for high risk companies. The fees collected from the members are not exempt from any tax or duty.

Other sources of funding include investment income, penalties and surcharges.

GIF does not have a target fund for the cost of protecting policyholders. In addition, GIF does not maintain separate funds for different business or for different geographical locations.

Back-up Funding

GIF is able to raise back-up funding through government subsidies. If necessary, GIF can apply for loans from government, banks, bond markets and central banks. There is no regulation restricting the borrowing capacity of GIF.

Fund Management Investment Policies

The cash surplus is invested conservatively in liquid assets with capital preservation as the principle objective.

IGS OVERVIEW – LIFE INSURANCE FUND, THAILAND

Contact

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Industry Overview (Year-End 2013)

Members
24 – Life insurance only

Mandatory Insurance
Compulsory Motor Vehicle Insurance

Industry Assets
Life: US$ 59.5 billion

Industry Total Annual Gross Premiums
Life: US$ 13.8 billion

Industry Total Policyholder Liabilities
Life: US$ 43.1 billion

Mission/Mandate

1. To protect the rights and benefits of policyholders in case of a Life Insurance Company insolvency.
2. To develop and strengthen the stability of the Insurance industry.

Organisation Overview

The Life Insurance Fund (LIF) is a Governmental organisation. The Government must approve any new member of the Board of Directors. The Board has nine members and its Chair is appointed by the Secretary of the Ministry of Finance. The remainder of the Board is composed of four government officials, a representative of the Bank of Thailand, and industry representatives.

LIF's protection is applied to policyholders of life insurance business only.

Membership

LIF membership is mandatory for all life insurance companies licensed by Thai supervisory authorities and/or conducting business in Thailand.

Types of Recovery and Resolution that Require Funding

If certain conditions are met, LIF provides coverage for life insurance policyholders during the liquidation process. The coverage ceases upon completion of the liquidation process.

Funding Basics

The funding of LIF is provided by life insurance company members only.

LIF is a pre-funded organisation based on premiums. Fees collected are based on 0.1% of total gross premium. Subject to the law, LIF can collect up to 0.5% of total gross premium. During an insolvency, LIF first compensates the policyholders of the insolvent life insurer and later on recovers the costs from the liquidation proceeds. No higher fees are charged for high risk companies. The fees collected from the life insurance members are not exempt from any tax or duty.

Other sources of funding include investment income, and penalties and surcharges on late payments.

LIF does not have a target fund for the cost of protecting policyholders. In addition, LIF does not maintain separate funds for different business or different geographical locations.

Back-up Funding

LIF can raise back-up funding through government subsidies and loans from the banks. LIF can borrow from the government, banks, the bond market and central banks, if necessary. There are no conditions or limits set on the amount LIF can raise as back-up funding.

Fund Management Investment Policies

LIF is invested conservatively in government bonds with capital preservation and liquidity as the principle objectives.

IGS Overview – Financial Services Compensation Scheme, United Kingdom

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Industry Overview (Year-End 2013)

Members

Life	655
Non-Life	317

Mandatory Insurance
The Financial Services Compensation Scheme (FSCS) provides additional coverage to 100% for 4 compulsory insurances: third party motor, employer's liability, riding establishments and nuclear installations. Otherwise FSCS protection is to 90% unlimited.

Industry Assets

Life:	n/a
Non-Life:	n/a

Industry Total Annual Gross Premiums

Life:	£ 81 billion (US$ 100.76 billion) (relevant net premium income)
Non-Life:	£ 45 billion (US$ 56.08 billion) (relevant net premium income)

Industry Total Policyholder Liabilities

Life:	£ 969 billion (US$ 1.2 trillion) (eligible gross technical liabilities)
Non-Life:	£ 70 billion (US$ 87.24 billion) (eligible mathematical reserves)

Mission/Mandate

To provide a responsive, well-understood and efficient compensation service for financial services, which raises public confidence in the industry.

Organisation Overview

FSCS is a private company, but independent body, established by the supervisors to manage the Scheme. FSCS is operationally independent but accountable to the supervisors and government. Members of the Board of Directors are appointed by the supervisors, but on terms to secure their independence. The Board of Directors is currently comprised of 11 Directors and the Chair must be approved by the Treasury. FSCS is an integrated scheme, covering deposits, investments, home finance, as well as both life and non-life insurance business (provision and intermediation).

