

# Report on EIOPA Supervisory Activities in 2020

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**eiopa**

European Insurance and  
Occupational Pensions Authority

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## EXECUTIVE SUMMARY

EIOPA's supervisory convergence plan for 2021 identifies one of the main goals of the European Insurance and Occupational Pensions Authority (EIOPA) by ensuring a high, effective and consistent level of supervision across Europe, with the aim of guaranteeing a similar level of protection of policyholders and beneficiaries across jurisdictions, preventing supervisory arbitrage and guaranteeing a level playing field.

As a step towards the implementation of the plan, this Report presents how EIOPA contributed during 2020 to enhancing the common European supervisory culture and promoted consistent supervisory practices both from a prudential and conduct of business supervision perspective.

The year of 2020 brought the world a pandemic which has created huge social disruptions and unprecedented economic challenges. EIOPA had adapted its priorities and strategies to support both industry and supervisors to tackle those different challenges. To maintain supervisory convergence in a pandemic situation required cooperation and timely reaction.

The situation triggered some extraordinary and flexible responses. In particular, EIOPA encouraged supervisors and insurers to make use of the flexibility embedded in the existing regulatory framework and issued some supervisory statements to deal with the new risks and situations caused by the pandemic.

The need to carry out activities previously not planned inevitably had the consequence to re-prioritise some of the planned work. Anyway, the work on supervisory convergence overall revealed a good degree of progress, covering a variety of areas, from Solvency II related issues such as calculation of technical provisions to further development of supervisory activities in the area of conduct risks and analysis of innovative technologies and how they can improve supervisory practices. On conduct risks EIOPA finalised a chapter for the Supervisory Handbook containing guidance to supervisors on how to carry out a risk-based, outcome-focused and proportional supervision of Product Oversight and Governance (POG) requirements. EIOPA also published "EIOPA's approach to the supervision of product oversight and governance" aiming at providing more clarity for insurance manufacturers and distributors on the supervisory approach to POG requirements.

Following up the request of the European Commission to EIOPA for a technical advice on the review of the Solvency II Directive in February 2019, EIOPA finalised its Advice in December 2020 leveraging on a number of activities, originally initiated with the aim to improve supervisory convergence. This led to some proposals from a regulatory perspective.

EIOPA has continued its prudential oversight work during 2020 and strengthened its oversight activities on conduct of business, initiating also in this area bilateral visits to National Competent Authorities (NCAs). Furthermore, EIOPA has continued its activity to increase the level of supervisory convergence in the area of internal model, including – among others - its consistency projects with a view of tackling some aspects of the calibration of internal model. Following up the change of EIOPA's regulation, EIOPA has prepared to assist NCAs, upon request, handling requests for new approvals of internal model or model changes. Since the introduction of this new task, no request for assistance has yet been submitted to EIOPA.

Sound supervision of cross border activities, be it under free provision of services or the right of establishment, has emerged as a compelling priority to enhance trust of consumers in the well-functioning of the internal market. By the end of 2020, six cooperation platforms were operational with the involvement of 21 NCAs. The cooperation platforms are active as long as the risks identified raise concerns about the appropriate level of protection of policyholders. Many actions and measures were taken and implemented in 2020 with the aim to conduce to timely supervisory actions to the benefit of consumers. For some of the platforms the intensive cooperation is continuing into 2021.

Figure 1 presents an overview of the activities EIOPA developed in 2020 to strengthen supervisory convergence in more detail:

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### IMPLEMENTATION OF THE COMMON SUPERVISORY CULTURE AND FURTHER DEVELOPMENT OF SUPERVISORY TOOLS

- ▶ As part of the 2020 review of Solvency II, proposed some improvement to the application of the proportionality principle (new process and new measures)
- ▶ New Chapters of the Supervisory Handbook on Internal Model Validation
- ▶ After re-prioritisation due to COVID-19 close co-operation with NCAs to mitigate the impact of the COVID-19 outbreak and issue supervisory statements and other supervisory measures
- ▶ Initiated the thematic review on mortgage life and other credit protection insurance sold through banks
- ▶ Seminar on the use of data and SupTech

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### RISKS TO THE INTERNAL MARKET AND TO THE LEVEL PLAYING FIELD

- ▶ As part of the 2020 review of Solvency II, proposed some improvement to the application of the proportionality principle with regard to the calculation of best estimate, fit and proper requirements, cooperation in case of complex cross-border cases and use of reinsurance as risk-mitigation techniques
- ▶ In the area of supervision of IORPs, published a supervisory statement on the sound supervisory practices for registering or authorising IORPs
- ▶ In the area of Internal Models, continued the Non-Life underwriting Comparative Studies (NLCS), market and credit risk comparative study (MCRCS) and study on modelling of diversification benefits

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### SUPERVISION OF EMERGING RISKS

- ▶ Supervision of data and IT-related risks, including cyber risk from an operational resilience perspective
- ▶ Publication of the draft Guidelines on ICT security and governance

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### OVERSIGHT ACTIVITIES

Next to the cooperative work together with the NCAs, EIOPA performed the following supervisory convergence activities via its oversight function (both prudential and conduct of business) with a focus on:

- ▶ 77 Active participations in cross-border Colleges, which also looked at conduct aspects as relevant
- ▶ 4 Joint on-site inspections
- ▶ 6 Active Cooperation Platforms, covering both conduct and prudential aspects
- ▶ 10 Bilateral engagements with NCAs
- ▶ 9 Internal-model-specific supervisors meetings
- ▶ 3 Technical assistance to a NCA via an Structural Reform Support Service (SRSS) project
- ▶ 1 Equivalence monitoring exercise
- ▶ 1 Assessment of compliance with the commitments for the non –banking financial sector in the context of ERM II

## 1. SUPERVISORY CONVERGENCE IN 2020

The year of 2020 brought the world a pandemic which has brought huge social disruptions and unprecedented economic challenges. EIOPA had adapted its priorities and strategies to support both industry and supervisors to tackle those different challenges. To maintain supervisory convergence in a pandemic situation requires cooperation and timely reaction.

EIOPA addresses supervisory convergence from different perspectives depending on the issue and risks at stake. In particular, EIOPA uses different building blocks, each with its own specific tools, to support convergent supervisory convergence and protect policyholders, while keeping room for flexibility to allow EIOPA and NCAs to respond to emerging and future challenges.

The outbreak of the COVID-19 pandemic triggered some extraordinary and not planned responses. In particular, EIOPA encouraged supervisors and insurers to make use of the flexibility embedded in the existing regulatory framework and issued some supervisory statements to deal with the new risks and situations caused by the pandemic.

During 2020 EIOPA has worked in close cooperation with NCAs to mitigate the impact of the COVID-19 outbreak on the insurance and occupational pensions sectors in Europe.

