Society of Actuaries in Ireland

Consultation on Development of a National Resolution Framework for (Re) Insurers (Sept 2021)

Response to Department of Finance

November 2021

Preface

The Society of Actuaries in Ireland ("Society") is the professional body representing the actuarial profession in Ireland, and as such the Society and its members have a deep understanding of the Irish insurance industry.

The Society welcomes the opportunity to submit this response to the Public Consultation on the Development of a National Resolution Framework for (re)Insurers, and would welcome the opportunity to contribute further to the process.

This document includes a response to the specific questions raised within the Consultation Paper. The text below also sets out the Society's views on this topic more generally. It is the Society's view that a thorough and wide-ranging debate is warranted prior to any development of a new resolution framework.

Scope

The insurance industry is a regulated industry as the services and products it provides are in "the public interest". Failure of insurance entities is therefore an area of public interest, not least as a failure may have a cost and the attribution of any cost may impact a number of stakeholders. The options in dealing with failure (and who decides on what options to select) are inextricably linked to the costs of the options and who funds them.

The consultation paper acknowledges the different business models of different insurers. This is a significant point, which raises questions as to the feasibility of developing a single framework to apply across all insurers. This is particularly relevant to the extent that the consultation document considers funding mechanisms – for example, a funding mechanism such as a levy on premiums would unfairly penalise consumers of savings-based insurance products compared to consumers of pure insurance risk coverage products.

The appropriate resolution approach is likely to be very different for different forms of insurance and cohorts of policyholders:

- Mandatory insurance cover (e.g., motor insurance) verses voluntary insurance
- Most liabilities of domestic life assurance companies relate to savings-based products, such as private pensions savings, which leads to a vastly different risk profile than pure insurance products.
- Reinsurers versus direct writers
- Cross-border insurance versus domestic (local) insurance writers
- Policyholders' residence (within Ireland, within the EU, or outside the EU).

We note that the consultation papers suggests that a proportionate approach may be taken, and plans would only be developed for a minority of insurers, perhaps linked to a firm's PRISM rating.

Whilst the Society can see the practicality of such an approach, we are concerned that the PRISM rating system has been developed and calibrated for a very different purpose and do not feel it is appropriate to use in this case. Such an approach will lead inevitably to resolution plan development being biased towards larger firms, which tend to have a higher PRISM rating. These are also the firms that are most closely regulated by the Central Bank of Ireland, and less likely to require resolution as a result. Resolution plans that are developed to cater primarily for large firms are unlikely to be suitable for the wider market or the firms at higher risk of failure.

We expect a retrospective analysis would show PRISM rating would not have been a good predictor of firm failure. Therefore, pre-planning for larger, and historically safer, entities may not be the most effective approach from a cost benefit perspective. We recognise that selecting the most suitable entities to cover in pre-planning is a complex process, which would need to balance the public interest, cost, likelihood of failure and other factors, and therefore submit that generic resolution planning by the resolution authority may be a more cost-efficient approach.

Funding

The consultation paper notes that to design a resolution framework, it is necessary to consider how such an action could be funded.

It is the Society's strong belief that any resolution funding provisions will lead directly or indirectly to higher insurance premiums for consumers. This could in turn lead to adverse outcomes contrary to other public policy objectives, including increasing the level of private pensions coverage (life insurers being a significant provider of pensions savings products), and ensuring a high level of coverage of mandatory insurance (e.g., motor insurance).

The Society is also concerned that the framework may put insurance firms at a disadvantage relative to other sectors that offer similar products, in particular savings-based products. And the existence of any resolution "safety-net" can provide perverse incentives for bad behaviour or bad actors to offer insurance.

Corporate insolvency regime

The Society notes the concerns raised within the Consultation Paper relating to existing tools within the corporate insolvency regime (liquidation, administration and/or examinership) as applied to insurance entities. We feel that these concerns should be addressed outside of the wider considerations relating to the development of a resolution framework, and we believe this is urgent.

We note that the Solvency II regulations (SI 485 of 2015, part 18) requires that policyholder claims be afforded priority order in the event of an insurer being wound-up. We support this position and are of the view that if there are practical or legal constraints preventing this goal being achieved in certain circumstances, then this should be addressed through appropriate legislative action. The Society supports the Central Bank of Ireland being afforded a more formal and increased role in all forms of insolvency actions relating to insurance companies regulated by the Central Bank of Ireland.