Membership

FSCS membership is mandatory for all life and non-life insurance companies licensed by British supervisory authorities and/or conducting business in the United Kingdom (including non UK firms).

Types of Recovery and Resolution that Require Funding

If certain conditions are met, FSCS can support continuity of business of the insurer e.g. fund recovery plans including running off the business, sale of the business, payment of claims and refund of premiums. For insolvent life insurance companies, FSCS must seek continuity where reasonably possible e.g. a transfer of policies or issue of substitute policies. For insolvent non-life insurance companies, FSCS continuity is an option. In both cases, if continuity is not agreed, FSCS will fund payment of claims.

Funding Basics

FSCS funding is provided by both life and non-life insurance companies, but as separate classes.

FSCS is a post and pre-funded organisation based on premiums and policyholder liabilities (formula based on premium income and technical liabilities). The annual levy is calculated as the expected costs for next 12-36 months. The expected costs are based on 75% of net premium income plus 25% mathematical reserve for life insurance companies and 75% of net premium income plus 25% gross technical liability for non-life insurance companies. Subject to the law, FSCS can collect fees up to £ 690 million for life insurance companies and £ 600 million for non-life insurance companies in any given year. However, the biggest single levy so far has been of £ 150 million. No higher fees are charged for high risk companies. The fees collected from the members are not exempt of any tax or duty.

Other sources of funding include investment income from the fees collected and access to funds from the insolvent estate (i.e. recoveries).

FSCS does not have a target fund for the cost of protecting policyholders. In addition, FSCS maintains separate funds for life and non-life business but not for different geographic locations.

Back-up Funding

FSCS may access back-up funding by borrowing from other FSCS classes, such as its deposit fund. FSCS may also apply for loans from the banks and/or from the government.

Fund Management Investment Policies

FSCS is invested conservatively in short-term deposits, currently all with the Bank of England, with capital preservation and liquidity as its principle objectives.

IGS OVERVIEW – NATIONAL ORGANIZATION OF LIFE & HEALTH INSURANCE GUARANTY ASSOCIATIONS, USA

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Industry Overview (Year-End 2013)

Members
51 – Guaranty Associations (GAs)

Mandatory Insurance
In the life, health, and annuity sectors, there are no mandatory forms of insurance.

Industry Assets
US$ 6,291 billion

Industry Total Annual Gross Premiums
US$ 925 billion

Industry Total Policyholder Liabilities
US$ 2,641 billion

Mission/Mandate

The National Organization of Life & Health Insurance Guaranty Associations (NOLHGA) supports its member guaranty associations in protecting policyholders in multi-state insolvencies and in responding to external developments so as to promote the values and interests of the life and health insurance guaranty system.

Organisation Overview

NOLHGA is a voluntary association of its 51 member GAs (one for each of the 50 states and the District of Columbia). The GAs are created by and operate under statutes adopted by their home jurisdictions. Most operate as non-governmental, not-for-profit, special purpose entities. Each GA is governed by a Board of Directors drawn predominantly from member insurance companies. Each GA's protection is applied to policyholders of life (including annuities) and health insurance business only.

Membership

In the United States, state life and health insurance GAs are state entities created to protect policyholders of an insolvent insurance company. Most insurance companies licensed to sell life or health insurance in a state must be members of that state's GA. GA membership in NOLHGA is voluntary.

Types of Recovery and Resolution that Require Funding

NOLHGA does not provide direct coverage for Life and Health insurance policyholders. The coverage is provided through local Guaranty Associations (GAs) in each state. If certain conditions are met, GAs can fund recovery plans including run-off, sale of business, transfer to a bridge institution, payment of claims and refund of premiums. NOLHGA helps local GAs deal effectively and efficiently with the large-scale challenges presented by national insurance failures, which affect policyholders in many states.

Funding Basics

NOLHGA collects membership dues, insolvency management revenue, and meeting fees for its coordinating efforts between local GAs. The fee income will fund NOLHGA's operating expenses.

