

Fostering insurance group supervision in the EU The role of EIOPA

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- ① Group supervision under Solvency II**
- ② Role of EIOPA in the Colleges**
- ③ Equivalence**

Group supervision

- A group is a single economic entity ... composed of several and diverse legal entities

⇒ Need of a holistic approach to group supervision embedding legal entities



Solvency II: main improvements

Group solvency - choice of method:

- Retains only 2 of the 3 existing methods;
- MS must allow the group supervisor to choose;
- Expresses a strong preference for the consolidated method.

Group solvency - group internal model:

- Allows a group to introduce an application for the permission to use an internal model throughout the group;
- Procedure inspired from CRD (Article 129); but with possible intervention from CEIOPS (advice).

Group solvency - treatment of related undertakings in 3rd countries:

- As today but only when using deduction aggregation, allows the use of 3rd country figures unless that supervisory regime is not equivalent;
- Introduces the possibility, inspired from FCD and CRD, for the Commission to adopt a binding decision on equivalence.

Solvency II: main improvements

Group ORSA - single document:

- An Own Risk and Solvency Assessment must be performed at group level;
- Allows the group to produce a single document covering group ORSA and solo ORSAs, subject to approval of group supervisor.

Group solvency and financial condition report:

- A Solvency and Financial Condition report must be prepared at group level;
- Allows the group to produce a single document covering group SFC Report and solo SFC Reports, subject to approval of group supervisor.

Supervision of subgroups:

- Group supervision should normally be carried out only at the top level in the EEA;
- MS may allow their supervisors to carry out group supervision at the top level in a MS (or several MS)

Scheme of information flows

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College of supervisors

- **Group supervisor**
 - EIOPA
- Solo supervisors

Group

- Parent
undertaking
- Solo
undertakings



Group risk assessment

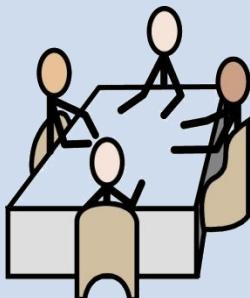
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Determination of
the scope the group

Assessment of
• group governance
• IGT and RC

Group Internal Model
approval process

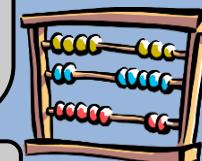


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Assessment of Group Solvency

Group SCR

- choice of method if deviation from the default consolidated one
- Non EEA entities
- Non regulated entities
- Other financial sectors



Availability of group own funds

Group reporting

Solvency and Financial Condition report

Regular Supervisory Reporting
• Intra-group transactions and risk concentrations
• Own risk and solvency assessment

EIOPA's Responsibility



(art. 8(1)(b)) **ensuring and contribute to** (art 8(1)(i)) a coherent functioning of Colleges of Supervisors

(art 21 (1)) **contribute to promoting and monitoring** the efficient, effective and consistent functioning of the Colleges of Supervisors

(art 21 (1)) **foster** the coherence of application of the Union Law among Colleges of Supervisors

(art 21 (1)) **converging** best practices

art 21 (1)) **participate** in the activities of Colleges of Supervisors, including on-site examinations, carried out jointly by two or more Competent Authorities

(art 21 (2)(c)) **promoting** effective and efficient supervisory activities, including evaluating the risks to which FI are or might be exposed as determined under the supervisory review process or in stress situations

(art 21(2)) **leading in ensuring** a consistent and coherent functioning of CoS for cross-border institutions across the Union, taking account of the systemic risk posed by FI

EIOPA considered a competent authority, collect and share relevant info, stress test, promote effective and efficient supervisory activities, oversee, request further deliberations in College, require Group supervisor schedule meeting, add point to agenda, TS and guidelines and Recommendations, mediation (art 21 (2))

EIOPA's role in Colleges of Supervisors

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- EIOPA Active Member of Colleges
- Supervisor with specific Responsibility (coherence, consistency, efficient, effective, fostering Union Law – promote, ensure, contribute to)
- Monitoring role functioning colleges (oversight)
-Taking into account systemic risk



Key Elements

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- College Team
 - Highly qualified and experienced
 - Aim Portfolio (pairs of same kind of Colleges) fixed for three years
 - Prevent conflict of interest
- College Meeting
 - Active Member as from start (presentations etc)
 - Provide advice on agenda
 - Answer questions on SII etc
 - Provide information on macro risks
- Follow up on College meetings
 - Internal feedback document
 - Feedback call after each college
 - Team coordinator responsible for follow up policy related issues
 - Regular BoS overall report

Overall objective:

- ensuring that the third country solvency or prudential regime demonstrates an equivalent/similar level of policy holder and beneficiary protection as that provided under Solvency II.

