

Questions for Consultation on Issues Paper on roles and functioning of Policyholder Protection Schemes (PPSs)

Thank you for your interest in the public consultation on the Issues Paper on roles and functioning of Policyholder Protection Schemes (PPSs). The Consultation Tool is available on the IAIS website.

Please do not submit this document to the IAIS. All responses to the Consultation Document must be made via the [Consultation Tool](#) to enable those responses to be considered.

Consultation questions

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| 1 | <p>General comments on the Issues Paper</p> <p>Global Comment: Throughout the paper, “PPS” and “PPSs” are used to refer to “Policyholder Protection Scheme” and “Policyholder Protection Schemes” respectively. This reads a bit awkwardly. To streamline these references, on the acronym page (pg. 5) include one definition that covers the singular and plural and use “PPS” throughout the paper.</p> <p>Pg. 5: PPS – Policyholder Protection Scheme(s)</p> <p>Global Comment: We understand IAIS convention does not use the oxford comma for lists, but in some cases in this paper the oxford comma is used for lists. Please review for consistency with IAIS formatting.</p> <p>Global Comment: For some of the example boxes throughout the document there are awkward breaks and spaces between the jurisdiction and example. Please review and clean up formatting.</p> <p>Global Comment: need to review the use and formatting of em-dashes for consistency; see for example, paras 37, 40, 53, 110 and the blue box after 124.</p> |
| 2 | General comments on Section 1 Introduction |
| 3 | General comments on Section 1.1 Objectives and background |
| 4 | Comments on Paragraph 1 |
| 5 | Comments on Paragraph 2 |
| 6 | Comments on Paragraph 3 |
| 7 | Comments on Paragraph 4 |
| 8 | Comments on Paragraph 5 |
| 9 | Comments on Paragraph 6 |
| 10 | General comments on Section 1.2 Terminology |
| 11 | <p>Comments on Paragraph 7</p> <p>2nd sentence, use of “best practices” may not be consistent with how previous IAIS papers review to examples – as these are self-reported and not verified, perhaps prefer to them as “examples of practices within those jurisdictions.”</p> |
| 12 | Comments on Paragraph 8 |
| 13 | Comments on Paragraph 9 |

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| 14 | Comments on Paragraph 10 |
| 15 | Comments on Paragraph 11 |
| 16 | General comments on Section 1.3 Inputs |
| 17 | Comments on Paragraph 12 |
| 18 | General comments on Section 1.4 Structure |
| 19 | Comments on Paragraph 13 Fix typo in the first sentence – “reminder” should be “remainder” |
| 20 | Comments on Paragraph 14 |
| 21 | General comments on Section 2 |
| 22 | General comments on Section 2.1 Overview |
| 23 | Comments on Paragraph 15 |
| 24 | Comments on Paragraph 16 |
| 25 | Comments on Paragraph 17 |
| 26 | Comments on Paragraph 18 |
| 27 | Comments on Paragraph 19 |
| 28 | General comments on Section 2.2 Functions of PPSs |
| 29 | Comments on Paragraph 20 Not all frameworks are necessarily national; suggest: Depending on national national jurisdictional frameworks, PPSs could fulfil various functions in different stages of recovery and resolution. |
| 30 | Comments on Paragraph 21 |
| 31 | Comments on Paragraph 22 |
| 32 | Comments on Paragraph 23 |
| 33 | Comments on Paragraph 24 |
| 34 | General comments on Section 2.3 Intervention by PPSs |
| 35 | General comments on Section 2.3.1 Recovery phase |
| 36 | Comments on Paragraph 25 |