In particular, the following supervisory measures were published:

- ▶ 27/07/2020 EIOPA Statement on Solvency II supervisory reporting in the context of COVID-19
- ▶ 21/07/2020 Supervisory Statement on the Solvency II recognition of schemes based on reinsurance with regard to COVID-19 and credit insurance
- ▶ 08/07/2020 Supervisory expectations on Product Oversight and Governance requirements amidst the COVID-19 situation
- ▶ 04/05/2020 Joint RTS on amendments to the bilateral margin requirements under EMIR in response to the COVID-19 outbreak

- ▶ 03/04/2020: Solvency 2.4.0 Taxonomy - Technical specifications for EIOPA recommendations on supervisory flexibility regarding the deadline of supervisory reporting and public disclosure
- ▶ 20/03/2020: Recommendations on supervisory flexibility regarding the deadline of supervisory reporting and public disclosure. Recommendations enable insurers to concentrate efforts on monitoring and assessing impact Coronavirus and are addressed to NCAs to help provide a consistent approach to supervision
- ▶ 17/03/2020: Statement on actions to mitigate the impact of Coronavirus/COVID-19 on the EU insurance sector covering issues related to business continuity and solvency and capital position
- ▶ Supervisory Statement on the use of risk mitigation techniques by insurance and reinsurance undertakings (for public consultation)
- ▶ EIOPA Statement on supervisory practices and expectations in case of breach of the Solvency Capital Requirement (for public consultation)
- ▶ EIOPA Statement on supervisory practices and expectations on ORSA in the context of COVID-19 (for public consultation)

Extraordinary publication of Solvency II Relevant Risk Free Interest Rate Term Structures and Symmetric Adjustment to Equity Risk – now published on a weekly basis

The following tools were available to achieve supervisory convergence:

1. EIOPA worked on building common benchmarks for supervisory practices (see section 2.1);
2. EIOPA performed peer reviews on existing practices, both from NCAs and from the market (see section 2.2); and
3. Some areas were addressed through EIOPA's own oversight work (see section 2.3.).

In 2020, considering the specific situation EIOPA made use of the tools available but focused on building common benchmarks for supervisory practices in a pandemic situation. Its focus was on the following supervisory activities:

## SUPERVISORY CONVERGENCE PLAN 2020

### 1. Implementation of the common supervisory culture and further development of supervisory tools

a. Risk assessment framework and application of proportionality	b. Common benchmarks for the supervision of internal modes	c. Supervisory assessment of conduct risks	d. Group supervision	e. Supervision of Captives	f. Supervisory Technology (SupTech)
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### 2. Risks to the internal market and to the level playing field which may lead to supervisory arbitrage

a. Calculation of technical provisions	b. Cross border	c. assessment of internal model outcomes	d. authorisations, fitness and propriety	e. Use of risk-mitigation techniques and new financial engineering products for capital relief	f. Pension issues
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### 3. Supervision of emerging risks

a. Supervision of data and IT/related risks, including cyber risk	b. InsurchTech	c. Brexit	d. Supervision of run-off undertakings	e. IBOR	f. Cyber underwriting
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## 1.1. BUILDING COMMON BENCHMARKS FOR SUPERVISORY PRACTICES

The work developed on supervisory convergence revealed a good degree of progress, covering a variety of areas, from Solvency II related issues to further development of supervisory activities in



the area of conduct risks and analysis of innovative technologies and how they can improve supervisory practices.

Following up the request of the European Commission to EIOPA for a technical advice on the review of the Solvency II Directive in February 2019, EIOPA finalised its Advice in December 2020 leveraging on a number of works, originally initiated with the aim to improve supervisory convergence, which led to some proposals from a regulatory perspective. The final Opinion also considered the impact of COVID-19.

### 1.1.1. IMPLEMENTATION OF THE COMMON SUPERVISORY CULTURE AND FURTHER DEVELOPMENT OF SUPERVISORY TOOLS

#### Risk assessment framework (RAF) and application of proportionality

[Supervisory convergence plan reference: 1a]

- ▶ *Work on a convergent approach towards a 'risk based and proportionate' supervision, with particular focus on the application of proportionality principle.<sup>1</sup>*

Following up the request from the European Commission and benefitting of a stakeholder event organised on this topic, EIOPA carried on the work on how to improve the **application of the proportionality principle** under Solvency II from the regulatory perspective and its application in the supervisory review process.

In particular, EIOPA proposed several changes, namely:

- ▶ Simple, clear and predictive criteria to identify Low Risk Undertakings (LRUs) which can benefit of the proportionality principle, leaving room for risk-based supervision and supervisory dialogue;
- ▶ New process to apply proportionality by both low risk undertakings and other undertakings;
- ▶ Increase the effectiveness of proportionality embedded in the supervisory review process;
- ▶ Increase the number of proportionality measures across the three pillars of Solvency II, above all on pillar II, and proposal to increase the transparency on the use of such measures.

During 2020 the area of data driven supervision and SupTech, use of innovative technologies in the Supervisory Review Process, also assumed a critical importance. Following up the positive experience from 2018 and 2019, EIOPA organised a third seminar on the **use of data and SupTech**. This time, other European organisations (ECB, EBA and ESMA) were also invited for a total of around 200 attendees. The seminar focused on the use of new technologies, such as artificial intelligence

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<sup>1</sup> In the context and to complement the revision of the proportionality principle in the Solvency II 2020 Review

and machine learning, for supervisory purposes. This exchange promotes the exchange of knowledge and experiences between supervisors, in particular of pilot projects regarding the use of data, contributing to an efficient and effective use of the supervisory reporting, enabling a risk-based prioritisation of the supervisory activities and identification of the risks undertakings face or may face.

### Common benchmarks for the supervision of internal models

[supervisory convergence plan reference: 1b]

- ▶ *Finalise the good practices (Supervisory Handbook) on the on-going supervision of validation standards.*
- ▶ *Continue to work on reporting requirements for Internal Models as part of the advice to the European Commission on the Solvency II 2020 review) to lay the foundation for future IMOAPIs (Internal Model On-Going Appropriateness Indicators) containing a prototype dashboard.*

EIOPA continuously promotes supervisory convergence in the area of internal models. A new chapter of the **Supervisory Handbook on “Internal Model Validation”** was finalised in the first quarter of 2020.

EIOPA and NCAs continued discussions on internal model on-going appropriateness indicators (IMOAPIs) for the monitoring of internal models over time and across undertakings. The main objective is to support local supervisory tasks and activities with a common supervisory tool for the follow-up of developments of internal models (e.g. to identify potential outliers). A prototype dashboard, fed with data spanning three years, was tested by supervisors.

Since 2018, EIOPA has been producing annual internal model statistics, providing national supervisors with a comprehensive overview of internal model users in the European market. Undertakings using the Standard Formula are also included.