Assessment focus:

- Article 66 – Professional secrecy
- Article 172 – Reinsurance supervision
- Article 227 – Group solvency calculations
- Article 260 – Group supervision



Overarching principles

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- **Equivalence is a flexible process** based on principles and objectives
- Supervisory cooperation & **professional secrecy is a key, determinative** element of a positive equivalence finding.
- Equivalence incorporates the **proportionality principle**
- An equivalence judgment can only be made in respect of the **regime in existence** and applied by a third country supervisory authority at the time of the assessment
- Equivalence assessments **will be kept under review.**

Objective :

- To ensure that all persons who are working or who have worked for the third country supervisory authorities, as well as auditors and experts acting on behalf of those authorities, are bound by obligations of professional secrecy.
- To ensure professional secrecy obligation in the third country extend to information received from supervisory authorities of Member States

Positive equivalence determination :

- The ability to exchange of information with relevant third country supervisors is fundamental to positive equivalence determinations under Solvency II (art. 172, 227 or 260).

Reinsurance supervision: Article 172

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Objective:

- To establish whether third country (re)insurance undertakings are be subject to a supervisory regime that enables them to absorb significant losses and that gives reasonable assurance to policy holders and beneficiaries that payments will be made as they fall due.

Positive equivalence determination:

- Reinsurance contracts with third country reinsurers treated in same manner as those concluded with EU reinsurers.
- Member States cannot require:
 - pledging of assets to cover unearned premiums and outstanding claims provisions
 - location of assets within the Community

Objective:

- The equivalence assessment is limited to the calculations laid out in Title I, Chapter VI (*valuation of assets and liabilities, technical provisions, own funds, solvency capital requirement, minimum capital requirement and investment rules*) and it aims to establish whether the third country undertaking's contribution to the aggregated group solvency requirement is based on a similar standard to that of an undertaking in the EEA.

Positive equivalence determination:

- The calculation of the group solvency takes into account – as regards the specific undertaking – the solvency capital requirement and the own funds eligible to satisfy that requirement, as laid down by the third country concerned.

Objective:

- To ensure that third country based groups are subject to a supervisory regime that enables them to absorb significant losses and that gives reasonable assurance to policy holders and beneficiaries of (re)insurance undertakings part of the group that payments will be made as they fall due.

Positive equivalence determination:

- Member States shall rely on the equivalent group supervision exercised by the third country supervisory authorities i.e. exemption of a group from group supervision at Community level

Absence of equivalence determinations

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- **Art. 172:**

- Treatment of reinsurance cessions a matter for Member States. Member State may undertake its own equivalence assessment based on the equivalence criteria, but could equally apply other measures in respect of reinsurance cessions.

- **Art. 227:**

- Group supervisor may carry out the verification of the equivalence of the third country regime, and shall do so at the request of the participating undertaking. Group supervisor will consult other supervisory authorities concerned and EIOPA

- **Art. 260:**

- The EU authority that would be the Group Supervisor absent the third country parent may carry out the verification of the equivalence of the third country regime, and shall do so at the request of the parent undertaking or any of the insurance or reinsurance undertakings authorised in the Community. Group Supervisor will consult other supervisory authorities concerned and EIOPA

Next steps - what to look for:

- **Developments in EU legislation**

- Adoption of Omnibus II Directive – to include **EIOPA & its powers in Solvency II** Level 1 text
- To introduce the concept of **transitional measures**
- Publication of the EC draft L2 measures
- EIOPA consultations on Draft Binding Technical Standards

- **EIOPA Equivalence assessments**

- Currently assessing Switzerland and Bermuda for art. 172, 227 and 260 and Japan for art. 172
- Advice to be publicly consulted late summer 2011
- Advice due by end September 2011.