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| <p>37</p> | <p>Comments on Paragraph 26</p> <p>In the blue box, for the UK example, while the first sentence may be true, it does not seem necessarily relevant for what this example is illustrating – suggest deleting. In the last sentence, rather than say “currently” which will lose meaning as the paper ages, suggest noting the year this legislation is proposed, or alternatively revise to:</p> <p>Currently, the UK has no statutory resolution regime for insurers. As proposed, the Financial Services Compensation Scheme (FSCS) would make the following tools are available to a firm in recovery: ... In addition, proposed legislation currently in Parliament (<i>as of [insert publication date of paper, or substitute with a reference to the adoption date if and when legislation is adopted]</i>) would provide the option for write-down with a top-up by the Financial Services Compensation Scheme (FSCS).</p> |
| <p>38</p> | <p>Comments on Paragraph 27</p> |
| <p>39</p> | <p>Comments on Paragraph 28</p> |
| <p>40</p> | <p>General comments on Section 2.3.2 Resolution phase</p> |
| <p>41</p> | <p>Comments on Paragraph 29</p> <p>Given how other parts of the paper note how the scope, role, functions, etc. of a PPS can vary, it seems a bit odd to say a “PPS could intervene in all situations, albeit in different ways.” Is it really <i>all</i> situations? Suggest considering clarifying the intended point here.</p> |
| <p>42</p> | <p>Comments on Paragraph 30</p> |
| <p>43</p> | <p>Comments on Paragraph 31</p> <p>Suggested revisions to the 2nd sentence:</p> <p>Alternatively, under open firm bail-in (see Paragraph 24), the insurance contracts will be continued with the same insurer which has been allowed to restart its operations.</p> |
| <p>44</p> | <p>Comments on Paragraph 32</p> <p>Suggested revisions to the 1st sentence, replace the comma with a semi-colon:</p> <p>The nature of a PPS intervention would also differ depending on the products being offered by the insurer;; these can be either products with long term protections (typically life policies) or products with short term protection (typically non-life policies).</p> <p>Suggested revisions to the 2nd sentence, replace the comma with a semi-colon and fix grammar and capitalization:</p> <p>For life products, claims payments likely need to be continueing over longer periods;; Ffor non-life products, payments might be necessary for only a short period (eg 30 or 60 days) so that the policyholder has sufficient time to find another insurer.</p> |

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| 45 | Comments on Paragraph 33 |
| 46 | <p>Comments on Paragraph 34</p> <p>The 1st sentence is awkwardly written and its intent is unclear; consider revising.</p> <p>Last sentence, for consistency with usual IAIS phrasing, suggest:</p> <p>It should be noted that not necessarily all jurisdictions have resolution frameworks that fully observe comply with ICP 12, and given their resolution frameworks or have comprehensive PPSs in place.</p> |
| 47 | General comments on Section 3 |
| 48 | <p>Comments on Paragraph 35</p> <p>Typo: “The This 2013 Issues Paper...”</p> |
| 49 | Comments on Paragraph 36 |
| 50 | Comments on Paragraph 37 |
| 51 | General comments on Section 3.1 Scope of coverage |
| 52 | Comments on Paragraph 38 |
| 53 | Comments on Paragraph 39 |
| 54 | <p>Comments on Paragraph 40</p> <p>Footnote 17 appears to have an unnecessary paragraph break after the first sentence.</p> |
| 55 | Comments on Paragraph 41 |
| 56 | Comments on Paragraph 42 |
| 57 | General comments on Section 3.2 Limits on compensation |
| 58 | Comments on Paragraph 43 |
| 59 | Comments on Paragraph 44 |
| 60 | <p>Comments on Paragraph 45</p> <p>Second sentence, if the practice is done in multiple jurisdictions, singling out one jurisdiction seems odd, so would suggest deleting “(eg in Canada)”. If this is unique to Canada, then suggest using a sentence structure more common to other IAIS material:</p> <p>In Canada, the It may also happen (eg in Canada) that a PPS has some form of a “circuit breaker” where the level of protection may depend on the level of difficulty the provided protection would cause to the other industry players.</p> |