### Supervisory assessment of conduct risks

[supervisory convergence plan reference: 1c]

- ▶ *Thematic review on bancassurance and follow up work to the thematic review on travel insurance*

EIOPA launched a new **thematic review on mortgage life and other credit protection insurance sold through banks**. In terms of progress to date, EIOPA has carried out a questionnaire addressing NCAs to collect information on risks and issues at the national level and measures taken by the NCAs to address them. One hundred consumer interviews in 10 EU Member States have also been carried out to understand consumers’ experience with purchasing the products in scope. EIOPA contracted

an external party to carry out an in-depth business model analysis. The thematic review will be completed in 2021, after re-prioritisation due to COVID-19.

Following the publication of the **Thematic Review on Consumer Protection Issues in Travel Insurance** and the Warning issued by EIOPA, **follow up work** to monitor the implementation has been carried out, in particular a thematic platform has been created to discuss outliers undertakings identified within the thematic review and EIOPA has also started a behavioural research to understand consumers' habits in buying travel insurance in a 'post-pandemic' world and assess relevant risks.

▶ Addressing conduct risks, market monitoring and COVID-19

EIOPA actively continued its work to address **conduct risks** for consumers through the use of EIOPA's new product intervention powers and a range of supervisory and oversight tools, including 'virtual' visits to NCAs.

EIOPA further enhanced the so called **Retail Risk Indicator methodology**, to help both EIOPA and the NCAs in the selection of future consumer protection activities. With a similar objective, EIOPA has also engaged actively with NCAs on the development of a Conduct Risk-Assessment Framework and Conduct Risk Dashboard.

EIOPA continued to work on cross-border cases with possible detriment to consumers. In particular, the work on cross-border cases leveraged on the product oversight and governance (POG) framework to address product related risks.

The COVID-19 crisis highlighted the need to continue monitoring emerging business conduct risks with possible negative impacts on consumers. As a result, EIOPA has since the outbreak of COVID-19 continued its extensive market monitoring activities based on available data and continuous engagement with NCAs and third-country parties. It issued guidance to the market and monitored the implementation of its guidance both via the Consumer Trends Work and other ongoing market monitoring work.

▶ Work on the conduct of business chapters for the Supervisory Handbook

The Insurance Distribution Directive (IDD) Product Oversight and Governance (POG) requirements aim at ensuring that the interests of customers take prime importance during product design and throughout the lifecycle of a product, including arrangements for its distribution.

In this context EIOPA finalised its work on the conduct of business chapters for the **Supervisory Handbook**, which contains guidance to supervisors on how to carry out a risk-based, outcome-focused and proportional supervision of **Product Oversight and Governance (POG)** requirements.

EIOPA also published “EIOPA’s approach to the supervision of product oversight and governance” aiming at providing more clarity for insurance manufacturers and distributors on the supervisory approach to POG requirements. It can be of useful support for insurance manufacturers and distributors when implementing their own POG policies, and allows for better engagement with their supervisors.

Overall, while addressing the process implemented by manufacturers and distributors, the objective of POG supervision is to ensure that insurance manufacturers and distributors take a ‘customer-centric’ approach to their product approval, distribution, and monitoring and review processes. This should ensure that products produce good consumer outcomes – i.e. that products are aligned with the needs, objectives, and characteristics of a sufficiently granular target market.

In line with EIOPA’s Conduct of Business Supervision Strategy, POG supervisory activities should be risk-based and proportionate, assessing whether the POG process is adequate and proportionate taking into account the different business models, size, level of complexity of the product(s), and target market(s)’ characteristics, bearing in mind the key questions and the circular POG process interconnecting the different phases of POG.

- ▶ Analysis of costs and past performance of insurance and pension products

Following a request of the European Commission to the European Supervisory Authorities (ESAs) to periodically **report on costs and past performance of retail investment, insurance and pension products**, EIOPA published its second report, which provided aggregate data on the costs of insurance-based investment products (IBIPs) and certain similar personal pension products (PPPs) across the European Union for the period 2014-2018 enabling a higher market coverage addressing several data and comparability limitations.

The report shows that costs vary depending on the type of product, premium, risk category and jurisdiction. Variations in asset management costs related to different risk categories are a major factor.

The report concludes that given the market turbulence in 2018, profit participation products offered higher returns than unit-linked products.

### Group Supervision

[Supervisory convergence plan reference: 1d]

- ▶ *good practices on the treatment of own funds of the related undertakings that fall under the category of other financial sectors (e.g. conglomerates);*
- ▶ *good practices on the supervision of intra-group transactions and risk concentrations; and*
- ▶ *good practices on the application of combination of methods in the calculation of the Group Solvency.*

During 2020, EIOPA focused its efforts in preparing the advice to the European Commission on the Solvency II 2020 review. Supervisory practices on group supervision were considered when developing the technical advice to improve the legislative framework for groups.<sup>2</sup> The NCA supported the development of supervisory tools to close supervisory convergence issues. This work will continue to be developed.

### Supervisory Assessment of captives

[Supervisory convergence plan reference: 1e]

- ▶ *Ensure convergent and proportionate supervisory practices towards captive insurance and reinsurance undertakings*

The better understanding of the supervisory practices of **captives** initiated in 2019, where EIOPA promoted the exchange of experiences and knowledge between national supervisors, lead EIOPA to propose improvements in the **application of the proportionality principle** in the context of the Solvency II 2020 review, in order to reduce the burden on both supervisory reporting and public disclosure and introduce a more proportionate ORSA for insurance and reinsurance captives fulfilling certain conditions.

### Supervisory Technology (SupTech)

[supervisory convergence plan: 1g]

- ▶ *Joint development by EIOPA and NCAs of innovative and efficient supervisory solutions that will support a more flexible and responsive supervisory system*

Following up the Supervisory technology strategy published by EIOPA in February 2020, EIOPA has started a project aiming at improving the consistency of the **register of insurance undertakings** published by single NCAs and the centralised register published by EIOPA, in particular regarding the information on cross-border activities via freedom to provide services. For this purpose, EIOPA and NCAs are analysing traditional as well as new technologies to decide on the way forward. EIOPA and NCAs are also using this opportunity to share and analyse potential alternative business cases related to the use new technologies in the Supervisory Review Process.

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<sup>2</sup> [https://www.eiopa.europa.eu/sites/default/files/solvency\\_ii/eiopa-bos-20-749-opinion-2020-review-solvency-ii.pdf](https://www.eiopa.europa.eu/sites/default/files/solvency_ii/eiopa-bos-20-749-opinion-2020-review-solvency-ii.pdf)

## 1.1.2. RISK TO THE INTERNAL MARKET

### Calculation of technical provisions

[supervisory convergence plan reference: 2a]

- ▶ *Analysis of the consistency of technical provision best estimate calculations, with a special emphasis on contract boundaries, economic scenario generators, management actions, expenses projection and expected profits in the future premiums*

In the area of **calculation of Technical Provisions**, EIOPA focused the work on those issues that may require amendments in the Solvency II Directive or in its Delegated Regulation 2015/35, in the context of the 2020 review of Solvency II. The work led to a new proportionality measure allowing a simple calculation of technical provisions referred to life contracts with no material financial options and guarantees that do not require complex stochastic calculations and avoid systematic underestimations of provisions.