"Insurer of last resort"

Other countries have shown that insolvency and failure of insurance entities can lead to a state-owned insurance entity as part of a recovery bail-out (for example Protektor[1] in Germany). Indeed, the State's establishment of Irish Life Assurance in 1939 was a consequence of the failure of previous insurance firms following the Great Depression.

Ireland (in common with the UK) is somewhat unique within Europe whereby the transfer of insurance liabilities from one insurer to another typically requires High Court approval. In other EU countries, such an insurance transfer can be approved by the National Supervisory Authority. Any resolution framework, including the operation of a bridge insurer, would need to recognise that the transfer of insurance business in Ireland requires approval of the High Court.

[1] https://www.protektor-ag.de/en/

Public Consultation Questions:

Section 3: Key Pillars of the Proposed Resolution Framework

3.1 Resolution Objectives

1. *Should any resolution objectives and the basis for completing a resolution action under a new domestic framework be aligned with the principles set out in the FSB's Key Attributes of Effective Resolution Regimes as applicable to the insurance sector and EIOPA's recommendations contained within its Opinion on the Review of Solvency II?*

The Society would support the proposal to align the objectives and basis for completing a resolution action under a new domestic framework with the FSB's principles and EIOPA's recommendations, both because they represent a succinct and reasonable articulation of the public interest and a set of criteria for assessing this, and because aligning with the principles that are likely to inform European regulatory developments is less likely to result in inefficiencies.

Elaborating on the second point, the Society would note the opinion that the development of a domestic framework, when the European regulatory agenda is in flux, poses a number of risks and should be developed with care. Should a harmonised European approach ultimately conflict with the provisions of the domestic framework which pre-empts it, requiring alignment and review of the regime and structures put in place pursuant to it, this may entail an inefficient use of resources and costs, which will be ultimately borne by consumers. More generally, depending on the scope, cost and complexity of the regime, it may cause market distortion – please refer to observations set out in respect of Question 2 (c).

3.2 Scope of Application

2.a *Should the proportionality principle be applied with regard to defining the insurers that are in-scope for resolution planning?*

This question suggests that a resolution framework will be designed to cater for specific insurers, for example through having firm-specific resolution plans. The Society is of the view that it is not yet clear if this is the best approach, and what the advantages would be over a framework designed at the sectoral level.

As a general point, the Society would be supportive of a proportional approach in the determination of scope, as – suitably calibrated – it would help balance the public interest in having a regime that protects policyholders, maintains financial stability and does so at a reasonable cost.

2.b *Should the Central Bank's PRISM impact ratings be used as a guide when considering the scope of application?*

The Society would have reservations that the Central Bank's PRISM model be used as a guide when considering scope of application, without additional reference to other relevant factors.

The Society would note that the PRISM model was designed for a different regulatory purpose. Balance sheet size, premium written and number of policyholders, which are understood to be factors in the PRISM model, are not necessarily correlated with risk of entering resolution – for example, insurers writing high volumes of unit-linked business may rank highly on many measures but in practice pose lower risk than other sectors. The assessment of scope should also have regard to the economic and community impact of an undertaking entering resolution. Insurance services that are required to support wider economic activity, for example insurance for childcare providers and health insurance providers, may have a greater community impact if the providing firms should fail.

The PRISM model covers reinsurance entities. The Society's view is that any failure of entities providing reinsurance only would be a corporate event with no first order impact on individual consumers and, as such, reinsurers should not be in scope of the Framework. The Society notes however that some reinsurers may also write direct insurance along with providing reinsurance, and this is another complexity to consider.

We would also ask that the Society's observations in respect of scope, set out in 2 (c) below be considered.

2.c Should third country branches be considered within the scope of application of relevant provisions of any envisaged domestic framework?

The Society would respectfully submit the view that definition of the scope of application of relevant provisions of any envisaged domestic framework is a fundamental decision, and is wider than a consideration of whether third country branches should be included in-scope. This has been covered in some detail in the opening comments in this document.

