



OVERSIGHT ACTIVITIES

IN 2017

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CONTENTS

Executive Summary	3
1. Introduction	5
2. Oversight at EIOPA	6
A framework for action	7
Oversight in practice	8
3. Oversight activities 2017	10
3.1 Balance sheet reviews	11
3.2 Supervisory opinions	11
3.3 Consistency projects on internal models	12
3.4 Peer reviews	13
3.5 Colleges of supervisors	14
3.6 Cooperation platforms	15
3.7 Structured bilateral engagements with national supervisors	18
3.8 Technical Assistance	19
3.9 Independent Assessment of Troubled Undertakings	19
4. Priorities for 2018	20
4.1 Cross-border business	20
4.2 Authorisations and fitness and propriety	21
4.3 Vulnerable business models	21

EXECUTIVE SUMMARY

Through its oversight function, underpinned by the Authority's founding Regulation and Supervisory Review Process Handbook, the European Insurance and Occupational Pensions Authority (EIOPA) supports national supervisory authorities in their tasks to deliver high-quality effective supervision, as well as overseeing the level playing field and appropriate application of supervisory measures within the European Union.

This objective is primarily achieved through close cooperation and open dialogue with national supervisory authorities. In this context, EIOPA has developed a number of tools to facilitate productive engagement with national supervisors and to strengthen their supervisory capacity. These tools range from structured bilateral engagements, peer reviews and balance sheet reviews to consistency projects, participation in cross-border colleges of supervisors and setting up cooperation platforms together with the different national supervisory authorities.

A summary of the oversight activities conducted by EIOPA during the year 2017 are listed below.

At a glance: Oversight activities in 2017

Balance sheet reviews

Final report published of a balance sheet review of the Bulgarian insurance sector and an assets review of its pension fund.

Supervisory opinions

Three opinions issued on:

- the withdrawal of the United Kingdom from the European Union;
- service continuity in insurance in light of the withdrawal of the United Kingdom from the European Union; and
- internal models including a dynamic volatility adjustment.

Consistency projects

Two projects on internal models:

- a market and credit risk benchmarking study; and
- modelling of dynamic volatility.

Colleges of supervisors

Participation in:

- 49 cross-border colleges; and
- 14 colleges on internal models.

Cooperation platforms

Nine platforms launched

Structured bilateral engagements

Engagement with 12 national supervisory authorities

Technical Assistance

Provided to one national supervisory authority

Independent assessment of troubled undertakings

Independent bilateral engagement in relation to one undertaking which entered into winding-up proceedings

Peer Reviews

Conducted work related to the following reviews:

- supervisory assessment of propriety of administrative, management and supervisory board members and qualifying shareholders (ongoing);
- application of the Prudent Person Rule for supervision of occupational pension funds (ongoing);
- principle of proportionality when assessing key functions in insurance undertakings (ongoing); and
- freedom to provide services (recommended action to EIOPA).

1. INTRODUCTION

Insurance plays a significant role in Europe's economy. Assets represent approximately two-thirds of European Union gross domestic product; insurance companies employ large numbers of staff; and most citizens rely on some form of insurance as protection against unwanted or unforeseen events. The failure of any insurance undertaking brings with it the possibility of disruption to the provision of financial services, the economy and, of course, people's lives.

Effective oversight is essential to prevent failures or lessen the impact of failure to policyholders and financial services. This objective is at the core of the supervision performed by national supervisory authorities. EIOPA works to lead the development of a high, effective and consistent level of supervision, to enhance the capacity for national supervisory authorities and to develop a common supervisory culture implemented through a collective effort by its members across Europe.

This report presents an overview of EIOPA's oversight activities in 2017. It outlines the Authority's approach to oversight and its priorities for 2018, as well as providing insight into 2017 activities. A notable achievement has been the development of cooperation platforms to enhance cooperation and communication between supervisory authorities in case of concerns on specific companies offering cross-border insurance, so that risks can be examined and preventive actions agreed in the most effective and timely manner. The establishment of these platforms reflect EIOPA's readiness to respond to evolving business models (in this case an increase in cross-border business resulting from the freedom to provide service regime), as well as the value that the Authority's pan-European purview and steering bring to the performance of national supervision. The year started with the establishment of one pilot platform and ended with nine platforms in operation involving eleven national supervisory authorities.

