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# Position Paper

## Contribution to the European Commission's White Paper on Insurance Guarantee Schemes (IGS)

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### Executive summary


In its contribution to the European Commission's consultation on its White Paper on insurance guarantee schemes (IGS), the CEA, the European insurance and reinsurance federation, believes that there is **no case for an EU initiative on IGS**. An adequate level of policyholder protection is already assured through the existing and forthcoming European insurance regulatory framework. Insurers' **technical provisions**, the **Solvency II** regulatory regime that will come into force at the end of 2012 and the **new EU supervisory structure** from 1 January next year all ensure that consumers are well protected. The CEA supports the EC objectives of ensuring a high level of consumer protection in the EU, but the new solvency and supervisory rules should be afforded sufficient time to be fully implemented and tested before any additional layers of protection are considered.

The CEA also believes that the EC should recognise that consumer protection needs are different in the insurance sector to the banking sector. The type of problems that bank guarantee schemes address do not exist in the insurance sector, where winding-up procedures usually take years, liquidity management is less of an issue and there is less risk of contagion between entities.

Should the EC nevertheless decide to go ahead with a legislative initiative on IGS, the CEA believes that a **minimum harmonisation** of national schemes is the most appropriate way forward. This would accommodate established national systems that are adapted to local conditions and consumer needs. National IGS should strictly follow the home **member state principle** to avoid duplication of or gaps in coverage.

The CEA believes that any EU Directive should only require national IGS to cover **life insurance** policies, which typically involve larger amounts and longer-term commitments with insurers. The CEA also believes that IGS should only cover **consumers**, and not undertakings, and that decisions on funding arrangements should be left to member states, provided that equivalent protection is provided to policyholders.
The CEA also strongly opposes the idea of a mutual borrowing facility between national IGS on the grounds that the insurance sector, in contrast to banks, is exposed to only limited liquidity risk.



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## 1. No case for any EU initiative on IGS

The CEA welcomes the opportunity to respond to the European Commission (EC)'s White Paper on Insurance Guarantee Schemes (IGS).

The CEA agrees that policyholders and beneficiaries should be protected against the detrimental consequences of an insurer becoming insolvent and being unable to fulfil its contractual commitments. Therefore, the CEA supports the EC objectives of ensuring a high level of consumer protection within the EU.

However, in contrast to the EC, the CEA does not see a case for any EU initiative on IGS. The EC puts forward three arguments for a directive in this area: consumer protection, financial stability and the strengthening of competition. The CEA does not share the EC's view that an IGS system would strengthen financial stability or enhance competition. Concerning consumer protection, the CEA believes that the forthcoming European insurance regulatory framework, together with competent supervision and the policyholder's right of priority in the case of insolvency, will constitute an adequate level of policyholder protection.

### 1.1 Consumer protection - existing and forthcoming prudential solvency rules and supervision

Insurance consumer protection depends mainly on the efficiency and appropriateness of prudential rules imposed on insurers and their effective and harmonised application by the competent national authorities. In this respect, the CEA stresses that an adequate level of policyholder protection is already assured in the existing and forthcoming European insurance regulatory framework:

- To ensure that an insurer is able to meet its obligations to policyholders, insurers have to match expected future claims (technical provisions) with sufficient and securely invested assets that have similar characteristics to the underlying insurance liabilities (eg duration, liquidity and currency).

- In addition, European insurance regulation requires insurance companies and groups to hold additional capital on top of the capital covering technical provisions to withstand unexpected adverse deviations. In Europe, prudential solvency rules are already in place, providing a satisfactory level of prevention and protection for consumers.

  The forthcoming Solvency II regime, being a risk-based regulatory regime, aims to further increase the level of consumer protection. Solvency II will set two levels of capital requirements for both individual undertakings and the insurance group as a whole. This allows the early detection of financial problems and creates a ladder of intervention unique in the financial sector. The ladder of intervention provides management and supervisors with the possibility to apply progressive remedial actions when the financial situation deteriorates, but while it still has net assets to meet its obligations towards policyholders.

- Moreover, the new EU supervisory architecture will enhance the collaboration between national supervisors and therefore allow for a harmonised implementation and supervision of the new solvency rules.