During this process EIOPA has identified some additional divergent practices that will be addressed from a supervisory convergence point of view. This covers the use of economic scenario generators, modelling of policyholder behaviour, future management actions, expenses assumptions, expert judgement, Expected Profits Included in Future Premiums (EPIFP) and contract boundaries. To foster convergence, EIOPA intends to provide further technical guidance on all these topics through the revision of the Guidelines on Contract Boundaries and the Guidelines on the Valuation of Technical Provisions to be publicly consulted in 2021.

### Assessment of internal model outcomes

[supervisory convergence plan reference: 2c]

- ▶ *Perform comparative studies on the outcomes of internal models regarding underwriting risks (for main non-life lines of business) and market and credit risk, with an analysis of potential model drifts over time*
- ▶ *Study on modelling of diversification benefits in Internal Models*

Internal Model Comparative Studies contribute to EIOPA's objective of supervisory convergence regarding Solvency II internal models. EEA-wide studies are valuable tools complementing individual internal model analysis and studies at national level. EIOPA simultaneously conducted three studies related to internal models.

#### Non-Life Underwriting Risk Comparative Study in Internal Models (NLCS 2020)

Leveraging on the lessons learned in the first edition, in 2020, EIOPA has started the second edition of the **comparative study** which aims at evaluating the **Non-Life Underwriting Risk** within Internal Models on a European Level with a high Internal Model Market Coverage covering the last five years.

EIOPA has presented the draft package in a presentation with industry Stakeholders in November 2020 for informal feedback.

#### Market and Credit Risk Comparative Study (MCRCs)

EIOPA performs a regular **comparative study** on the **market and credit risk** within internal models. In 2020, EIOPA reached out to a few NCAs to follow up on the results of the previous study. The study performed in 2020 (considering 2019 year-end data) remained sensibly close to the structure of the previous exercise and included relevant aspects of risks associated with interest rates, currency rates, credit spreads, equity and real estate. The study compared calibrations of different aspects of market and credit risk individually and in combination, across participating undertakings. These undertakings have significant exposure to assets denominated in EUR and an approved internal model covering market and credit risk. In certain areas, the results show sizeable variations between undertakings, with some cases requiring further review. In this context, supervisors have engaged with the undertakings in feedback discussions to better understand and evaluate the results at European level and assess whether follow up actions are required.

#### Study on modelling of diversification benefits in Internal Models

In 2020, EIOPA has launched a new **comparative study on modelling of diversification benefits** which aims at analysing and comparing the levels of diversification, to facilitate a better understanding of modelling dependencies, aggregation and resulting diversification benefits, and to enhance the quality and convergence of supervision on diversification in internal models.

The aspects of Market risk and Non-Life underwriting risk have been developed in partnership with the above mentioned comparative studies to avoid unnecessary burden regarding double reporting and to foster consistency across EIOPA comparative studies. Results from the Diversification study are expected in the second quarter 2022.

#### **Authorisations, fitness and propriety**

[supervisory convergence plan reference: 2d]

- ▶ *Work on a system for the exchange of information in close cooperation with the other ESAs relevant to the assessment of fitness and propriety of holders of qualifying holdings, directors and key function holders of financial institutions by competent authorities*

EIOPA took advantage of the Solvency II review in order to strengthen the legal basis of propriety assessments and its follow-up. With regard to the fit and proper requirements of the Solvency II Directive, EIOPA proposed to clarify the approach for the ongoing supervision of propriety of the members of administrative, management or supervisory body (AMSB) and qualifying shareholders and the supervisory action NCAs are expected to take in case they are not considered proper. Further advice is provided in order to increase the efficiency and intensity of propriety assessments

in complex cross-border cases by providing the possibility of a joint assessment and the use of EIOPA's powers to assist where supervisors cannot reach a common view.

The ESAs review entered into force in January 2020 and introduced the Article 31(a) in the ESA regulations, foreseeing a better exchange of information on cross-border, cross-sectorial assessments of the fitness and propriety of holders of qualifying holdings, directors and key function holders of financial institutions by competent authorities (the work is in progress among the three ESAs). The ESAs are working on guidelines and a tool to facilitate the exchange of information as mentioned above.

#### **Use of risk-mitigation techniques and new financial engineering products for capital relief** [supervisory convergence plan reference: 2e]

- ▶ *Ongoing analysis of the consistency of the treatment of risk mitigation techniques (non-proportional reinsurance) that may be used to reduce Solvency Capital Requirements.*

EIOPA assessed some risk mitigation techniques commonly used by insurance and reinsurance undertakings to reduce their Solvency Capital Requirements, which may pose significant challenges due to a mix of lack of awareness, complexity and intricate interaction with the Standard Formula.

From the regulatory perspective, EIOPA analysed the possibility of further considering non-proportional reinsurance in the Standard Formula in the context of the Solvency II review. However, mainly due to lack of data and poor data quality from the information provided, it was not possible to propose any improvement on the consideration of non-proportional reinsurance. Nevertheless, EIOPA included in the Opinion on the Solvency II 2020 review a proposal to give specific recognition to adverse development covers (ADC).

From the supervisory perspective, EIOPA publicly consulted a **draft Supervisory Statement on the use of risk mitigation techniques** by insurance and reinsurance undertakings which provides supervisory guidance on the key elements to be considered while analysing reinsurance structures, focusing on the balance between SCR relief and risk mitigation. The document that should be published as an Opinion will be complemented by the development of additional guidance for supervisors in the Supervisory Handbook.

#### **Pension issues**

[supervisory convergence plan reference: 2f]

*Promote supervisory convergence in the area of supervision of IORPs, namely in the following areas:*

- ▶ *Identify and monitor supervisory risks in the authorisation of cross-border IORPs with a view to develop appropriate supervisory response;*
- ▶ *Initiate a IORPs Supervisory Handbook starting with good practices in the supervision of the Prudent Person Rule.*



EIOPA published the **supervisory statement on the sound supervisory practices for registering or authorising Institutions for Occupational Retirement Provision (IORPs)**, including the assessment of suitability for cross-border activities, which seeks to ensure that IORPs operating cross-border do it under prudent conditions, regardless of the different authorisation or registration regimes across Europe.

### 1.1.3. SUPERVISION OF EMERGING RISKS

#### Supervision of data and IT-related risks, including cyber risk (from an Operational Resilience perspective)

[supervisory convergence plan reference: 3a]

- ▶ *Develop good practices on the supervision of data management, data quality and IT security and governance*

As a first step towards the implementation of good practices on data management and to establish a basic foundation towards a data driven supervision, EIOPA has developed a framework for data governance addressed to NCA.