Throughout the year, EIOPA has continued to benefit from regular and open dialogue with national supervisory authorities and colleges of supervisors responsible for supervision of cross-border insurance groups with a positive impact on their work.

This report is published in accordance with Article 259 of the Solvency II (SII) Directive that requires EIOPA to deliver an annual report to the European Parliament in accordance with Article 50 of the EIOPA Regulation on all relevant and significant experiences of the supervisory activities and cooperation between supervisors in the framework of the supervision of insurance and reinsurance undertakings in a group.

2. OVERSIGHT AT EIOPA

Good supervision of financial systems results in better protection for consumers. When supervision at national and European level works well, consumers have confidence in the financial system and trust in their financial products. For EIOPA and its members, protecting the consumer is at the core of their mandate.

A primary objective of EIOPA's oversight work is therefore to verify that national supervisory authorities have the necessary tools and expertise to deliver high-quality supervision. In this way, EIOPA works to enhance the convergence and coherent application of EU law in the insurance sector, underpinned by the development of a common supervisory culture.

Day-to-day supervision including the responsibility for monitoring and ensuring the proper functioning of insurance companies lies with national supervisory authorities. In cooperation with its members, EIOPA adds to this by leading the development of a high, effective and consistent level of regulation and supervision, by preventing regulatory arbitrage and guaranteeing a level playing field.

As a European, rather than national, supervisory authority, EIOPA is well placed not only to identify emerging risks but also to facilitate a coordinated response among national supervisors. The value that this coordination role, based on cooperation and information exchange between the members, brings is key, given the growing number of large-scale cross border activities. In this regard, it is safe to say that the quality of national supervision is no longer solely a national issue, but has become a European issue.

EIOPA therefore fosters close cooperation with national supervisory authorities and welcomes the frequent and open dialogue with national counterparts. EIOPA and its members have been working together over a number of years to strengthen cooperation and promote a common supervisory culture.

A FRAMEWORK FOR ACTION

The framework for oversight activities comprises EIOPA's founding Regulation and its good practice framework including its Supervisory Review Process Handbook.

The founding Regulation mandates the Authority to strengthen international supervisory coordination, prevents regulatory arbitrage and enables competition, and ensures that risk taking is appropriately regulated and supervised.

A common approach to supervision will both help EIOPA and national supervisory authorities to fulfil their mandate and ensure that consumers benefit from similar levels of protection irrespective of their location or the location of the insurance undertaking. Through the development of its Supervisory Review Process Handbook, EIOPA supports national supervisors in delivering a pan-European, risk-based, proportionate and prospective supervision.

A common supervisory culture underpins effective supervision at national and pan-European level, leading to convergence of supervisory practices, including a common interpretation of the laws and regulations, without prejudice to the application of the proportionality principle.

In 2017, EIOPA published the principles and key characteristics of high-quality and effective supervision. According to these, supervision should be:

- Risk-based and proportionate;
- Forward-looking, preventive and proactive;
- Challenging, sceptical and engaged;
- Comprehensive; and
- Conclusive.

For more information on EIOPA's approach to a common supervisory culture, please read the publication: <http://bit.ly/2A2KGdt>

OVERSIGHT IN PRACTICE

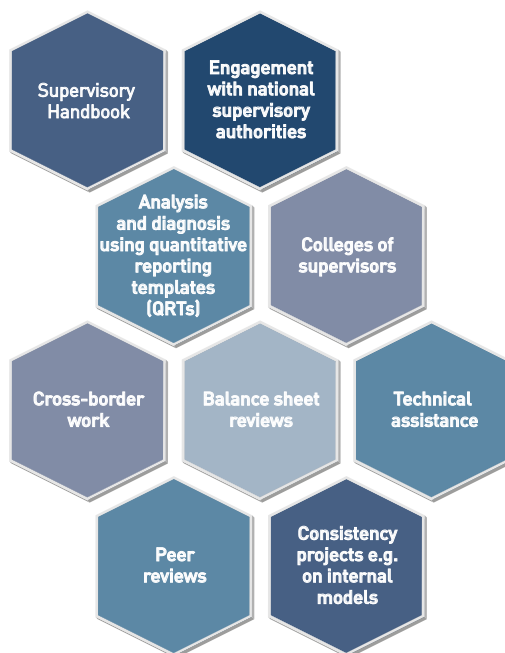
Oversight activities follow a three-step process: diagnosing and analysing market risks and the effectiveness of national supervisory authorities, ongoing monitoring of identified risks and taking preventive and remedial action.