### 1.2 Financial stability - insurance differs from banks

The CEA would like to stress that the insurance sector does not face the same issues of financial stability as the banking sector:

- Firstly, the banking sector operates under a distinctly different business model to the insurance sector. In particular, banks finance their long-term " illiquid " lending through short-term deposits or borrowing, whereas insurers are funded predominantly by upfront premiums paid by policyholders and have a balance sheet in which assets and liabilities are linked to a substantial degree.
- Secondly, the insurance sector is not a vital part of the financial infrastructure, foremost with regard to the payment systems, as banks are. Apart from limiting the direct impact on the financial system

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when an insurance company faces difficulties, this also reduces the risk of these difficulties spreading to other institutions " ie the contagion risk.

In addition, the long maturity of insurance liabilities means that the orderly winding-up of insurers usually takes years and therefore does not require short-term sales caused by very unlikely liquidity shortages. This also allows for the recovery of market values of tied assets.

In extreme solvency breaches, the respective company or part of the group may stop (on their own initiative or as required by the supervisor) to write new business (temporary or final ‚run-off'), while continuing to honour existing contracts, or alternatively transfer (part of) their insurance policies, reserves and assets to another insurer (portfolio transfer).

The winding-up procedure of an insurer, therefore, differs significantly from the winding-up procedure of an insolvent bank. In addition, there are differences in the regulatory and risk environments, the nature of products, related timeframes and cost aspects.

Hence, the CEA strongly believes that a solution aimed at addressing banking problems that do not exist in insurance does not constitute an adequate and proportionate way forward for the insurance sector.

### 1.3 Competition

In contrast to the EC, the CEA does not believe that the presence or absence of IGS has any impact on the functioning of the single insurance market and the development of cross-border insurance business. Other factors are more important determinants of consumer choice between insurance products than the existence of IGS. Factors such as the general strength of an insurance company and its presence in the market, contribute more efficiently to the confidence of consumers. Consumers are also influenced by elements such as local culture and language barriers, which play a vital role in consumers' willingness to buy insurance products from foreign insurance companies. Many insurance consumers have limited awareness of the existence of IGS or the coverage they provide, so the presence or absence of IGS has little effect on their purchasing decisions. Moreover, crossborder insurance activity largely depends on consumer demand.

A survey conducted in 25 member states and published by the EC in 2007 showed that consumers are very satisfied with domestic insurance offerings[1]. Consumers still primarily shop locally for insurance products, relying on domestic insurance providers who speak their own language. Consequently, the CEA doubts that the establishment of IGS will increase cross-border business.

### 1.4 IGS side-effects

In addition, the CEA believes that IGS are raising concerns as to their significant side-effects, ie the subsequent dangers of moral hazard, unfairness and costs, and the risks for the stability of small concentrated markets:

- IGS bears the danger of moral hazard as it cannot be excluded that IGS encourage less responsible conduct. With IGS in place, policyholders might be inclined to pay less attention to the insurance company's financial solidity and choose their insurer solely on the basis of the lowest premium. Equally, insurance intermediaries might not necessarily offer their clients the products of a financial sound insurer, but rather those which come at the lowest price. Furthermore, a company's directors and officers might be less prudent in their management behaviour if they know that consumers' protection will no longer fully depend on their efficient management. Also, supervisors may be less inclined to intervene in time with an IGS in place, which may adversely affect the supervisory ladder described above.

[1] http://ec.europa.eu/consumers/cons_int/serv_gen/cons_satisf/consumer_service_finrep_en.pdf

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- The establishment of IGS systems entails unfairness as it requires that badly managed undertakings are financed to the detriment of soundly managed companies, which would be burdened with additional costs and thus have their competitiveness weakened. It also imposes policyholders of soundly managed companies to pay for those policyholders that are insured by less well-managed insurers.
- While the scheme design can have an impact on the costs of an IGS, these costs can be limited by the scheme design only to some extent. Moreover, whatever the design options selected, since IGS are usually funded by levies on solvent insurers, the costs will always ultimately fall on insurance customers. IGS therefore entail additional costs for insurance consumers.
- In small, concentrated markets, should sound companies be required to fill IGS funding gaps in the case of a large insurance company's collapse, inappropriate funding mechanisms „ such as those proposed by the EC „ would create interconnectedness between insurance companies and create an environment in which systemic risks could develop. Another risk in small and concentrated markets is that if the size of the pre-funded contributions to IGS is set to a higher level than the one suggested by the EC in order to compensate for the high level of concentration, it would seriously jeopardise the financial soundness of the insurance companies and the stability of those markets.