Data governance is defined as the exercise of authority, control and shared decision making over the management of data assets. Good data governance provides invaluable support to policy and evidence-based decision making, while also allowing for greater standardisation of practices with enhancement and convergence in data handling processes.

The goal of EIOPA Data Governance Handbook is to ensure the use of comprehensible, complete, correct, explicit, reliable and high-quality data to manage and support the decision-making process. It assigns the responsibility for organisation of data and data-related processes based on authoritative principles, roles and tasks.

- ▶ *Finalisation of the Guidelines on ICT and cyber security governance and promote pilot discussions regarding cyber resilience testing for large insurers*

EIOPA published the **Guidelines on information and communication technology (ICT) security and governance** to support the creation of a cyber resilience baseline across Member States. These guidelines provide guidance to NCAs and market participants on how the requirements regarding operational risks set forth in the Solvency II framework are to be applied in the case of ICT security and governance, considering as well EIOPA's Guidelines on System of Governance.

The objective of the guidelines is to promote the increase of the operational resilience of the digital operations of insurance and reinsurance undertakings against the risks they face. Operational resilience is key to protect insurance and reinsurance undertakings' digital assets, including their systems and data from policyholders and beneficiaries. In particular, the guidelines:

- ▶ provide clarification and transparency to market participants on the minimum expected information and cyber security capabilities, i.e. security baseline;
- ▶ avoid potential regulatory arbitrage;
- ▶ foster supervisory convergence regarding the expectations and processes applicable in relation to ICT security and governance as a key to proper ICT and security risk management.

A transitional period was given to the market for preparation and the guidelines should apply from 1 July 2021.

- ▶ Work on a system for the exchange between NCAs of information regarding cybersecurity and cyber-attacks

EIOPA is discussing with the other ESAs on the topic, also in light of the developments and updates on DORA. A new ESAs staff coordination group on technological innovation and cybersecurity has been set up to support this task among others.

### InsurTech

[supervisory convergence plan reference: 3b]

- ▶ *Thematic Review on Big Data Analytics*
  - *Develop a common understanding on ML algorithms, their implications from a supervisory standpoint, and to promote supervisory convergence in this area;*
  - *Develop a set of principles of digital responsibility. The principles will address the use of new business models, technologies and data sources in insurance from the perspective of fairness and taking into account ethical considerations*
- ▶ *ESAs to set out options, to be considered in the context of future EU-level work on innovation facilitators, to promote coordination and cooperation between innovation facilitators which would support the scaling up of Fintech across the single market*

In 2020 EIOPA took over chairmanship of the European Forum of Innovation Facilitators (EFIF)<sup>3</sup> from the EBA and organised three (virtual) EFIF events.

Besides an ongoing exchange amongst EFIF members about recent developments in the field of innovation facilitators, the forum had thematic discussions about 'Platformisation'<sup>4</sup> and 'RegTech', i.e. the application of new technologies for regulatory and compliance requirements by the

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<sup>3</sup> The EFIF provides a platform for participating authorities to share experiences from engagement with firms through innovation facilitators (regulatory sandboxes and innovation hubs), to share technological expertise, and to reach common views on the regulatory and supervisory treatment of innovative products, services and business models, overall boosting bilateral and multilateral coordination. The EFIF provides a platform for supervisors to collaborate in responding to firm/group-specific issues about innovations and licencing, for those with regulatory sandboxes, to agree where appropriate, and on a voluntary basis, joint testing arrangements. The EFIF was established following up the January 2019 Joint ESA report on regulatory sandboxes and innovation hubs.

<sup>4</sup> EIOPA Discussion Paper on new business models is available at [EIOPA consults on \(re\)insurance value chain and new business models arising from digitalisation | Eiopa \(europa.eu\)](#)

undertaking, exchanged views about recent developments and initiatives regarding innovation facilitators with some third country financial authorities and discussed perceptions around the role of FinTech in responding to the COVID-19 crisis and the impact of the crisis on the FinTech industry.

Based on the discussions on how to further strengthen the EFIF and in order to address the fact that innovation facilitators in the EU in 2020 operate on a national level only, it was agreed to put in place a dedicated EFIF project team working on the topic of cross-border testing. In line with the text of the EU Digital Finance Strategy this project team has commenced its work in November 2020 and started developing a procedural framework for cross-border testing. This framework is supposed to set out the rules of procedure that shall be followed by competent authorities if a firm has indicated interest in involving multiple competent authorities in its testing activities. In this context it should be highlighted that the procedural framework does not introduce any additional eligibility criteria for access to regulatory sandboxes in the EU, which are established in accordance with the applicable framework(s) at the national level for sandbox testing. NCAs may rely on the procedural framework to share testing-related information in a structured manner after a firm has indicated interest in the involvement of multiple NCAs from two or more Member States.

During 2020 EIOPA has worked with the EIOPA's Consultative Expert Group on Digital Ethics in insurance towards the finalisation of the report on Artificial Intelligence (AI) governance principles: towards an ethical and trustworthy Artificial Intelligence in the European insurance sector.

Based on the cross-sectorial Ethics Guidelines for Trustworthy AI developed by the European Commission's High Level Expert Group on AI, the report lays down a framework for an ethical and trustworthy AI in the European insurance sector taking into account the specificities of sector.

The EIOPA's Consultative Expert Group on Digital Ethics in insurance was created in October 2019 as a follow-up of EIOPA's thematic review on the use of Big Data Analytics in motor and health insurance. The establishment of the group aimed at enabling a wide debate amongst stakeholders on challenges that go beyond purely regulatory or supervisory considerations. EIOPA supported its work, but the views included in the report do not necessarily represent the position of EIOPA, but solely the views of the members of Consultative Expert Group.

## Brexit

### [Supervisory convergence plan reference: 3c]

- ▶ *EIOPA to continue its work ensuring a high-level of supervisory standards within the EU27, whilst establishing an effective cooperation with the UK under revised terms.*
- ▶ *EIOPA will monitor relevant and material prudential, consumer protection and financial stability issues in the run up to and following the UK's exit from the EU, including during any transitional period.*

EIOPA monitored through information requests the development and implementation of contingency plans by UK and Gibraltar undertakings in close cooperation with the NCA. These

plans include for example transferring of portfolios or the creation of new legal entities or third country branches.

In parallel, EIOPA monitored closely the follow-up on the application of the Recommendations across the EEA30 region in order to ensure appropriate risk-based supervision of the run-off of contracts.

Following the end of the transitional period, the multilateral MoU's (Memorandum of Understanding) between all NCAs and the Prudential Regulation Authority (PRA)/Financial Conduct Authority (FCA) as well as a specific bilateral MoU's between EIOPA and the UK authorities came into force with the objective to ensure effective cooperation, mutual assistance and regular information exchange with the UK authorities in the fields of prudential and conduct supervision and financial stability.