As the Public Consultation paper notes in Section 2 (ii), while not as pronounced in the Life sector, the preponderance of GWP is written out of Ireland on a FoS or FoE basis across all sectors. Should the scope of the regime not be restricted to domestic consumers, in line with the existing Insurance Compensation Fund, the costs of the regime may act as a competitive disadvantage to Irish authorised insurance firms writing business overseas. This would persist until such time as a harmonised European approach is developed (and to the extent that the ultimate form of European regulation does not conflict with the provisions of the domestic regime).

For the same reason, we are of the view that a resolution framework should also apply to Irish branches of third country-insurers which sell business to domestic policyholders in the same way as it would apply to a domestic insurer selling to domestic policyholder. We believe this is sensible in order to ensure that branches operating in the Irish market do not have a competitive advantage over domestic insurers from a cost perspective by not being included in the resolution framework, and additionally, from a public interest perspective, that domestic policyholders enjoy the same protections whether they bought their policy with a branch or domestic insurer in the event of wind up.

3.3 Public Interest Assessment in the deployment of resolution tools

3.a Should a public interest assessment (PIA) be used to ensure that the deployment of resolution tools would be on an exceptional basis, i.e. for the few rather than the many?

As set out in our overview comments, the Society considers that resolution financing arrangements and the scope of any proposed framework are two of the primary considerations that need to be clearly defined. Notwithstanding that there are uncertainties with regard to both of these aspects, the Society is generally of the view that a public interest assessment (PIA) is a sensible measure to take in advance of the deployment of resolution tools, in particular if there is a risk of public funds being required.

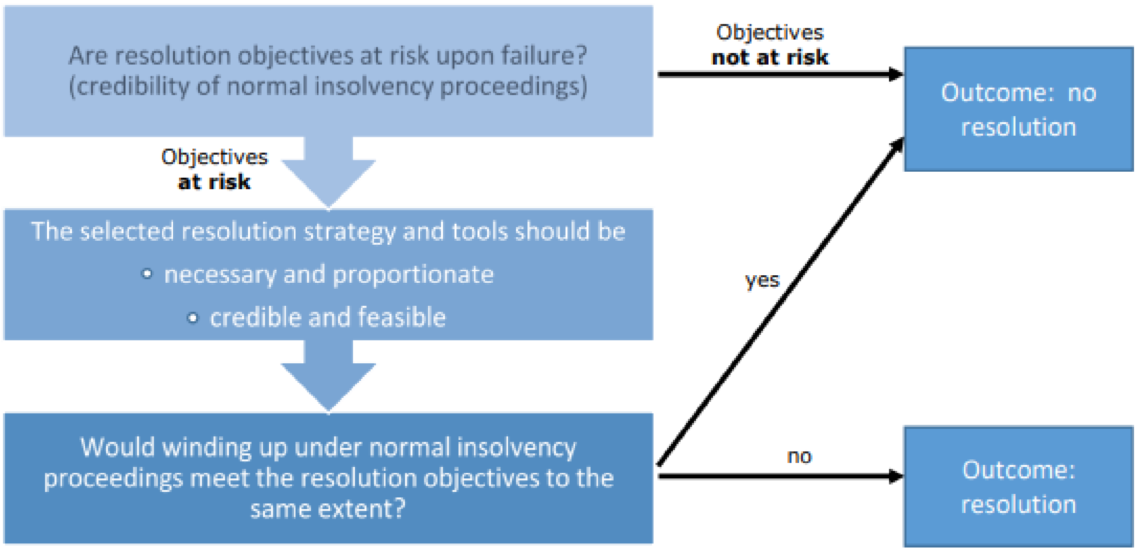
The Society notes the following extract from the consultation paper:

The factors for determining the PIA and the timing of the PIA decision will be considered further as part of developing any proposals around a national resolution framework.

In the absence of further information in terms of how the PIA operates in practice the Society cannot provide definitive views at this point.

The Society is aware of the below PIA framework applied by the Single Resolution Board within the banking union. The Society agrees in principle with a simple framework of this nature, noting that its applicability is dependent on having clearly defined resolution objectives. It should be noted that resolution for banks will not be a fully appropriate model for insurers as the issues encountered can be very different.

Figure 1: Public Interest Assessment Framework



3.b Are there sectoral specific considerations that should be taken into account when determining the public interest rule for deploying resolution tools?