### 1.5 Conclusion

For all these reasons, the CEA strongly believes that the new solvency and supervisory rules should first come into effect before additional legislative measures are taken at EU level. Any consideration of the possible need to harmonise existing national IGS can only take place once Solvency II has been afforded a sufficient amount of time to be fully implemented and bedded-down.

Only if those rules prove undoubtedly not to provide sufficient consumer protection should additional layers of protection be considered further.

## 2. Nature of a possible EU action: minimum harmonisation Directive

*"The Commission proposes to establish at EU level a coherent and legally binding framework on IGS protection, applicable to all policyholders and beneficiaries, by means of a directive as defined in Article 288 TFEU."*

Should the EC decide to take legislative action on IGS, the CEA agrees with the EC that a Directive, which will aim to introduce minimum requirements for national IGS, with consumer protection as the exclusive objective, would be the most appropriate approach.

National insurance markets all differ in size, concentration and culture. Moreover, there are already national consumer protection mechanisms in place in various markets, which have proven to provide effective and efficient consumer protection as they were designed with local markets in mind. These mechanisms are adapted to the needs of local consumers and the various particularities of each individual national market.

A minimum harmonisation approach is therefore necessary to accommodate the differences in design and scope of the various existing IGS without endangering their effective functioning. Consumer interests are best met if national IGS are designed according to national market conditions. In turn, minimum harmonisation — complemented by targeted full harmonisation of the geographical scope and the prohibition of advertising — would enable member states to provide a higher level of consumer protection if their national market structure and conditions allow it.

The CEA advocates well defined minimum requirements for IGS intervention in order to ensure that negative side effects such as moral hazard are avoided as much as possible. It is also important that, in all respects, harmonisation is designed to minimise the distorting effect that might be felt by cross-border insurers.

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## 3. Level of centralisation and role of the IGS: national IGS as last-resort protection mechanism

*"The Commission advocates the establishment of an IGS as a last-resort mechanism in each Member State."*

The CEA fully agrees with the EC conclusion that national IGS should remain a last-resort mechanism. There is no need for additional measures in the form of early intervention tools to prevent insurance insolvencies due to existing effective prevention ensured by prudential insurance regulation and insurance risk management.

Therefore, the CEA supports the EC intention to build on pre-existing, effective national IGS rather than introducing a single European-wide IGS. Building on existing national IGS will ensure a high level of consumer protection within a short timeframe, and it will not overhaul the efficient, market-adapted solutions already in place.

## 4. Geographical scope: home state approach

*"The Commission advocates harmonising the geographical scope of IGSs on the basis of the 'home country' principle."*

If the establishment of national IGS in all member states were to be made mandatory, the CEA agrees that national IGS should follow the home member state principle in order to be consistent with the EU supervisory framework. The home member state approach needs to be followed strictly so as to fully avoid coverage duplication or gap.

National IGS would need to cooperate with each other to provide information to consumers in their own languages.

## 5. Policies covered: life insurance

*"The Commission advocates that IGSs should cover both life and non-life insurance policies."*

The CEA considers that the types of insurance business covered should reflect the necessities of consumer protection. The discussion should therefore be restricted to life insurance as defined by Article 2 of Directive 2002/83/Directive 2009/138/EC (Solvency II), as these policies involve often large amounts and long-term commitments with insurers, often with a retirement objective.

In contrast to life insurance, non-life insurance is characterised by a short contract duration (often a one-year policy) and lacks a savings element. In the case of insolvency of a non-life insurance undertaking, the consumer can easily switch from the insolvent insurer to another insurer since, in contrast to life insurance, there is no deterioration of the insured risk with time. Unlike in the case of bank deposits or investments, compensation only has to be paid if the insured event occurred and the policyholder's claim is justified. Consequently, the affected number of policyholders is considerably smaller in relation to the total insured portfolio.

The CEA, therefore, considers that any EU Directive on IGS should only require national IGS to cover life insurance. Member states should, however, be able to maintain existing schemes, including those which may cover a wider range of insurance products.

Should the EC, however, confirm its intention to include non-life insurance in the scope of its Directive, the CEA believes that it should explicitly allow member states to maintain well-functioning existing IGS covering non-life insurance, without interfering with the way they were designed. Existing IGS have been established and developed with local market and economic environments in mind, with a view to best addressing local consumer protection needs. Any interference with their management, functioning and organisation would only prevent those schemes from performing effectively and achieving their objectives. This is the case of the existing workmen's compensation schemes which provide cover for beneficiaries as a primary source of social security. Member states should therefore be allowed to continue requiring 100% coverage by the concerned

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IGS for foreign (and national) providers, if there is no comparable IGS scheme in the home country of such a foreign or national provider.