To support this process, EIOPA has developed a wide range of tools to enhance the supervisory capacity of national supervisors.

Tools range from structured bilateral engagements with national supervisory authorities to support ad hoc national projects, such as balance sheet reviews to a structured comparison of supervisory practices among peers.

EIOPA has focused its internal resources on issues related to cross-border business. This is done through engagement in colleges of supervisors for insurance undertakings with cross-border business, consistency projects to identify differences in national supervisory practices and also through cooperation platforms between home and host supervisors.

Figure 1: EIOPA Oversight Supervisory Tools



New tools to meet new challenges

Operating at pan-European level, it is not enough solely to identify emerging threats to national financial security. To be effective, EIOPA must be able to facilitate knowledge sharing on threats and coordinate preventive action in a timely way through effective cooperation with the national supervisory authorities.

The ability to develop new tools to meet new challenges reflects not only the Authority's agility, but also its ability to coordinate and mobilise national authorities effectively.

The implementation of coordination platforms is an example of how, in 2017, EIOPA has been able to better steer cooperation between national supervisors and support their assessment of the impact of cross-border activities and identify preventive measures.

3. OVERSIGHT ACTIVITIES 2017

In 2017, EIOPA undertook a range of oversight activities to meet the objective of enhanced supervisory convergence and to increase the quality, effectiveness and efficiency of supervision.

As a European Supervisory Authority with a coordinating role and in cooperation with its members, EIOPA puts special focus on cross-border matters, risks and vulnerabilities when analysing markets, the quality of national supervision and risk profiles of insurance undertakings. This was especially the case in 2017, where priority was given to issues relating to cross-border business.

In this regard, throughout the course of the year, EIOPA supported and steered cooperation among, and supported, national supervisors in assessing the impact of cross-border insurance activities and taking preventive measures. Joint on-site inspections by several national supervisory authorities with the participation of EIOPA were also used to increase convergence of supervisory practices.

EIOPA Oversight activities 2017 in figures:

- 1 Balance sheet review;
- 3 Supervisory opinions;
- 2 Consistency projects on internal models;
- 3 ongoing peer reviews and 1 followed up as recommended action to EIOPA;
- Participation in 49 cross-border colleges and 14 colleges on internal models;
- 9 cooperation platforms;
- 12 bilateral engagements with national supervisory authorities;
- 1 technical assistance to a national supervisory authority; and
- 1 independent bilateral engagement in relation to an undertaking which entered into winding-up proceedings.

3.1 BALANCE SHEET REVIEWS

To gain insight into and raise awareness of risks and vulnerabilities of the national insurance sector, EIOPA participates in national, sector wide assessments. These reviews also serve to strengthen transparency and confidence for customers and policyholders. EIOPA participates in balance sheet reviews in a steering role, designing and overseeing the review, as well as working in close cooperation with the national supervisory authority to support the implementation of follow-up actions.

In 2017, EIOPA published the final reports of a balance sheet review of the Bulgarian insurance sector and an assets review of its pension fund. The exercises revealed some shortcomings, ranging from valuation errors, capital shortfalls to deficiencies in the areas of corporate governance, internal control or IT systems. Based on the magnitude of the identified deficiencies, the participating insurance undertakings and pension insurance companies implemented follow-up actions, including measures aimed at correcting the shortcomings within pre-defined deadlines. Some measures are ongoing into 2018 and under monitoring by the Financial Supervision Commission of Bulgaria in close cooperation with EIOPA. ^[1]

3.2 SUPERVISORY OPINIONS

Where EIOPA has identified significant inconsistencies in approaches to supervision, the Authority may issue a supervisory opinion. These opinions highlight areas that require attention and can propose remedial actions to be taken by national supervisory authorities.