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| 61 | Comments on Paragraph 46 |
| 62 | Comments on Paragraph 47 Consider capitalizing the first word of each bullet. |
| 63 | Comments on Paragraph 48 Third sentence, if the practice is done in multiple jurisdictions, singling out one jurisdiction seems odd, so would suggest deleting “(eg in Canada)”. If this is unique to Canada, then suggest using a sentence structure more common to other IAIS material: In Canada, it may also happen (eg in Canada) that the PPS is allowed to provide higher compensation than the pre-set limit, in cases where it appreciates that observing the pre-set limit would constitute a hardship case. |
| 64 | Comments on Paragraph 49 |
| 65 | Comments on Paragraph 50 |
| 66 | General comments on Section 3.3 Method of compensation |
| 67 | Comments on Paragraph 51 |
| 68 | Comments on Paragraph 52 |
| 69 | Comments on Paragraph 53 |
| 70 | Comments on Paragraph 54 |
| 71 | Comments on Paragraph 55 |
| 72 | General comments on Section 3.4 Eligible policyholders and claimants |
| 73 | Comments on Paragraph 56 In the blue box, suggest the text could be streamlined as follows: In connection with the issue indicated in the preceding paragraph, In the United States takes a related, but different approach under which most non-life PPSs have “high net worth” exclusions. These exclude a small number of wealthy individuals who are deemed to be sophisticated purchasers, but operate primarily to exclude larger commercial policyholders. A common threshold is \$50 million, but some states draw the line as low as \$10 million. |
| 74 | Comments on Paragraph 57 |
| 75 | Comments on Paragraph 58 In the 3rd sentence the use of the word “devastated” is a bit loaded. Consider changing to something more neutral, such as “unduly impacted.” |

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| 76 | Comments on Paragraph 59 |
| 77 | General comments on Section 3.5 Treatment of unearned premiums |
| 78 | Comments on Paragraph 60 |
| 79 | <p>Comments on Paragraph 61</p> <p>Similar to the comment for paragraph 47, consider capitalizing the first word of each bullet.</p> <p>Following the bullets, suggest it would read better as:</p> <p>In this case, unearned premiums amount to 50 million CUs 50; outstanding claims amount to 80 million CUs 80</p> <p>OR</p> <p>In this case, unearned premiums amount to million CUs 50 million; outstanding claims amount to million CUs 80 million</p> |
| 80 | <p>General comments on Section 3.6 Cross-border issues of coverage: home- and host-jurisdiction principles</p> <p>Graph on pgs. 25-26, consider numbering or naming the graph. In the first diagram, add a bit more space to the depiction of “Policyholders of Insurer A domiciled in B.”</p> |
| 81 | Comments on Paragraph 62 |
| 82 | Comments on Paragraph 63 |
| 83 | <p>Comments on Paragraph 64</p> <p>Suggested revisions to the 3rd sentence:</p> <p>Recent examples of failures in the EU suggest, however, that even with a host-jurisdiction principle, the treatment of policyholders of a failed insurer may still be highly dependent on the jurisdiction where the failed insured was headquartered (the “home” jurisdiction), notably because the liquidation laws that will apply are those of the home jurisdiction, and liquidation laws sometimes very vary markedly diverge across jurisdictions.</p> |
| 84 | Comments on Paragraph 65 |
| 85 | Comments on Paragraph 66 |
| 86 | Comments on Paragraph 67 |
| 87 | Comments on Paragraph 68 |
| 88 | Comments on Paragraph 69 |

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| 89 | Comments on Paragraph 70 |
| 90 | Comments on Paragraph 71 |
| 91 | General comments on Section 4 |
| 92 | Comments on Paragraph 72 |
| 93 | General comments on Section 4.1 Sources for PPS funding |
| 94 | Comments on Paragraph 73 |
| 95 | Comments on Paragraph 74 |
| 96 | Comments on Paragraph 75 |
| 97 | Comments on Paragraph 76 |
| 98 | Comments on Paragraph 77 |
| 99 | Comments on Paragraph 78 |
| 100 | General comments on Section 4.2 Ex-ante, ex-post and hybrid funding |
| 101 | Comments on Paragraph 79 |
| 102 | Comments on Paragraph 80 |
| 103 | General comments on Section 4.3 Determining the levy level for insurers |
| 104 | Comments on Paragraph 81 |
| 105 | Comments on Paragraph 82 |
| 106 | Comments on Paragraph 83 |
| 107 | <p>Comments on Paragraph 84</p> <p>As written, the 1st sentence is a bit speculative, suggest the following revisions:</p> <p>As price is one of the most important factors in choosing an insurer, competition may creates incentives for insurers to price their products aggressively, potentially assuming risks that threaten the firm’s financial soundness.</p> |
| 108 | <p>Comments on Paragraph 85</p> <p>In the blue box, UK example, FSCS is already spelled out on page 13 so can just use the acronym here.</p> |
| 109 | General comments on Section 4.4 Differences between resolution funds and PPSs |
| 110 | Comments on Paragraph 86 |

