

## **Consumer Panel response to the Commission White Paper on Insurance Guarantee Schemes**

The Financial Services Consumer Panel was established under the Financial Services and Markets Act 2000 by the Financial Services Authority to represent the interests of consumers. The Panel is independent of the FSA. The main function of the Panel is to provide advice to the FSA, but it also looks at the impact on consumers of activities outside the FSA's remit. The Panel represents the interests of all groups of consumers.

This is the Panel's response to the Commission's White Paper on Insurance Guarantee Schemes.

### **Overview**

The Panel welcomes the Commission's intention to bring forward proposals covering life and non-life insurance firms, to ensure that there are broadly consistent schemes in all Member States providing for last-resort protection for policyholders when insurance undertakings are unable to fulfil their contractual commitments. In addition to developing the single market and increasing the scope for competition and wider consumer choice, this could benefit UK consumers living in other Member States who choose to insure with local providers.

We agree with the Commission that voluntary initiatives in this area are unlikely to be effective. The Panel strongly endorses the Commission's view that providing more information to policyholders would not in itself be sufficient and that it would be unrealistic to expect policyholders to understand the existence, scope or lack of national schemes. However, we would not support proposals for maximum harmonisation and we have serious reservations about the proposals for Home State control, as we have explained in more detail below.

### **Home/host control**

The Commission argues that adopting a host country structure, under which providers would have to join the compensation schemes of the host countries in which they operate, would impose additional administrative costs on insurers with cross-border business, and that a host country structure can create uneven policyholder protection.

As the Commission has pointed out however in its justification for a directive, it is unrealistic to expect policyholders to be aware of differences between

schemes: most consumers are likely to assume that all products sold in their Member State are regulated by the same bodies and that they operated under the same set of rules. While host state control would impose additional costs on providers, we regard providers as best placed to be aware of national differences and to bear the related costs as part of the price to be paid for access to national markets.

## **Funding**

The Panel has been a long-standing supporter of pre-funded (ex ante) compensation schemes. We agree with the Commission that ex ante is more equitable than ex-post and avoids good firms being left picking up the cost of bad firms that are unable to meet their obligations, but there should also be provision for ex post funding in extreme circumstances, such the failure of a large insurer. We have no specific comments at this stage on the target level of funding, but clearly in order to support greater consumer confidence in the sector and in 'shopping around' in other Member States, funding requirements should be proportionate and not place an unfair burden on, say, smaller firms.

## **Timing of payouts/portfolio transfer**

As a general principle the Panel prefers solutions that involve portfolio transfers wherever possible in order to ensure continuity of cover. This is the safest and most suitable option for consumers. We would like to see a positive obligation imposed on schemes to seek to arrange for another insurer to take over the policies of the failed firm in each case, with compensation being paid within a specified timeframe if exercising that option is unfeasible or unsuccessful.

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