In 2017, EIOPA published the following supervisory opinions:

- Opinion on supervisory convergence in light of the United Kingdom withdrawing from the European Union ^[2];
- Opinion on service continuity in insurance in light of the withdrawal of the United Kingdom from the European Union ^[3]; and
- Opinion on the supervisory assessment of internal models including a dynamic volatility adjustment ^[4].

^[1] <https://bit.ly/2vy6Wsv>

^[2] <https://bit.ly/2v6HFVP>

^[3] <https://bit.ly/2EDcEl1>

^[4] <https://bit.ly/2q5eTF7>

3.3 CONSISTENCY PROJECTS ON INTERNAL MODELS

As a result of its participation in colleges of supervisors, peer reviews and visits to national supervisory authorities, as well as from information from market participants, EIOPA's objective has been to detect unjustified differences in supervisory practices regarding the approval of internal models. Such differences can threaten the level playing field or policyholder protection. To address these inconsistencies and potential threats associated with these differences, taking into account both its limited resources and available tools, EIOPA has initiated consistency projects to investigate specific issues in detail. Further, EIOPA has also issued a supervisory opinion related to internal models ^[5].

Market and credit risk benchmarking study

The project analysed relevant aspects of risks associated with interest rates, credit spread, equity and real estate and compared calibrations of different aspects of market and credit risk individually and in combination across the participating undertakings.

The study revealed that there was a wide variation in the outputs of internal models for all asset classes studied, which can sometimes be explained by different modelling approaches or by the relevance of exposures. In several cases, national supervisory authorities are implementing model changes to address these variations. In addition, EIOPA is working with national supervisory authorities on appropriate follow-up actions. Further the quantitative outputs of another related internal model project concluded in 2017 dealing with the modelling of sovereign risk were passed to the market and credit risk benchmarking project for a follow up.

Modelling of dynamic volatility adjustment

The project looked at both quantitative and qualitative aspects of dynamic modelling of the volatility adjustment, that is, where the model anticipates changes of the volatility adjustment that would apply in a simulated scenario within the SCR calculation. In 2017, EIOPA issued an opinion covering this issue.

^[5] For more information, see section 3.2 Supervisory opinions.

3.4 PEER REVIEWS

To strengthen consistency in the outcome of supervisory actions, EIOPA conducts peer reviews on specific activities of national supervisory authorities based on an agreed methodology. Experts from national supervisory authorities act as reviewers in these activities in coordination with EIOPA.

Throughout 2017, EIOPA has been conducting three peer reviews related to:

- the supervisory assessment of propriety of administrative, management and supervisory board members (AMSB) and qualifying shareholders;
- the application of the Prudent Person Rule for supervision of occupational pension funds; and
- the application of the principle of proportionality when assessing key functions in insurance undertakings.

In addition EIOPA concluded:

Follow-up to the peer review on freedom to provide services as recommended action to EIOPA

In addition, as a recommended action stemming from this peer review (completed in 2016), EIOPA published a Decision on the collaboration of the national supervisory authorities responsible for supervision of insurance undertakings, amending the General Protocol of 2008. Amendments related to the implementation of Solvency II, as well as addressing weaknesses encountered in the earlier Protocol on the basis of case studies of cross-border insurance failures. The Decision also introduced the possibility to establish so-called 'cooperation platforms' to allow for a more intensified cooperation between national supervisory authorities, in coordination with EIOPA. These platforms have played a significant role in strengthening oversight of cross border business. ^[6]

[6] For more information, see section 3.6 on cooperation platforms.

3.5 COLLEGES OF SUPERVISORS

EIOPA is member of cross-border colleges of national supervisors and through this participates in the direct oversight of international groups, playing a coordinating role and thereby contributing to overcoming national fragmentation and enhancing the effectiveness of European supervision. EIOPA's participation in colleges enables it to identify inconsistencies in supervisory approaches which may adversely affect policyholders.