The funding of GAs is provided by life and health insurance company members and by access to funds from insolvent estates. GAs can also benefit from commissions (ceding commission) paid by healthy companies when acquiring blocks of business from the failed companies. GAs may also benefit from ongoing premiums paid on the policies of the failed company after liquidation. The other sources of funding include investment income on the assets.

GAs are post-funded organisations. Fees collected are determined on a case-by-case basis considering the unique situation of each insolvency. The fees collected from the life and health insurance members can be employed in many states as partial offsets against premium taxes otherwise payable by GA member insurance companies. The availability and levels of such premium tax offset rights vary state by state.

Being post-funded, state GAs do not have a target fund for the cost of protecting policyholders but have separate risk pools for different lines of business in each state.

Back-up Funding

Local GAs can raise back-up funding through loans from the industry, the banks and the bond market. There is no limit on the amount local GAs can raise from back-up funding.

Fund Management Investment Policies

Local GAs invest conservatively, mostly in US Treasury Bonds, Notes and Bills, to assure maximum safety of all funds and preserve capital.

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Working Group:

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- Mr. Nikolaos Pavlopoulos, Chairman of the Administrative Board, Private Life Insurance Guarantee Fund (Greece)

Participants:

- Australia - Australian Prudential Regulation Authority
- Canada - Assuris
- Canada - Property and Casualty Insurance Compensation Corporation
- Chinese Taipei - Taiwan Insurance Guaranty Fund
- France - Fonds de Garantie des Assurances Obligatoires de Dommages
- France - Fonds de Garantie des Assurances de Personnes
- Germany - Medicator AG
- Germany - Protektor Lebensversicherungs - AG
- Greece - Private Life Insurance Guarantee Fund
- Kenya - Policyholders Compensation Fund
- Korea - Korea Deposit Insurance Corporation
- Malaysia - Malaysia Deposit Insurance Corporation
- Norway - Garantiordningen for Skadeforsikring
- Poland - Ubezpieczeniowy Fundusz Gwarancyjny
- Romania - Fond de Garantare
- Singapore - Singapore Deposit Insurance Corporation
- Spain - Consorcio de Compensación de Seguros
- Thailand - General Insurance Fund
- Thailand - Life Insurance Fund
- United Kingdom - Financial Services Compensation Scheme
- USA - National Organization of Life & Health Insurance Guaranty Associations

INTERNATIONAL FORUM OF INSURANCE GUARANTEE SCHEMES (IFIGS)

ABOUT IFIGS

IFIGS was launched on May 15, 2013 and it is an international non-profit network for Insurance Guarantee Schemes (IGS) to gather and share knowledge and expertise in the field of providing protection to policyholders in the event of an insurance company failure.

IFIGS' consists of Full Members (Insurance Guarantee Schemes), Associate Members (organisations which are in the process of establishing an Insurance Guarantee Scheme) and Observers (supranational organisations of governmental institutions or supervisors) from around the world.

IFIGS has a close working relationship with governmental institutions, supervisors, resolution authorities, insurance industry and other stakeholders in the development of policyholders' protection and their national and international associations and institutions.

VISION

To share expertise with the world in providing policyholders' protection.

PURPOSE

To contribute in the enhancement of policyholders' protection by encouraging the international cooperation between the Insurance Guarantee Schemes.

In the furtherance of its purpose, IFIGS, in particular:

- Facilitates the exchange of ideas and experiences;
- Discusses the components and experiences to establish and implement an effective Insurance Guarantee Scheme;
- Establishes good working relationships among IGS and other interested parties;
- Develops common positions on the principles and best practices for policyholders' protection taking into consideration the different jurisdictions, economic environments, industry circumstances and policyholder needs;
- Discusses cross-border issues, including improvements in cooperation between its Members;
- Discusses the application of legislation, official and proposed directives and guidelines and any proposed changes thereto;
- Undertakes researches and surveys and shares results to enhance the effectiveness of IFIGS and the Insurance Guarantee Schemes;
- Provides information to other stakeholders and interested parties in the process of development of policyholders' protection;
- Represents the common interests of the Members
- facilitates the sharing and exchange of expertise and information on policyholders' protection issues through organising and arranging congresses, seminars and other functions for the Members and
- Creates Working Groups and permanent committees to focus on specific issues.

For further information on IFIGS, please visit www.ifigs.org or email to info@ifigs.org.