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NFU Response to Commission White Paper on Insurance Guarantee Schemes

About NFU

Nordic Financial Unions (NFU) is an organisation for co-operation between trade unions that organise employees in the banking, finance and insurance sectors in the five Nordic countries. At present, eight trade unions are affiliated to the NFU; two in Denmark, two in Finland, two in Sweden, and one in each Iceland and Norway. Through these trade unions, NFU represents 160 000 employees in the Nordic financial market.

General remarks

NFU understands that one of the main objectives of the White Paper is to cement customer confidence in the insurance industry, but we are surprised that the employees in the insurance industry have not been mentioned at all. To us the alliance between consumers and finance sector employees is clear. Consumer objectives can only be achieved in close cooperation with and when employees and their organizations are on board. The enforcement of this framework cannot be solely based on the economic interests of the customer or the tax-payer; the economic interests of employees must also be taken into account. The introduction of Insurance Guarantee Schemes cannot lead to a situation where the inevitably increasing costs for companies are balanced with reduced personnel costs.

Some of the questions asked by the Commission in the White Paper are dealing with matters that are largely oriented towards market participants and investors, and hence not for NFU to comment specifically.

In our reply, we have focused on matters that will, from our perspective, have an impact on finance sector employees now and in the future.

Establishment of Insurance Guarantee Schemes

NFU welcomes the initiative by the Commission to consider a system of Insurance Guarantee Schemes. In the aftermath of the financial crisis, all measures aiming at restoring confidence

in the financial markets and ensuring their long-term stability and reliability are urgently needed.

That said, NFU is of the opinion that the idea of establishing Insurance Guarantee Schemes through EU legislative measures might have come too soon. Generally speaking, the insurance industry has coped rather well with the crisis, and has not suffered the same confidence-loss as other parts of the finance industry. To assume that there are systematical flaws in the insurance industry based on the notion that some important European insurers have reported particularly severe losses and have been forced to important injections of new capital during the crisis, might be jumping to conclusions. Virtually all sectors and industries have, in one way or another, been hit by the crisis.

NFU is also of the opinion that, since the awaited Solvency II Framework Directive has not been fully implemented yet in the Member States, the discussion on IGS's might be premature. The Solvency II should be up and running and the implementation measures for the industry in place before the possible mandatory establishment of IGS's. There is a need to evaluate the Solvency II framework before it can be concluded that it does not also meet the criteria's posed in the IGS White Paper.

If a framework for Insurance Guarantee Schemes were to be introduced, NFU is of the opinion that it should be on a pan-European level in order to ensure a level playing field between countries and products. An IGS based on national systems with openings for voluntary exemptions are counterproductive to the overall ambition for EU to promote an integrated and harmonized financial market within the whole of EEA.

However, NFU would once again like to point out that a system like this would inevitably lead to heavier economic burdens on insurance companies, which might lead to reduced activities in the sector and thus also employment. It should also be pointed out that an all-encompassing IGS would have been very vulnerable in the crisis we just lived through, had it been an insurance industry crisis rather than bank, since a large number of the participating companies in the IGS would also have had the same type of problems.

Policyholder protection

One of the main objectives of the White Paper is to ensure comprehensive and even protection for policyholders and beneficiaries. NFU agrees with the Commission that any IGS framework would need to incorporate adequate safeguards to protect the interests of these groups, but also want to point out specifically that employees of the insurance industry must be considered to be creditors as well in this case, and should therefore also be addressed as such.

If any compensation mechanisms or similar is to be introduced to safeguard policyholders and other creditors, these must also guarantee that no employees are left worse off than they would have been had the company been wound up under the applicable insolvency law. This



means that, among other things, the question of employees prioritized right to salaries and other means of remuneration in case of insolvency must be addressed. If the framework will provide for the establishment of any sort of communication between an administrator (or what title the person or organ responsible for the compensation process will have) and the creditors, it must also be ensured that the employees are part of this procedure.

It must also be pointed out, should a European system Insurance Guarantee Schemes be established, that it is of crucial importance in terms of restoring confidence in the financial industry that any form of IGS compensation directed towards companies in dire straits is not used for executive remuneration in any form. The “greed factor” undermines the general trust in companies and financial companies in particular, and further mistrust will only follow if IGS measures would be linked to these bonus or incentive programs.

Yours faithfully,

NORDIC FINANCIAL UNIONS (NFU)

Jorunn Berland
President

Christina J. Colclough
General Secretary