EIOPA's colleges' strategy was revised in 2016 in response to new challenges arising from the implementation of Solvency II and reflects the collective effort of national supervisory authorities and EIOPA to focus on the enhancement of group supervision. To make best use of available resources, EIOPA determines its level of engagement with colleges according to risk-based choices. The level of engagement is reviewed annually on the basis of criteria, which include the economic/systemic importance of each group and its solo entities, the complexity and functioning of the college, the group financial strength, the level of its cross-border business and its risk profile.

In 2017, EIOPA had an active engagement with 60% of all cross-border European Economic Area (EEA) colleges. In addition, EIOPA has increased the number of interactions with group supervisors outside college meetings, to assist them on supervisory activities and risk views. EIOPA also actively interacted with some third country colleges that conduct major activities in Europe and with headquarters in equivalent countries, in particular Switzerland and Bermuda.

Participation in colleges enables EIOPA to deploy a number of EU-wide and cross-border tools to detect and mitigate risk, including:

- The analysis and assessment of risks for each group as well as for national insurance markets from a European perspective, to access individual undertakings and groups' supervisory reporting via a central data repository. This cross-border perspective brings added value and efficiency to national supervision.
- An increasing use of own risks and solvency assessments (ORSA) ^(?) on group level as a key information source to assess a group's risk profile and address relevant supervisory priorities.

^(?) As required from insurance undertakings and groups according to Article 45 of Solvency II Directive.

- A focus in the colleges on effectiveness, efficiency and impact of information exchange and joint risk assessment as well as views on the robustness of the Solvency II balance sheets.
- Raising awareness of cross-college requirements and practices on Intra-group Transactions and Risk Concentrations in college meetings.
- Addressing material inconsistencies observed by EIOPA in the group internal model colleges triggered the work on the consistency projects ^[8].

3.6 COOPERATION PLATFORMS

In 2017, EIOPA rolled out a new and important tool to tackle issues relating to cross-border business activities provided by groups and solo undertakings through the freedom to provide service (FoS) regime. EIOPA has detected a growing number of issues related to this model of cross-border business, with some leading to business failure. As a result, in the face of increased cross-border activities and the growing internationalisation of business, EIOPA took steps to facilitate stronger and timely collaboration between national supervisory authorities, enabling a quicker identification and assessment of risks in the market from a European perspective.

The use of collaboration platforms is based on the Decision on the collaboration of the insurance supervisory authorities. ^[9]

The first pilot platform was established early in 2017 to enhance cooperation and communication between home and host supervisors. EIOPA and the home supervisor had an initial meeting with the insurance undertaking, followed by a first cooperation platform meeting between the home supervisor and all involved host supervisors to discuss risks and to agree on timely supervisory actions and interventions. In addition to facilitating cooperation between supervisors, EIOPA also provided concrete supervisory recommendations to the home supervisor based upon risks identified and supervisory measures proposed so far by the home supervisor.

Benefits of cooperation platforms have been identified for both home and host supervisors in sharing information and acting on commonly agreed measures where appropriate.

^[8] For more information, see section 3.3 Consistency projects on internal models.

^[9] See section 3.4 Peer reviews 'Follow-up to the peer review on freedom to provide services completed in 2016'

Better awareness of risks originating from undertakings at European level and their potential consequences for the home authority, results in more intensive supervision in the home country and a better identification of the risks coming from the host markets in which the undertaking operates.

Further, for host authorities, cooperation platforms provide the opportunity to raise concerns on the protection of the policyholders in their jurisdictions. Instead of only being informed when a license is withdrawn or a company is put into liquidation, cooperation platforms enable host authorities to be better informed at an earlier stage.

By the close of 2017, nine cooperation platforms were operational with the involvement of national supervisory authorities from Denmark, France, Greece, Ireland, Italy, Luxembourg, Malta, Norway, Spain, the United Kingdom and United Kingdom Overseas Territories (Gibraltar).

Cooperation platforms as a new tool to strengthen supervision in the internal market

When does EIOPA set up a platform?