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| 111 | Comments on Paragraph 87 |
| 112 | Comments on Paragraph 88 |
| 113 | Comments on Paragraph 89 |
| 114 | General comments on Section 5 |
| 115 | Comments on Paragraph 90 Second sentence, not clear what “prescriptions” means in this context – suggest considering a better word choice. Perhaps “conditions of coverage”? |
| 116 | General comments on Section 5.1 ICPs and PPS disclosure |
| 117 | Comments on Paragraph 91 |
| 118 | Comments on Paragraph 92 |
| 119 | General comments on Section 5.2 Disclosure considerations relevant to PPS |
| 120 | Comments on Paragraph 93 |
| 121 | Comments on Paragraph 94 |
| 122 | Comments on Paragraph 95 |
| 123 | Comments on Paragraph 96 |
| 124 | Comments on Paragraph 97 |
| 125 | Comments on Paragraph 98 |
| 126 | Comments on Paragraph 99 Suggested revisions to the 1 st and 2 nd sentences: The PPS should, through its public disclosure programme, build credibility with policyholders and stakeholders through an active communication process that is effective at different levels of stakeholders, eg insurers, consumers and intermediaries. The public disclosure programme may consider a tailored approach for the various classes of stakeholders. |
| 127 | Comments on Paragraph 100 |
| 128 | Comments on Paragraph 101 |
| 129 | Comments on Paragraph 102 Suggested revision to the 2 nd sentence to eliminate redundancy: |

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| | In the event of an insurer failure the PPS or an empowered authority, liquidator or court appointee should notify policyholders as expeditiously and appropriately as possible of the role of the PPS and how protection will be provided, via media such as press releases, print advertising, websites and other media outlets. |
| 130 | General comments on Section 6 |
| 131 | Comments on Paragraph 103 |
| 132 | Comments on Paragraph 104 |
| 133 | General comments on Section 6.1 Cooperation and coordination between PPSs |
| 134 | <p>Comments on Paragraph 105</p> <p><i>As not all PPSs are necessarily national, suggest:</i></p> <p>Where this activity is material, cooperation and coordination between national PPSs across jurisdictions are essential,</p> |
| 135 | Comments on Paragraph 106 |
| 136 | Comments on Paragraph 107 |
| 137 | <p>Comments on Paragraph 108</p> <p><i>As not all insurance is necessarily issued at national level, suggest:</i></p> <p>ie where the domestic PPS covers policies issued by domestic insurers both at national level within the jurisdiction and abroad</p> |
| 138 | Comments on Paragraph 109 |
| 139 | <p>Comments on Paragraph 110</p> <p><i>In the blue box, while the European Union example has interesting information, it does not seem particularly relevant given the focus is on coordination and cooperation. Suggest considering whether there is a more relevant place for this example.</i></p> |
| 140 | General comments on Section 6.2 Cooperation and coordination between a PPS and a supervisor/resolution authority |
| 141 | Comments on Paragraph 111 |
| 142 | Comments on Paragraph 112 |
| 143 | Comments on Paragraph 113 |
| 144 | Comments on Paragraph 114 |
| 145 | Comments on Paragraph 115 |
| 146 | Comments on Paragraph 116 |