The Society considers that the continuity of functions of insurers whose disruption could harm the financial stability and/or real economy is an important resolution objective in an insurance context. Related to this, the Society's view is that a Public Interest Assessment should consider the implications of failure of an insurance service provider where there are limited or no alternative providers in the market. See Q3.4 (b) below where we seek clarity on the intended function of a bridge insurer as a resolution tool in this context.

3.4 Resolution Tools & Powers

4.a Would a resolution toolkit be of benefit to the resolution authority in seeking to protect policyholders in situations where liquidation or administration may not offer the same level of protection?

In consideration of the comments relating to gaps in the existing corporate insolvency regime included in Section 4.1 of the consultation paper, the Society is generally supportive of the regulator having increased power to appoint special management and direct actions in a resolution situation.

However, as outlined in the overview comments at the outset of this response, the Society is also of the view that consideration is needed as regards the appropriateness of treating all insurance and reinsurance business in the same way under any proposed framework.

4.b Are the resolution tools proposed in this consultation document appropriate to the Irish insurance sector, or are there other options that should also be considered?

The Society sets out its views on the appropriateness of the proposed resolution tools below:

Bridge insurer
We feel that additional clarity on how a bridge insurer would operate in practice is required. Whilst this form of resolution tool has worked well in the past in relating to banks, it is not immediately clear if it would be of benefit in the case of insurance firms. In an insurance firm, specific assets are not separately identified as relating to specific liability pools, and so identifying the right assets to transfer alongside any liability pool would be challenging. In addition, all policy liabilities of an insurance entity have equal ranking in terms of their call on the assets of the insurer. Moving a subset of liabilities of a firm to a bridge institution may cause different relative outcomes for different groups of policyholders – will those policies that are moved to the bridge insurer enjoy an implicit or explicit stronger guarantee in relation to their future benefit payments?

The consultation paper does not explain how a block or portfolio of business would be transferred to a bridge insurer in practice. It is not clear to the Society if this would be through a scheme transfer. The Society notes that any scheme transfer in Ireland is required to be sanctioned by the High Court, which differs from other EU countries where the regulator authorises the transfer.

We feel that additional details of the scope and operations of the bridge insurer would also be beneficial. In circumstances where an insurer that is providing insurance cover to a market with limited or no alternative providers enters resolution, will the bridge insurer accept new business as an interim measure to ensure economic activity can continue?

Write-down of Capital Instruments and Conversion of Eligible Liabilities
The Society notes that Part 18 of the Irish Solvency II legislation (SI 485 of 2015) deals with winding-up of an insurance company, and in particular sets out that insurance claims take priority over other liabilities. In this context it is not clear to the Society that there is a gap in existing provisions and the circumstances in which this resolution tool may be required.

Ancillary Resolution Powers and Obligations
It is important to consider the powers that are currently available to the Central Bank of Ireland under Part 6 (Customer Protection) and Part 7 (Bank's Power to Give Directions) of the Central Bank (Supervision and Enforcement) Act 2013 in determining the appropriateness of a resolution toolkit. In particular, the Society is of the view that the ancillary resolution powers and obligations outlined on page 17 of the consultation paper should be reviewed in this context.

4.c Would the use of a write-down and conversion tool in limited circumstances be a means to facilitate burden-sharing, with the cost of failure borne by the insurer's investors in the first instance rather than by policyholders, the broader industry, or by the public/taxpayer?

The Society strongly supports the view that insurance liabilities to policyholders must take priority over other liabilities of the insurer, including the repayment of capital provided by shareholders or other stakeholders. As noted above, this is already enshrined within the Irish Solvency II legislation. It is not immediately apparent that additional tools are required in this regard. The Society would welcome the opportunity to discuss this further.

3.5 Resolution Planning

Section 3.5.2 Resolution Planning Process

5.a Should a resolution plan be prepared on a before the event basis for insurers where there may be a public interest in using resolution tools in the event of failure?

We would be supportive – in a general sense – of the use of resolution tools in the event of failure to protect the public interest.