A platform is set up when EIOPA and relevant national supervisory authorities see the merit in strengthening cooperation in case of material cross border business in order to enable a sound internal market in the EU. The platforms allow home supervisors to make use of expertise and knowledge about local market specificities from host supervisors.

Who is involved?

The home supervisor, relevant host supervisory authorities of countries in which the insurance undertaking concerned is offering insurance products together with EIOPA.

What risks do we typically see?

Undertakings subject to cooperation platform range from non-complex motor insurance to more complex niche models and/or long-tail business. An example would be insurance coverage for risks that could materialise on a longer time horizon, such as 10 year coverage for newly constructed buildings. The amount that insurers should set aside is typically too low, or invested in related high-risk investments, leaving consumers exposed to a high risks that future claims will not be paid.

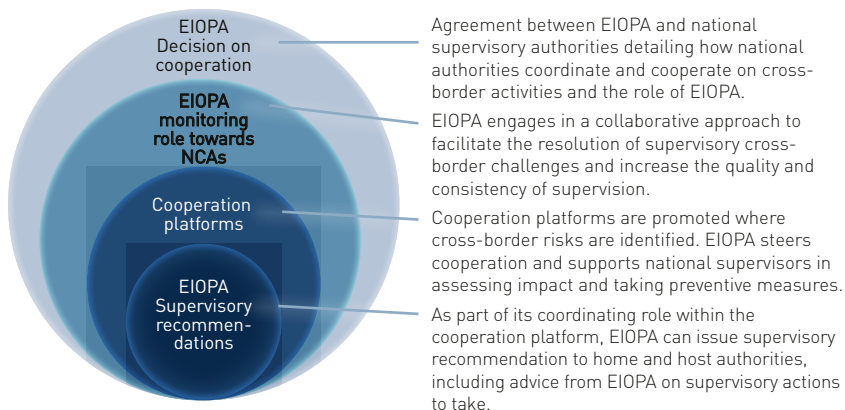
What are the main challenges?

The priorities of the national supervisory authorities concerned may differ. Whereas host supervisors may strive to terminate writing of new business as soon as possible to protect the policyholders in their jurisdiction, home supervisors may see such an action as detrimental to their attempt to steer the undertaking into safer waters. EIOPA's role is to maintain a coordinated response from all supervisors and to weigh the interests of all policyholders involved.

How does this support the protection of policyholders?

Cross-border business via freedom to provide service could stay "under the radar" for home supervisory authorities because of the relatively small size of activities in their own market. By ensuring a European perspective EIOPA strives to ensure an equal level of policyholder protection for all policyholders within the European Economic Area.

Figure 2: Resolving cross-border issues: Levels of intervention



3.7 STRUCTURED BILATERAL ENGAGEMENTS WITH NATIONAL SUPERVISORS

To ensure a common European understanding of effective supervision, EIOPA regularly engages bilaterally with national supervisory authorities to assess national practices. Since 2014, visits have been made to all national supervisory authorities, giving EIOPA a comprehensive and updated picture of Solvency II implementation across the EEA.

Any bilateral engagement is tailored to national specificities following the diagnosis and analysis of national markets and, where relevant, cross-border issues. From 2017, bilateral visits have been extended to include the approach to on-going supervision of internal models following their approval.

Bilateral engagements enable EIOPA to:

- Provide independent and challenging feedback to national supervisors and their authorities;
- Deliver recommendations for improvements in the national supervision; and
- Define follow-up measure including further visits to address the implementation of any recommendations and preventive and/or remedial actions.

Bilateral engagements enable national supervisory authorities to:

- Continuously improve their supervisory framework and supervisory practices by recognising EIOPA's external review of its regulatory and supervisory performance;
- Explore and integrate best practices which have been monitored by EIOPA in other national supervisory authorities;
- Use EIOPA's feedback for national discussions, for example regarding staff resources and staff training at the national supervisory authority; and
- Use EIOPA as facilitator for cooperating and solving cross-border issues with other national supervisory authorities.

In 2017 EIOPA carried out 12 bilateral engagements with national supervisory authorities including follow up to engagements from previous years.