#### Supervision of Run-off undertaking

[supervisory convergence plan reference: 3d]

- ▶ *EIOPA will assess the specificities of run-off undertakings aiming to exchange supervisory challenges and concerns, identify potential differences in treatment and interpretation but also to identify good practices for their supervision in order to achieve a more convergent approach by the concerned NCAs*

EIOPA continued to discuss some supervisory issues and challenges experienced by some NCAs in the supervision of run-off undertakings or portfolios. The issues addressed are various and range from authorisation of the acquisition of a run-off insurance undertaking or transfer of portfolio to the on-going supervision of technical provisions, investments and reinsurance among the others with the ultimate objective to ensure a fair treatment and protection of policyholders. A supervisory statement is expected to be published in 2021.

#### Interbank offer rate (IBOR) transition

[supervisory convergence plan reference: 3e]

- ▶ *Assess the impact of IBOR transition in insurance and reinsurance undertakings from different perspectives, including impact on the risk-free rate (RFR) methodology (DLT (deep, liquid and transparent), CRA (credit risk adjustment) etc. and also in undertakings' business models and products, among others*

Following the new EU Benchmark Regulation, EIOPA prepared a discussion paper on the ongoing changes to the new benchmark rates (IBOR transitions).

The focus of the paper was to primarily address the impact of the interbank offered rate (IBOR) transition on the EIOPA's production of the risk-free rate (RFR) for Solvency II purposes. As some term structures depend on the soon to be discontinued IBOR, EIOPA developed a tool which

monitors the volumes being traded in interest rate swaps based on IBOR and the new alternative reference rates. This allows EIOPA to determine when – and to some extent how - the risk-free rate term structures should be changed.

The assessment of the impact of the IBOR transitions in undertakings' business model outside the RFR environment (e.g. asset side, policyholders) and product, has been re-prioritised in light of the new priorities triggered by the COVID-19 pandemic and also because considered less relevant and impacting than originally expected.

### Cyber underwriting

[supervisory convergence plan reference: 3f]

- ▶ *Prioritise its high level cyber underwriting strategy to raise undertakings' awareness towards cyber risks and also to facilitate sound underwriting and risk management practices*

EIOPA has published its Cyber Underwriting Strategy based on the EIOPA's broader mission to promote sound technological progress for the benefit of the European Union economy and its citizens, while safeguarding policyholders, financial stability, market integrity and investors' protection.

EIOPA established a dialogue with Stakeholders and other supervisors (NCAs, IAIS, etc.) and keeps identifying key areas to assess risk management practices with regard to cyber risks.

To address the main issue of lack of data, EIOPA worked on a new template on cyber underwriting to be included in the 2021 amendment to the Implementing Technical Standards (ITS) on Reporting aiming for a regular collection of data on cyber coverages.

EIOPA is carrying out a review of supervisory and academic approaches to cyber risk measurement and stress testing and evaluating the potential for the development of a methodological approach to stress testing or assessing the sensitivity of insurers to cyber risk, from an operational and underwriting risk perspective.

EIOPA is assessing the feasibility of including quantitative and/or qualitative indicators on cyber risk in its Risk Dashboard framework, depending on data availability. This process is taking place in the context of the regular review of the methodology of EIOPA's Risk Dashboard.

## 1.2. PEER REVIEWING NATIONAL PRACTICES

To foster convergence and strengthen consistency in the outcome of supervisory actions, EIOPA conducts peer reviews on specific supervisory activities of NCAs. Experts from EIOPA and NCAs act as reviewers in these activities coordinated by EIOPA.

In 2020, two new peer reviews – a Peer Review on the Regular Supervisory Report and a Peer review on cross-border business - were concluded. A number of follow-ups of previous peer were also finalised.

In line with Article 30 of EIOPA Regulation, EIOPA has adopted a new governance structure<sup>5</sup> for peer reviews in 2020 and approved the work plan of peer review for the period 2020-2022.<sup>6</sup>

### Peer Review on the Regular supervisory Report

[supervisory convergence plan: 1a]

- ▶ *Finalise the Peer review on the supervisory practices and outcomes on the use of proportionality regarding the Regular Supervisory Report*

The Solvency II framework requires NCAs to decide, following a risk-based and proportionate approach, if each undertaking has to submit a complete Regular Supervisory Report (RSR) or a summary RSR that documents any material changes.<sup>7</sup>

The main objectives of this peer review were to assess how and to what extent the proportionate approach set out under the Delegated Regulation (EU) 2015/35 had been implemented and to determine if further convergence was needed on the definition of the frequency of submission of RSRs by supervisory authorities.

The peer review identified divergent practices among NCAs in a number of areas, in particular: (i) the implementation of the option to request a more frequent submission of the RSR than once every 3 years; (ii) the definition of 'material changes' and NCAs' requirements with regard to their official communication; and (iii) the communication of the decision on the frequency of submission of the RSR to market participants (practices varied from no communication at all with any of the market participants to communication with all undertakings on an individual basis).

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<sup>5</sup> According to the new governance structure the ad hoc peer review committees will still be composed of staff from NCAs and EIOPA. However, they will be chaired by a member of EIOPA's staff (before it could be chaired by a staff member of a NCA). The ad hoc peer review committees will now report to EIOPA's Management Board which is responsible for assessing the consistency with other peer reviews and to ensure a level playing field. The report containing the conclusions of the peer reviews shall be adopted by the Board of Supervisors and published on EIOPA's website.

<sup>6</sup> [https://www.eiopa.europa.eu/sites/default/files/publications/administrative/eiopa-20-597-peer\\_review\\_work\\_plan\\_2020-2022.pdf](https://www.eiopa.europa.eu/sites/default/files/publications/administrative/eiopa-20-597-peer_review_work_plan_2020-2022.pdf)

<sup>7</sup> NCAs have to inform undertakings about their decision at least 3 months before the reference date. Furthermore, as a minimum, a full RSR needs to be submitted every 3 years.

EIOPA issued 51 recommended actions to 26 NCAs that should be implemented to ensure greater convergence in their approaches and a more consistent implementation of the principle of proportionality.

The results of this peer review were published on EIOPA's website<sup>8</sup> and were also used as an input for the Solvency II 2020 review.

### Peer review on cross-border business

#### [supervisory convergence plan: 2b]

- ▶ *Finalise the Peer review of provisions of exchange of information regarding the authorisation, notification and supervision on a continuous basis, included in the EIOPA decision on the collaboration of the insurance supervisory authorities.*

The EIOPA Decision on the collaboration of the insurance supervisory authorities (hereinafter: Decision), adopted in January 2017, has been a fundamental tool to reinforce the collaboration between Home and Host NSAs, considering also the increased cross-border activities in the EU internal market.