Moreover, since life and non-life insurance contracts differ significantly and are handled differently in the event of insolvency, the CEA strongly advises that any Directive should require that life and non-life insurance are treated and administered by separate IGS entities.

The general exclusion of IORPs creates an unlevel playing field to the detriment of insurance undertakings offering occupational pension products. All pension products should be covered by appropriate — but distinct — schemes. Since IORPs are not subject to any comparable solvency regulation, the likelihood of failure and the resulting consumer protection need is even higher. However, in the context of pensions, the existence of collective agreements also has to be taken into account. Should occupational pension products offered by insurers be covered by an IGS, a legislative proposal for IORPs should follow without delay.

## 6. Eligible claimants: consumers

*"The Commission advocates that IGSs should cover natural persons and selected legal persons."*

The CEA believes that the primary aim of harmonising national IGS is effective consumer protection. A consumer is any natural person who is acting for purposes that are outside his trade, business craft or profession (Article 2, proposed Directive on Consumer Rights). Some categories of natural persons, such as directors, managers and other persons responsible for, or connected to, the failed undertaking should be excluded from this group of consumers.

In contrast to consumers, micro- and small-sized undertakings are able to assess their chosen insurers' soundness or seek professional advice on it. Furthermore, any extension to micro and small-sized undertakings would lead to legal uncertainty since this concept, like the one of small and medium-sized undertakings, is defined differently in the different member states. Moreover, the structure and size of those undertakings can evolve within a short timeframe and it would be administratively very cumbersome to assess every year which micro, small and/or medium-sized companies fall within the scope of an IGS. The administrative and financial burden resulting from the inclusion of micro, small and medium-sized companies would ultimately be to the detriment of a quick and effective settlement of consumer claims. Excluding all corporate clients from IGS protection coverage would also help mitigate IGS costs, with a positive effect on IGS financing.

## 7. Funding: member states' discretion

*"The Commission advocates that IGSs should be funded on the basis of ex-ante contributions by insurers, possibly complemented by ex-post funding arrangements in case of lack of funds, which should be calculated according to the individual risk profiles of the contributors. An appropriate target level for funding should be set, with a suitable transition period. The Commission is ready to consider harmonised compensation limits and other reductions in benefits, provided that appropriate coverage of policyholders and beneficiaries is guaranteed for all relevant classes of insurance and in all Member States."*

The CEA strongly believes that the Solvency II framework as well as the new European supervisory framework should come into effect before considering any additional layers of consumer protection that result in additional funding requirements and administrative burdens for insurers, and additional costs for customers.

National insurance markets vary across the EU in terms of size, concentration and business underwritten (eg life vs. non-life insurance; retail vs. business insurance). These market features have a significant impact on the IGS funding needs, eg:

- In small, concentrated markets, the CEA shares the EC concerns that IGS will only be able to protect consumers from the failure of small insurance companies.

Any failure of a medium-sized or large company in a small, concentrated market will require state assistance in order to protect consumers effectively. In the absence of state assistance, and should sound companies be required to fill in funding gaps if a large insurance company collapses, the EC proposal would create interconnectedness between insurance companies operating in such markets, and create an environment in which systemic risks could develop.

Another risk in small and concentrated markets is that if the size of the pre-funded contributions to IGS are set to a higher level than the one suggested by the EC (1.2% of gross written premium) in order to compensate for the high level of concentration, it would seriously jeopardise the financial soundness of the insurance companies and the stability of those markets.

- In contrast, in other markets, the EC proposed pre-funded amounts (1.2% of gross written premium with a transition period of 10 years, ie 0.12% of gross written premium per year) are too high given the low level of concentration. The EC-proposed, pre-funded amounts are actually higher than those retained by many of the existing national IGS. Smaller amounts and a longer transitional period (eg 20 years) than those proposed by the EC are therefore necessary in such a context.