A thematic focus of bilateral engagements with many national supervisory authorities has concerned preparations for the United Kingdom's withdrawal from the European Union. EIOPA has provided feedback to the national supervisory authority in those countries in which the insurance sector is impacted by the new landscape of the EU after United Kingdom's withdrawal. During 2017, EIOPA also published an Opinion on this subject ^[10].

3.8 TECHNICAL ASSISTANCE

EIOPA provides on-going technical assistance to national supervisory authorities to support and strengthen their supervisory capacity especially where weaknesses have been identified during bilateral visits or to strengthen the Capital Market Union.

In 2017, at the request of the European Commission ^[11], EIOPA initiated technical assistance to the Romanian national supervisory authority to strengthen its supervisory capacity in support of the development of the Capital Markets Union.

3.9 INDEPENDENT ASSESSMENT OF TROUBLED UNDERTAKINGS

Upon request of national supervisory authorities, EIOPA independently assesses the risks posed by specific undertakings, including cross-border issues, and recommends proper remedial actions.

In 2017, EIOPA initiated an independent bilateral engagement in relation to an insurance company with substantial cross-border business under the freedom to provide services which entered into winding-up proceedings. Through the engagement, EIOPA identified lessons learned and future actions. The lessons learned were shared with the Board of Supervisors on a more aggregated level to improve home and host supervision in general throughout Europe.

^[10] See section 3.2 EIOPA Supervisory Opinions

^[11] Under the umbrella of the Commission's Structural Reform Support Service (SRSS) Capital Markets Union (CMU) programme

4. PRIORITIES FOR 2018

To further strengthen supervisory convergence, EIOPA will use different building blocks and specific tools to support supervisory convergence including EIOPA's own independent assessment of national supervisory practices both for prudential and conduct issues.

The decision on the priority areas of EIOPA's convergence work follows a risk-based approach. The tasks and priorities based on EIOPA's annual work programme are set in conjunction with EIOPA's overall plan for supervisory convergence for 2018 and 2019, focussing on the further implementation of prudential regulation, Solvency II, and conduct of business supervision. The following details specific priorities for EIOPA's oversight work in 2018.

4.1 CROSS-BORDER BUSINESS

EIOPA will continue to have close interaction with national supervisory authorities in order to enhance the efficiency and effectiveness of the European supervisory system with a particular focus on cross border activities, either within an insurance group structure or via passporting, with the aim to have a stronger and even more cooperative European supervisory community.

For example, cross-border cooperation platforms have revealed specific issues with the assessment of required technical provisions for business models largely dependent on activities performed under the freedom to provide services. Under-reserving can have serious impact on the overall financial condition of a firm and can also lead to insolvency or even bankruptcy. The consequences in such cases are severe, potentially damaging all affected policyholders, in both home and host jurisdictions. In cooperation with national supervisory authorities EIOPA's oversight work will focus in 2018 on detecting specific unsustainable business models and will follow them up by setting up dedicated cooperation platforms where deemed necessary. EIOPA will also issue supervisory statements to address the appropriate treatment of some technical issues such as the calculation of adequate levels of technical provisions.

4.2 AUTHORISATIONS AND FITNESS AND PROPRIETY

Improvements in supervisory practices in the authorisation process, by critically examining the viability of the business model, and in the assessment of fitness and propriety of key staff in/or owners of the insurance undertaking can prevent many (even potential solvency) problems further down the road. EIOPA will focus on these specific issues by using a variety of tools in 2018, such as the finalisation of ongoing peer reviews, national engagements and technical assistance.

4.3 VULNERABLE BUSINESS MODELS

EIOPA will increasingly, in close cooperation with national supervisory authorities, support reviews of business models in order to be able to have appropriate and timely supervisory actions by the concerned national supervisory authority where business models pose material prudential and/or conduct risks. In particular, business models for various traditional life insurance products are under close monitoring, for example by analysing the solvency of such business models under different stress scenario, in order to ensure that future liabilities towards policyholders can be continuously met.

Another example of vulnerable business models which will be further monitored is risk concentrations on the investment side of insurance undertakings potentially putting them at high risk in case of counterparty's failure. Such analysis includes the interconnectedness between the insurance and the banking sector.

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