However, the Society is not convinced that resolution plans, prepared on a before the event basis for insurers, is necessarily in the public interest from a cost-benefit perspective. Please refer to comments in the preamble and sections 3.2 for the Society's considerations in respect of scope of application of any National Resolution Framework. In addition, while the Society acknowledges the use of pre-emptive resolution planning where there may be a public interest in using resolution tools in the event of failure should help accelerate the resolution process, and protect the public interest, it must be acknowledged that considerable work is likely to be required ahead of the development of a Preferred Resolution Strategy ("PRS"), which may or may not be completely invalidated by the bespoke set of circumstances giving rise to a resolution event.

We note that the consultation paper acknowledges this in outlining that the PRS would be subject to reassessment at the point of failure and prior to any resolution action being undertaken. While we are supportive of such actions, to ensure the correct resolution outcome is achieved, we believe the resolution authority will need to be mindful of any potential duplication of effort between that of arriving at the initial PRS and that arrived at during the reassessment. We are of the view that the process should be as streamlined as possible to avoid any unnecessary delays to resolution or unnecessary costs being placed on the system which could otherwise be avoided.

The Society would furthermore submit that generic resolution planning by the Resolution Authority may be a more cost efficient approach to resolution planning, rather than a regime that would require in-scope insurers to maintain a resolution plan, noting that much of the relevant information that would be expected to inform the construction and maintenance of a resolution plan for a particular insurer would already be contained in the various regulatory submissions to the CBI (to the extent that the CBI would be designated, or share information with, the ultimate Resolution Authority). In any event, in the interest of efficiency the Resolution Authority should seek to make use of information currently available.

The Society would note that insurance Groups may maintain a group-wide resolution plan. Clarification would be useful as to whether this would satisfy any requirement to maintain a before-the-fact resolution plan, or if a bespoke resolution plan would be required at entity level.

5.b Do you agree that this plan be developed by the resolution authority? Or do you see a role for the insurers in developing such plans?

It is our view that responsibility for the development of resolution plans should rest with the resolution authority. A large amount of the relevant information will likely already be included in the Recovery Plans, Regulatory Supervisory Report (RSR) and other information available to the CBI prepared by the insurer. The resolution authority should make use of this information already available. However, in addition to this we note that the development of such plans is likely to require support from the insurance industry at each stage of the process, through providing information, discussion and feedback (dependant on the level of knowledge shared between the resolution authority and stakeholders).

The resolution authority will be tasked with implementation of the resolution plan and thus is likely to be best placed to understand the information required to develop such plans. Should individual insurers be in scope of the requirements, from an efficiency and cost perspective, the resolution authority is likely to be able to achieve economies of scale that individual insurers would be unlikely to achieve in practice. Furthermore, as the resolution authority will have access to information from across the wider market that would be unavailable to individual insurers, including but not limited to impediments to resolution, it will be in a much better position to develop resolution strategies that are likely to succeed than might necessarily be the case for individual insurers.

However, we believe that the insurers may have an important role in the development of such plans. For example:

- Information gathering: The insurer will understand the specific nuances of their business beyond a more generic information request list that might be developed by the resolution authority. The insurer will play an important role in identifying the key services and critical functions to assist the resolution authority in gathering information that is required for resolution purposes, and to assist in identifying the key documents (or extracts thereof) to enable the resolution authority to arrive at the PRS. However as noted above, existing information should be leveraged where possible and the insurers involvement should be limited to providing additional information not already readily available or that that would further support the development of a resolution plan.
- Setting the PRS: The insurer may have developed collateral to support the resolution authority in identifying the PRS, e.g. valuations supporting the sale of business, either in its entirety or partially, developed for recovery planning purposes, including an understanding of how key services and functions would be maintained. This type of information may be already be contained in recovery plans. Where necessary, we would see a role for insurers in providing additional information to the resolution authority as required.

The level of involvement of the insurer in the final stages will depend on the level of knowledge shared by the resolution authority regarding the PRS with the insurer. Depending on the PRS, different steps would be taken around assessing resolvability and impediments to resolution and without knowing the PRS, it is difficult to see how the insurer could practically assist.

It is likely that significant cost and effort will be required by individual insurers in addressing the above requirements. Thus, while we believe the insurer can play a valuable role in helping the resolution authority to address the requirements, we believe that it should be done in a pragmatic manner to avoid any undue costs being placed on individual insurers which ultimately are likely to be borne by policyholders. Thus, the risk of failure and policyholder protection needs to be balanced against the ultimate cost of avoiding such failures.