In addition, the EC proposed funding arrangements do not consider the following elements:

- Funding requirements depend very much on the form of the last-resort mechanism, ie compensation or business continuity through portfolio transfer, which, the CEA feels, should remain a member states' decision. Portfolio transfer is the most effective consumer protection for life insurance products, as they are long-term and difficult to substitute under the same conditions, and it does not involve similar funding needs as compensation. In some markets, portfolio transfer may also work for non-life insurance. For non-life insurance, funding needs are also limited for other reasons. This is because claims may continue to arise years after the failure of the insurance company, which means that claims assessment and settlement are spread over many years, and compensation is paid gradually.
- The IGS would not be expected to guarantee to repay policyholders in full. As supported by the CEA, one would expect there to be restrictions (caps and limits) on the amounts that can be reclaimed under this system. Therefore, the IGS funds cannot be expected to be equivalent to the full value of the technical provisions.

For all these reasons, the CEA is concerned that the EC's proposed one-size-fits-all approach in terms of funding arrangements would have different impacts in the different markets according to their size, level of concentration and dominance of insurance lines. The CEA calls on the EC to reconsider its proposed approach before moving forward with its legislative proposal.

In contrast to the EC White Paper, the CEA strongly believes that IGS funding should be left to member states in consultation with local stakeholders. A Directive should not require a specific funding mechanism, but rather, in an outcome-oriented and proportionate way, encourage member states to establish systems delivering effective consumer protection should an insurance company fail. Any IGS should be cost-efficient and avoid unnecessary costs for the industry and consumers. Since the direct and indirect cost of any type of IGS will ultimately be borne by consumers, it is therefore of key importance to design any IGS so as to reduce any costs and risks it may impose on insurance firms and their customers. Costs to insurance firms can be reduced by limiting the product and personal scope of protection and by imposing caps on contributions and benefits, and the funding arrangements (timing and amount) have to be calculated as accurately as possible with local market conditions and local consumers' needs in mind.

### 7.1 Timing of the funding

The CEA is in favour of member states deciding on the timing of funding respecting national existing IGS.

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Should the EC, however, want to establish minimum requirements on the timing of funding, the CEA would like to raise the points below. This being said, since the EC proposal does not specify to what extent the funds need to be transferred immediately to the IGS or could be kept as ring-fenced funds, the CEA can only make preliminary comments:

- The CEA is concerned that the EC proposal for IGS pre-funding is inspired by the recent experience in the banking sector, and the related need to avoid liquidity shortage and panic. The CEA stresses again that insurance differs from banking. In contrast to bank depositors, insurance consumers do not need immediate access to large amounts of money, thus making pre-funding unnecessary. The failure of an insurance company does not require the payment of large amounts of cash upfront and claims can be paid as they fall due over many years.
- The CEA stresses that *ex-ante* funding with immediate fund transfer to the IGS involves increased administration and costs. Funds, which would be disproportionate in case of low frequency/size of failure, would bind financial resources over a long period of time with the inherent risk of inefficient usage and bad management.
- The CEA agrees with the EC that, as a minimum, a Directive on IGS would have to provide for sufficient legal certainty that, in the case of total or partial pre-funding, the funds are allocated, targeted and used exclusively for IGS consumer protection objectives. Experience shows that risks of political interference exist. The Directive should therefore prevent and exclude reallocations of IGS resources and redefinitions of IGSs' role, such as an increase in IGS tasks/missions.
- On the other hand, *ex-post* funding will not request contributions from insurers unless there is a failure, so insurers will have the funds at their disposal. This reduces management costs and avoids investment risks. Contributions will be calculated according to actual need (outstanding claims/policies concerned). With *ex-post* funding, there is no risk that the funds involved are not used exclusively for the defined purposes of the IGS. However, the failing company will not have contributed to the fund.

### 7.2 Contributions

As explained, the CEA advocates that member states decide on the details of funding arrangements. On the one hand, risk-weighted contributions would help to contain moral hazard behaviour by insurance undertakings and free riding problems (the subsidising of riskier insurers by safer ones). It would create incentives for more prudent behaviour by insurers and improve risk management. On the other hand, a risk-weighted scheme must be carefully designed to avoid the insurer being charged twice for its net risk (already charged „ and thus risk-adjusted „ by supervisors if the insurer falls short of the capital requirements in Solvency II or receives a capital add-on). This would send a negative signal to customers and may contribute to a run on insurers.