The aim of this peer review was to assess the level of cooperation between home and host supervisory authorities (NSAs) at the moment of the authorisation of insurers and notification of the establishment of a branch and/or the commencing of activities by way of freedom to provide services but also the continuous cooperation regarding cross-border activities. This peer review also assessed the level of cooperation between supervisory authorities in the case of portfolio transfers.

The peer review identified divergent practices among NSAs in a number of areas, in particular: (i) as regards the implementation of the Decision, both at internal level and at external level to inform the industry of the information to be provided to the NSA to assess applications in compliance with the Decision; (ii) the authorisation procedure of a new undertaking in case of previous authorisations sought in other Member States or where the applicant intends to operate exclusively (or almost exclusively) in another Member State; (iii) the notification process for freedom to provide services / freedom of establishment activities; (iv) the supervision on a continuous basis; and (v) data storage aimed to keep all necessary information to share with other authorities concerning cross-border activity.

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<sup>8</sup> [https://www.eiopa.europa.eu/content/findings-regular-supervisory-report-rsr-peer-review-published\\_en](https://www.eiopa.europa.eu/content/findings-regular-supervisory-report-rsr-peer-review-published_en)

In order to ensure a greater convergence in NCA's approaches and a more consistent implementation of the principle of proportionality EIOPA issued 60 recommended actions, addressed to 26 NSAs. The results of this peer review<sup>9</sup> were published on EIOPA's website.

### Follow up on past peer reviews

#### ▶ *Desktop compliance exercise regarding a follow up on past peer reviews*

EIOPA started and concluded a follow up on past peer reviews and developed a mechanism tool to monitor the implementation of recommendations to NCAs from concluded peer reviews. This follow-up exercise covered the *Peer Review on the NCAs' Governance of Colleges* (concluded in 2015), the *Peer Review on Freedom to Provide Services* (concluded in 2016) and the *Peer Review on the pre-application of Internal Models* (concluded in 2014) and highlighted some "open" recommended actions that required action by some NCAs.

The follow up took place in the format of an exclusively desktop compliance-oriented exercise and by the end of this monitoring exercise, most of the "open" recommended actions on the *Peer Review on the pre-application of Internal Models* and on the *Peer Review on the NCAs' Governance of Colleges* to NCAs were implemented.<sup>10</sup>

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<sup>9</sup> [https://www.eiopa.europa.eu/content/peer-review-eiopa-decision-collaboration-insurance-supervisory-authorities\\_en](https://www.eiopa.europa.eu/content/peer-review-eiopa-decision-collaboration-insurance-supervisory-authorities_en)

<sup>10</sup> In numbers, regarding the peer review on the NCAs governance of Colleges 20/25 were fulfilled, 4/25 not fulfilled and 1/25 partially fulfilled and regarding the peer review on the pre-application to Internal Models: 2/3 were fulfilled and 1/3 not fulfilled



### 1.3. EIOPA'S OWN INDEPENDENT ASSESSMENT

EIOPA conducts own assessment work in close cooperation with NCAs to enhance supervisory convergence and to increase the quality, effectiveness and efficiency of national supervision. In 2020, the focus of the EIOPA's own independent assessments was set to:

1. Support the supervisory capacity of NCAs and supervisory convergence;
2. Focus on cross-border and third country activities;
3. Further investigate possible conduct risks.

As the outbreak and spread of COVID-19 deeply affected the European economy, EIOPA made this a priority also in terms of supervision and numerous NCA calls to monitor the situation were carried out.

#### **EIOPA OWN INDEPENDENT ASSESSMENT ACTIVITIES IN FIGURES:**

- ▶ 6 Active Cooperation Platforms, covering both conduct and prudential aspects;
- ▶ 10 Bilateral engagements with NCAs and several calls with all NCAs;
- ▶ 4 Joint on-site inspections;
- ▶ 77 Active participations in cross-border Colleges, which also looked at conduct aspects as relevant;
- ▶ 9 Internal-model-specific supervisors' meetings;
- ▶ 3 Technical assistance to a NCA (Croatia, Romania, Italy) via an SRSS project;
- ▶ 1 Equivalence monitoring exercise;
- ▶ 1 Assessment of compliance with the commitments for the non-banking financial sector in context Bulgaria joining the Exchange Rate Mechanism (ERM) II.

#### **Colleges of supervisors**

EIOPA is a member of cross-border colleges of supervisors and through this participates in the direct oversight of international groups, playing a coordinating role for supervision at European level and thereby contributing to overcoming potential national fragmentation and enhancing the

effectiveness of European supervision. The involvement in colleges and with group supervisors is tailored to the identified risks, and among others takes account of the business model, major risks, and governance issues including the area of risk management.

Whilst prudential matters can affect conduct, poor conduct can also have prudential consequences. Where relevant EIOPA also emphasises conduct issues in colleges.

Currently there are 83 cross-border groups, with a head office and subsidiaries in the EU/EEA, for which a college of supervisors is established.<sup>11</sup> EIOPA actively engaged in 77 colleges of supervisors in 2020, including, two Financial Conglomerate and three college meetings in third countries.

The college engagements focus on the specific risks of the group, however the immediate impact of COVID-19 crisis as well as the longer term sustainability of the business model has been an overarching theme in 2020.

Based on off-site analysis and other triggers such as economic developments, local market specificities or researches, EIOPA has increased the number of interactions with group supervisors outside college meetings regarding on-going group supervisory issues. The aim is to support group supervisors on specific supervisory activities and/or to follow-up on EIOPA recommendations to the group supervisor or the full college.

In context of college activities, results from the EIOPA stress test, EIOPA Brexit Opinion and Opinion on non-life cross border insurance business of a long term nature were followed up.

### Joint on-site inspections

To foster convergence of supervisory practices among supervisors within an insurance group and to strengthen cooperation between home and host supervisors, EIOPA promotes, supports and participates in joint on-site inspections in particular in the context of colleges of supervisors, internal model and cooperation platforms.

EIOPA participated in four joint on-site inspections led by supervisory authorities in Germany, Italy, Malta and Slovakia. The issues covered by the on-site inspections were covering a wide area of topics: from outsourcing to a detailed analysis of the technical provisions' calculation. In 2020 also preparatory work to launch a new joint on-site inspection focused on POG has started.

Given the travel constrictions imposed by the COVID-19 pandemic, most on-site inspections were carried out successfully via videoconference in 2020.

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<sup>11</sup> See the Annex to this document: "EIOPA list of identified insurance groups for which a college of supervisors is in place"

During 2020, EIOPA monitored the developments and changes to internal models, closely cooperating with national supervisors responsible for internal model supervision, with the ultimate goal of enhancing convergence and quality of supervision. In this context, EIOPA participated in Internal Model joint on-site inspections in Germany and Italy.