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| 147 | Comments on Paragraph 117 |
| 148 | Comments on Paragraph 118 |
| 149 | Comments on Paragraph 119 |
| 150 | Comments on Paragraph 120 |
| 151 | Comments on Paragraph 121 |
| 152 | <p>Comments on Paragraph 122</p> <p>Typically Issues Papers avoid wording that suggests setting requirements – suggest revising the wording, in particular to avoid the use of “must”:</p> <p>Supervisors and The sharing of confidential information is important to enable supervisors, resolution authorities need to share confidential information with and PPSs for any of them to fulfil their respective responsibilities effectively., and Therefore, jurisdictions should consider whether the governing laws must clearly delineate when and how confidential information can be shared, and what obligations must be assumed by the recipient of the information.</p> |
| 153 | <p>Comments on Paragraph 123</p> <p>Typically Issues Papers avoid wording that suggests setting requirements – suggest revising the wording, in particular to avoid the use of “must”.</p> <p>In particular, it could be useful for there must to be explicit legal authority for the supervisor and/or resolution authority to have the discretion to share confidential information about insolvent and impaired insurers with a PPS, but only on and to make this discretion explicitly subject to the condition that the PPS is bound by the same obligations of professional secrecy that apply to the supervisor and/or resolution authority. Confidentiality protocols may also be embedded in the internal operating documents of the PPS.</p> |
| 154 | <p>Comments on Paragraph 124</p> <p>In the blue box, while the Canada example has interesting information, only the end of the second paragraph seems particularly relevant to the topic of coordination and cooperation. Suggest moving the remainder to a more appropriate place such as Section 2.3, where the powers of a PPS and the timing of intervention are discussed.</p> |
| 155 | General comments on Section 7 |
| 156 | General comments on Section 7.1 Other mechanisms aimed at protecting policyholders in the event of an insurer failure |
| 157 | Comments on Paragraph 125 |
| 158 | Comments on Paragraph 126 |
| 159 | General comments on Section 7.1.1 Preferred claims |

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| 160 | Comments on Paragraph 127 |
| 161 | General comments on Section 7.1.2 Tied assets |
| 162 | Comments on Paragraph 128 |
| 163 | <p>Comments on Paragraph 129</p> <p>Referring to tied assets as an “institution” seems a bit odd; suggest considering different wording to make the intended point clearer.</p> |
| 164 | General comments on Section 7.1.3 Segregated assets |
| 165 | Comments on Paragraph 130 |
| 166 | Comments on Paragraph 131 |
| 167 | Comments on Paragraph 132 |
| 168 | General comments on Section 7.2 Other protection mechanisms outside of insurers’ failure |
| 169 | Comments on Paragraph 133 |
| 170 | General comments on Section 7.2.1 Mechanisms that indemnify the victim when the responsible person is unknown or uninsured |
| 171 | Comments on Paragraph 134 |
| 172 | <p>Comments on Paragraph 135</p> <p>The example jurisdictions are mentioned in an odd place; suggest this could read better as:</p> <p>Not infrequently (eg France, Italy, Switzerland), the bodies compensating the victims when there is no identified insurer, are the same as those compensating policyholders when an insurer is insolvent (eg in France, Italy, Switzerland). This —which can make sense since, in both cases, it is about compensating victims in the absence of an insurer capable of doing so.</p> |
| 173 | General comments on Section 7.2.2 Mechanisms covering catastrophe risks |
| 174 | Comments on Paragraph 136 |
| 175 | General comments on Annex |
| 176 | <p>Comments on Section 1 Moral hazard</p> <p>Suggest revision to the 2nd sentence of the 2nd paragraph:</p> |

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| | <p>The problem of moral hazard, particularly for larger and more systemic institutions, was illustrated by the behaviour of some market participants in the years preceding the great financial crisis of 2007–09.</p> <p>Page 46, second paragraph, can remove the period in the quote before footnote 62: “is not an effective tool ... as it can inflict losses without instilling discipline and may trigger bank runs.”.</p> <p>Page 47, second paragraph, second sentence, the phrase “lay policyholder” is a bit odd; suggest using “average policyholder” or simply “policyholders” in this context. Last sentence, to help improve readability:</p> <p>This is all the more true in multi-jurisdictional single markets such as the EU or the USA, where a policyholder based in one place (eg in Portugal or in California) is not expected to exert vigilance on the soundness of an insurer headquartered in another place (eg in Finland or in Maine).</p> |
| 177 | Comments on Section 2 Safeguards to mitigate moral hazard |