

# INSURANCE

## FACTSHEET

## Insurance Guarantee Schemes

### What are Insurance Guarantee Schemes?

Insurance Guarantee Schemes (IGS) protect policyholders when an insurance company fails and cannot pay its debts. IGS financially compensate policyholders or facilitate policy transfer to another provider.

Across the EU, IGS are not harmonised, however. The types of insurance covered, how much and even funding differ. Where an insurer is headquartered can

impact whether a consumer is compensated or not. Consequently, policyholders experience different outcomes across the EU.

While banking and investment have harmonised guarantee rules, insurance is an outlier, leaving many consumers exposed. An EU-wide approach is therefore needed.

### The consumer impact

A failed insurer can leave consumers in limbo for years during winding-up procedures. Consumers relying on pension payments or an annuity could lose a crucial source of income. The same is true for consumers with pending claims.

Some consumers lose out entirely. Premiums paid in advance can be lost, impacting many policyholders and not just those with pending claims. In health insurance, consumers may struggle to find equivalent cover from a new insurer if their health has worsened. Consumers can also face gaps in coverage.

The lack of harmonisation also undermines the Savings and Investments Union, as consumers cannot be sure that their insurance-based investments would be protected in the case of insolvency. Uncertainty and unclear timelines cause complications for consumers in finding an appropriate replacement product.

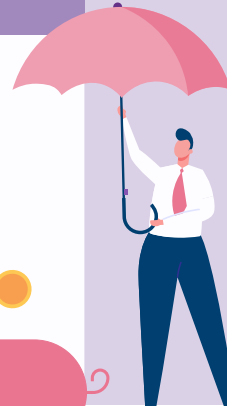
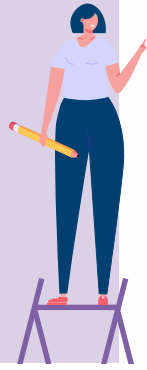
Consumers can end up in impossible situations where their insurer is failing, but they must continue paying

premiums to avoid breaching their contract, potentially increasing their losses if they are not compensated in the end.

Governments occasionally provide compensation after an insurer fails. Such interventions are ad hoc and do not provide adequate protection, while leaving taxpayers with the bill. It also creates an unlevel playing field. While an insurer that is “too big to fail” would surely trigger government intervention, a smaller insurer and its policyholders cannot be sure they would be rescued.



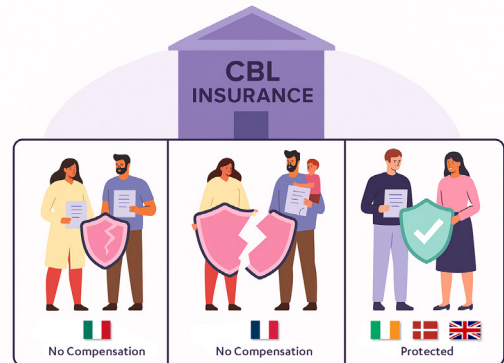
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## Examples

Recent insolvencies show that this is a common problem facing consumers. FWU AG, a life insurer is in liquidation and about 120,000 policyholders in Italy, 30,000 in France, and 12,000 in Belgium are affected.

In Germany, [Element Insurance AG](#)'s insolvency left 320,000 consumers without protection. The consumer centre in Hessen [called](#) for a non-life insurance protection fund after this event. Irish-domiciled [CBL Insurance](#), providing non-life cover in Ireland, Denmark, France, Italy, and the UK, became insolvent in 2020. Italian and French customers were not entitled to compensation.



## National solutions

Romania's Policyholder Guarantee Fund covers all life and non-life policies. The scheme can act as an administrator during the recovery of an insurer and as a liquidator. Spain's Consorcio de Compensación de Seguros (CCS) protects many life and non-life policyholders. The CCS allows for policies to be transferred to another insurer, while also having a function as a natural catastrophe fund.

### What does BEUC recommend?

- Adequately funded IGS with a **minimum standard of consumer protection** should be required across the EU, covering all types of life and non-life insurance.
- **Swift, smooth, and full financial compensation, including for unearned premiums.** Avoid compensation limits as they reduce consumer protection, while pushing consumers towards “too big to fail” insurers that are perceived as safer, distorting competition.
- IGS should **intervene early to inform consumers** and **transfer policies to other insurers** or to the IGS itself as a bridge institution. For long-term policies such as life and health insurance, consumers may struggle to secure equivalent coverage elsewhere due to age or health. Consideration for home insurance is needed, as extreme weather events worsen, and alternative insurers may not be available.
- **Consumers owed compensation from a failed insurer** due to bad advice, like mis-selling, **should be protected by IGS**, as was done with the [UK Payment Protection Insurance scandal](#). The IGS should then claim against the insurer/intermediary's professional indemnity insurance. Further, where a solvent insurer/intermediary's indemnity is insufficient to cover all claims resulting from bad advice, the IGS should be activated to compensate consumers.
- **Funding should be ex-ante and limited**, based on insolvency risk, **to enable rapid intervention, promote financial stability, and reduce moral hazard.** Ex-post funding should be deployed when there is a lack of funds. Ultimately, the costs of an IGS are paid by policyholders; therefore, it is crucial that the objective of consumer protection is achieved while also keeping costs for policyholders to a minimum.
- Consumers must be able to **make a claim, in their own language, and be reimbursed by the IGS in their country**, which then recoups the costs from the IGS of the home country. This follows the ‘Home-country’ principle, similar to the Motor Insurance Directive.
- **A single IGS entity for insurance, banking and investment compensation schemes would be the simplest structure for consumers.** IGS collaboration with resolution authorities should be facilitated to ensure consumer protection.