5.c Where an Irish authorised insurer is a subsidiary of an international regulated entity, should the resolution authority liaise with the resolution/competent authority of the parent entity for resolution planning purposes?

The EC Proposal for the Insurance Recovery and Resolution Directive envisages that resolution authorities should work together to protect the interests of consumers across the different Member States. Many insurance groups are closely related in terms of underlying systems and policyholder bases, and as such any resolution actions performed in one Member State may impact on the functioning of related insurance groups in other jurisdictions. For example, an Irish subsidiary may be providing IT related services or even insurance coverage to other entities within the group outside Ireland. Any resolutions actions performed in relation to the Irish subsidiary may in turn impact on the operations and ongoing viability of the other insurers within the group. This is turn could lead to financial instability within these insurers and indeed the wider system. Thus, we are of the view that understanding the interconnectedness of insurers is important to protecting the stability of the system as a whole and we think the resolution authority should liaise with the resolution/competent authority of the parent entity or the resolution college (where it exists) for resolution planning purposes. The resolution colleges are likely to have additional information not readily available to the resolution authority in Ireland which would help support the development of the PRS and help ensure that unintended consequences are avoided.

Section 3.5.3 Loss Absorbing Capacity

6.a Should insurers, which may require resolution tools in the event of failure, hold an additional buffer of capital or eligible debt to enhance loss absorbing capacity and minimise the risk of costs being borne by policyholders or the public?

The Solvency II framework is a very thorough, risk based, detailed framework that considers the question of capital for insurers. It is the Society's view that it is not appropriate to consider arbitrary capital additions to cater for resolution given the existing frameworks in place. Insurance entities must be operated day to day as going concerns and that is the appropriate lens to view their capital needs.

In Ireland, the recovery planning framework requires insurers to identify recovery options to help to restore the financial viability following extreme stress events. Additionally, insurers are required to identify the point of non-viability and calibrate their recovery indicators at a level that allows for their individual circumstances in terms of their overall recovery capacity. Thus, insurers will already be likely holding capital beyond the minimum levels prescribed by the Solvency II Directive.

While, we recognise that holding an additional capital buffer would help further reduce the likelihood of an insurer failure requiring resolution, we note that the existing Solvency II and Recovery Planning requirements are likely to provide significant levels of protection against the probability of failure. Thus, we are of the view that holding systemic additional capital buffers is not appropriate.

A requirement to hold additional capital is likely to add additional costs to policyholders. This could result in competitive disadvantage for Ireland compared to European counterparts. Additionally, this could result in insurance groups restructuring their operations to optimise capital, potentially away from Ireland.

The text below seems slightly unclear as it appears as if this change would in fact result in an additional capital requirement, it would be good if further clarification could be given as to the intent of this:

"*…one option is for a requirement for a minimum loss absorption capacity to be placed on insurers that are in-scope of the proposed framework. However, any such requirement would need to be aligned to the capital requirements provisions under Solvency II, and ensure that insurers are not required to hold additional capital beyond regulatory minimums.*"

6.b What is the anticipated impact of the holding of additional capital buffers on the Irish market in terms of costs and supply?

A requirement for an additional capital buffer will inevitably lead to higher insurance premiums for consumer. There may also be secondary impacts such as reduced market capacity or distorted competition between Irish and international insurers.

Section 4 Administration and Winding Up

4.2 Enhancements to the Current Insolvency Framework

7.a In order to offer greater protection to policyholders, is there merit in amending the existing insolvency legislative processes? And if so, what would be the key issues of concern to stakeholders?

The Society notes the concerns raised within the Consultation Paper relating to existing tools within the corporate insolvency regime (liquidation, administration and/or examinership) as applied to insurance entities. We feel that these concerns should be addressed outside of the wider considerations relating to the development of a resolution framework, and we believe this is urgent.