### Cooperation Platforms

During the past years, cooperation platforms have proven to be an effective tool to achieve stronger and timely cooperation between supervisory authorities and therefore enhance consumer protection. The importance and relevance of this tool was emphasised by the definition of a new power to set up cooperation platforms as an improved supervisory tool in European supervision, and specification of the conditions for setting up cooperation platforms (amendment of the SII Directive was on 18 of December 2019).<sup>12</sup>

The business models of the companies subject to a cooperation platform differ significantly, e.g. from motor insurance, surety ship business and complex unit-linked products. A trigger to look for instance more closely to some undertakings has been their specific use of reinsurance. In general, the focus of the insurers assessed in these platforms is on growth outside the home market. Usually, there are deficiencies in the data available, insufficiencies in technical provisions and complex intermediation structures. The impact of a failure of such companies can cause significant waves in the host markets and severely disrupt public trust in the functioning of the internal market.

By the end of 2020, 6 cooperation platforms were operational with the involvement of 21 NCAs. The home supervisors of the operational platforms are Denmark, Hungary, Liechtenstein, Luxembourg, Slovakia, and United Kingdom overseas territories (Gibraltar). The cooperation platform is active as long as the risks identified raise concerns about the appropriate level of protection of policyholders. Many actions and measures were taken and successfully implemented in 2020. For some of the platforms the intensive cooperation is continuing into 2021. EIOPA was also involved with 3 additional platforms that were largely dormant in 2020 with the home supervisors Ireland, Romania and Bulgaria.

### Bilateral engagements with NCAs

To ensure a common European understanding of effective supervision, EIOPA regularly engages bilaterally with NCAs to assess more in detail national practices. EIOPA carried out 10 bilateral engagements with NCAs. Due to the COVID-19 crisis, the nature of the dedicated bilateral exchanges moved to virtual meetings. Also a lesser than scheduled number of extensive visits were performed,

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<sup>12</sup> [https://eur-lex.europa.eu/legal-content/EN/TXT/?uri=uriserv:OJ.L\\_.2019.334.01.0155.01.ENG&toc=OJ:L:2019:334:TOC](https://eur-lex.europa.eu/legal-content/EN/TXT/?uri=uriserv:OJ.L_.2019.334.01.0155.01.ENG&toc=OJ:L:2019:334:TOC)

whereas the number of focussed contacts with the NCAs increased. EIOPA held numerous calls with all NCAs on COVID-19 related topics (e.g. on market vulnerabilities, business interruption and dividend distributions) and will continue to monitor the measures taken also in 2021.

The independent assessment of supervisory practices across Europe provides EIOPA with an overall picture of Solvency II implementation and defines areas where actions are required to further improve the supervisory framework and supervisory practices.

EIOPA's bilateral engagements were dedicated to the following Member States and EEA countries: Bulgaria, Denmark, Germany, Slovakia and Spain.

The bilateral calls with NCAs were primary focused to follow up on previous visits, implementation of EIOPA recommendations and improvements of existing supervisory processes in place under the IORP II or Solvency II framework as well as conduct supervision aspects. In addition, the bilateral engagements concentrated on the Authorities itself, their organisation, transparency, accountability as well as on supervisory practices in thematic reviews, for example:

1. Risk and vulnerabilities of the national insurance markets;
2. Monitoring of cross borders businesses as well as authorisations of new insurers;
3. Lessons learned from undertakings failures;
4. Supervision of undertakings specialised in run-off business;
5. Group supervision and profitability constraints linked to future business plans in high competitive markets;
6. Group supervision under the equivalence aspect;
7. Approvals, changes and developments in the Internal models;
8. Consistency in supervisory practices by NCAs concerning Brexit;
9. Supervision of product oversight and governance;
10. Conduct risk assessment;
11. Supervision of intermediaries.

Next to the bilateral visits, EIOPA continuously engages with NCAs over the year and follows up on developments, issues and recommendations.

In 2020, EIOPA participated in 9 meetings that solely focused on Internal models with supervisors from France, Germany, Italy, the Netherlands and Spain. The aim of the meetings was to monitor

the relevant model changes and provide feedback. EIOPA also organised an Internal Model specific visit to the Spanish supervisory authority to assess its Internal Model supervision approach.

### Technical assistance

EIOPA finalised the work on the project for Improvement of Risk Based Supervision of the Insurance Sector at the Croatian Financial Services Supervisor Agency (HANFA) in December 2020. The project was supported by the Structural Reform Support Service (SRSS) of the European Commission and aimed at providing technical support to Croatia in the area of insurance risk-based supervision, with the purpose of technical support for the improvement of Croatia's supervisory tools, procedures and practices, enabling a forward-looking and risk-based supervisory approach.

It addressed a range of key topics for risk-based insurance supervision, such as valuation of investments and the supervisions of the Prudent Person Principle, the supervision of Technical Provisions and Solvency Capital Requirements, as well as the Risk Assessment Framework.

EIOPA also continued the work on the project for implementing a Risk Based Conduct Supervision Framework of the Insurance Sector with the Romanian Financial Services Authority (ASF). The project was supported by the Structural Reform Support Service (SRSS) and it was finalized in September 2020. At the request of the European Commission, EIOPA launched a 1-year technical assistance to the Romanian NCA to strengthen its conduct supervisory capacity in support of the development of the Capital Markets Union.

Under the Structural Reform Support Service, EIOPA also started a project working with the Italian Insurance Supervision Authority (IVASS) in developing a testing a methodology to carry out mystery shopping.

### Equivalence monitoring

The European Commission based its equivalence assessment on the advice and information provided by EIOPA before issuing its equivalence decision at the time when Solvency II entered into force. EIOPA's framework for equivalence monitoring includes a review of its advices every three years or upon learning of significant developments in the regulatory and supervisory regime for insurance and reinsurance undertakings in a third country.

The first exercise on Bermuda was concluded in March 2019 and a second assessment with regards to the supervisory regime in Switzerland was started. The focus is on the supervisory implementation of the equivalent regime to ensure the same outcome from a policyholder protection perspective with regards to the protection under Solvency II. The exercise was finalised in the second quarter of 2020.

### **Exchange Rate Mechanism (ERM) II accession and Banking Union**

EIOPA submitted to the European Commission an assessment of the level of fulfilment of the commitments of the Bulgarian authorities for the Non-banking sector in the context of the Republic of Bulgaria's intention to apply for the ERM II accession and joining the Banking Union.

The Bulgarian Lev joined the ERM II on 10 July 2020. EIOPA continued to monitor the fulfilment of the supervisory action plan which is a post-commitment. The European Commission has not yet publicly defined a deadline for the closure of the monitoring of the post-commitments.

**EIOPA**

Westhafen Tower, Westhafenplatz 1

60327 Frankfurt – Germany

Tel. + 49 69-951119-20

[info@eiopa.europa.eu](mailto:info@eiopa.europa.eu)

<https://www.eiopa.europa.eu>