### 7.3 Compensation limits

The CEA supports the EC consideration to introduce minimum requirements on caps and compensation limits to guarantee appropriate consumer protection while ensuring the financial stability of the national IGS and mitigating dangers of moral hazard. Member states should decide which compensation limits/caps are adequate for the sustainability of their national IGS. They may provide for:

- a minimum limit for IGS intervention;
- a *de minimis rule* avoids a disproportionate, excessive administrative burden that has only a very minor advantage for the consumer; a maximum limit for IGS intervention;
- within the maximum limit, a maximum percentage of the insurance claim covered by the IGS; and,
- a perennial maximum limit of IGS intervention; unlimited contributions may otherwise be very burdensome and undermine undertakings' positions.

Compensation paid in the case of a life insurer's insolvency is normally limited to the guaranteed sums and main commitments of the life insurance contract, while non-life insurance normally concentrates on outstanding claims and excludes the repayment of pre-paid premiums.

### 7.4 Mutual borrowing facility

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The CEA strongly opposes the idea of a mutual borrowing facility between national IGS. In contrast to banks, the insurance sector is only exposed to limited liquidity risk and liquidity panic:

- Bank assets consist to a large degree of long-term loans, which cannot be turned into cash instantly, while most deposits can be withdrawn immediately or at short notice. And, indeed, fast payout is needed in banking, as depositors need access to their money immediately in order to avoid disruption to their everyday living expenses.
- In insurance, this is usually not the case, as claims only need to be paid out after they have occurred, been assessed and settled, which may arise years after the insurer insolvency. Moreover, insurance policyholder funds cannot be withdrawn at all (as in most non-life lines) or can only be withdrawn at a penalty (as is common in life lines). Holders of a life insurance policy are, therefore, less inclined to cancel their policies.

Portfolio transfer and/or compensation of claims: member states' discretion
*"The Commission advocates that IGS should at least and within a pre-defined period of time compensate policyholders and beneficiaries for losses when an insurer becomes insolvent."*

Consumer are best protected if policies are quickly transferred to another insurer or paid when they fall due — which in many cases may be years after the insolvency takes place.

National winding-up systems differ across member states. As insurance companies have to cover their technical provisions with assets at all times and the policyholder's right of priority in case of insolvency, most of the assets linked to insurance claims would normally be recovered. There must be sufficient time to investigate how much of the assets can be recovered before an IGS steps in.

Due to the different national winding-up systems, the CEA thus supports member states' discretion on business continuity through portfolio transfer or compensation in order to satisfy the fundamental principles of proportionality and subsidiarity. As a result, any EU Directive should treat both as potential options, without giving any preference.

In general, insurance claims should be paid when they fall due. Since the timing of compensation payment depends on the applicable contractual insurance terms and conditions, member states should determine the timing according to their national market.

The CEA encourages the EC to ensure that a portfolio transfer does not constitute an unfair contract term under the future Consumer Rights Directive[2]. According to the EC proposal for this directive "*contract terms, which have the object or effect of the following, are presumed to be unfair: (...) giving the trader the possibility of transferring his obligations under the contract, without the consumer's agreement*". It must be ensured that an insurer's portfolio of insurance contracts may be entirely or partially transferred to another insurer without the policyholders' consent. This is the case in several national Insurance Supervision Acts.

Furthermore, the CEA agrees with the EC statement that "*particular attention must be paid to Value Added Tax (VAT) aspects. It should be prevented that the cost efficiency of the IGS is adversely affected by a high amount of sticking VAT.*"[3] Here the CEA draws the Commission's attention to the ECJ ruling of 22 October 2009. (cf. ECJ Judgment in Case C-242/08 (Swiss Re Germany Holding GmbH v Finanzamt München für Körperschaften)). The CEA encourages the Commission to ensure an exemption of a portfolio transfer from VAT in the framework of the current review of the VAT Directive. (Council Directive 2006/112/EC on the common system of value added tax).

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[2] cf. Proposal for a Directive on consumer rights COM(2008) 614, Annex III, para 1, lit i

[3] cf. White Paper on IGS, COM(2010) 370, p. 8

## 9. Advertising and consumer information

The CEA considers that any Directive on IGS should explicitly prohibit any type of advertising about IGS since its admittance would create moral hazard.

Any harmonised consumer information on IGS at pre-contractual and contractual stage should be addressed in the specific insurance legislation, which is currently being prepared (eg IMD, PRIPS). In any case, such information should only indicate to which IGS the consumer may refer in case of need. This would ensure that the consumer is not overburdened with information and avoids the risk of advertising.

The CEA points out that local IGS would need to cooperate with each other to coordinate and facilitate cross-border compensation processes and payments across the EU and to provide information to consumers in their own languages.