Liquidation:

- Our view is that it seems reasonable to extend the powers beyond the scenario of cashflow insolvency for example to protect the interest of policyholders, consumers and/or the wider public.
- We would be supportive of the Central Bank participating in a liquidation committee that would ensure the objective of safeguarding policyholder claims and interests operates as a central priority for the liquidator throughout the course of the winding-up process.
- Our view is that it does not seem necessary to extend to reinsurance companies given that the insurer as the cedant should have performed due diligence in taking out such reinsurance contracts. The insurer should be able to source alternative reinsurance cover in the event of failure (albeit at potentially a higher cost). The Society's view is that any failure of entities providing reinsurance only would be a corporate event with no first order impact on individual consumers and, as such, reinsurers should not be in scope of the Framework. The Society notes however that some reinsurers may also write direct insurance along with providing reinsurance, and this is another complexity to consider.

Administration:

- The consultation paper notes that the interests of policyholders are ranked on equal footing to other creditors "The mandate of the administrator is to consider the business of the insurer as a whole, and he or she is not mandated to consider the interests of policyholders or consumers over and above the interests of other creditors of the company." Part 18 of the Irish Solvency II legislation (SI 485 of 2015) deals with winding-up of an insurance company, and in particular sets out that (1) "Insurance claims shall, with respect to assets representing the technical provisions of an insurance undertaking, take absolute precedence over any other claims on the insurance undertaking including claims accorded preference under section 621 of the Act of 2014.", although it does note "(3) Despite paragraphs (1) and (2), expenses arising out of winding-up proceedings shall take precedence over insurance claims to the extent that the assets of the undertaking, other than the assets representing the technical provisions, are insufficient to meet such expenses;"
- It is our understanding that in Administration (assuming an Irish process) the insurer retains its regulated status and is required to comply with Solvency II provisions and policyholder protection is preserved. This is at odds with the observations noted in the consultation paper regarding policyholders being ranked on equal footing and further clarification around the matter should be undertaken. It would seem logical that the legislation around administration would be consistent with the Solvency II legislation.

- We think it seems reasonable that the Central Bank would have an involved role in the administration process, for example consulting with the administrator on key decision-making processes to ensure value for money in the administration process.

Examinership:

- If a insurer is in resolution, examinership does not seem like a viable option as it requires a reasonable prospect of survival to satisfy the Courts.

7.b Are there other enhancements that should be considered to strengthen the administration and winding-up processes?

Point above discussed as part of 7.a.

Section 5 Resolution Funding

5.1 Resolution Financing Arrangements

8.a In the event of resolution actions requiring additional financing, should the ICF be utilised or a separate resolution financing facility established?

8.b Should such a fund be built up using contributions collected on a before the event or after the event basis?

8.c Should arrangements be put in place to ensure any levy contributions are not directly imposed on the policyholders?

The Society has a number of views on the financing arrangements including on the structure, form of the funding and the eventual costs to policyholders. We would be happy to discuss these views further. We believe it is important to note that we expect that any levy applied to insurers to provide funding for resolution activities would, either directly or indirectly, subsequently be passed to policyholders.

The Society is not convinced of the merit of a fund collected on a before-the-event basis. It should be noted that many of the resolution tools discussed in the consultation could serve to resolve an entity without recourse to a fund providing additional financing.

With reference to the above-mentioned commentary on scope, a levy to generate such a fund may discourage other objectives in the public interest, such as private savings or voluntary insurance (eg health). Such a fund may have unintended consequences in the context of moral hazard of an Insurance Group encountering financial difficulties across entities in different jurisdictions – such Groups may be more inclined to deploy limited resources to support entities in jurisdictions where there is no such fund.

More generally, the levy mechanism to build up a fund, on a before or after basis, must both be fairly and sensibly calibrated. The design of such a levy should reflect an appropriate pooling (industry, product type) and be mindful of the principle of equity across different generations of policyholder.

To provide one specific example, we would have a number of concerns of a levy applied to savings type products such as unit-linked business, for example:

- A crude levy (e.g. calculated as percentage of gross premium) would disproportionately affect this type of business, particularly when the exposure to pure insurance risk is generally low and the premium is not directly linked to the insurance risk.
- Attractiveness of such products could be disproportionately impacted and thus undermine wider public policy objectives such as increasing private sector pensions savings and other forms of investment.
- Consider, in terms of competing with other non-insurance savings providers, that there is an existing life assurance levy that disproportionately impacts this form of insurance.

This is also just one example and we are of the view that there are similar concerns for other products in terms of impacts on attractiveness, affordability and conflicts with wider public policy objectives.

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