

Peer Review Work Plan 2023-2024

1. Introduction and general remarks

Article 30 of the EIOPA Regulation establishes that EIOPA must conduct peer reviews of some or all the activities of national competent authorities (“NCAs”), to further strengthen consistency and effectiveness of supervisory outcomes.

EIOPA undertakes peer reviews in the areas reported in the peer review bi-annual work-plan¹ approved by the EIOPA Board of Supervisors² and following the methodology approved with the Decision of EIOPA on Peer Reviews of 8 February 2022³.

Peer reviews allow monitoring the effectiveness and the degree of convergence reached in the application of Union law and in supervisory practice in the European Economic Area (EEA), challenge supervisory practices that are not aligned and thereby distorting the level playing field and support NCAs with recommended actions and identified best practices. Furthermore, they support EIOPA’s work on implementing a common supervisory culture in areas where work to set the benchmark for supervisory processes and practices, in addition to legislation, is available by either standards, guidelines, supervisory statements, EIOPA decisions or Supervisory Handbook whilst EIOPA is aware that the practices are still diverging. Thus, peer reviews are considered a very useful supervisory convergence tool.

Additionally, EIOPA undertakes follow-ups to the reviews, two years after the publication of the report (Article 30 of the EIOPA Regulation). The aim of the follow-ups is to identify the progress made against the recommended actions by assessing whether the NCAs have effectively fulfilled the recommended action(s) issued to them as part of the peer review process. To the extent possible the follow-ups should also cover the actions addressed to EIOPA.

The underlying peer review work plan covers the period 2023-2024 and reflects EIOPA priorities looking forward selected on the basis of identified criteria⁴. The topics for the peer review work plan have been proposed by the Management Board in its meeting held in June 2022.

¹ The two-year peer review work plan is a separate part of the Annual Work Programme (AWP) and Single Programme Document (SPD).

² According to the procedure in Article 44(4) of the EIOPA Regulation.

³ The Decision formalizes several changes regarding the governance of the peer review introduced in Article 30 of the EIOPA Regulation by Regulation 2019/2175 of the European Parliament and of the Council of 18 December 2019 (so called ESAs’ review)

⁴ See Article 4 of EIOPA Decision on peer review.

In case of unforeseen or urgent events, EIOPA retains the power to approve an extraordinary peer review not foreseen in this work plan, including, where necessary, the suppression of one or more phases as foreseen in the methodology.

2. Reviews by Peers and follow-ups to review by peers

Each peer review shall consist of two stages: a review by peers, which shall provide an independent, objective and consistent assessment of competent authorities, and a follow-up of the review, which shall include, without limitation, an assessment of the adequacy and effectiveness of the implementation measures enacted to address the recommended actions set out in the peer review report, resulting in a follow-up report.⁵

Reviews by Peers

Similarly to the peer review work plan 2020-2022, EIOPA is planning to conduct two reviews by peers in in 2023-2024, one per year.

Concerning the scope, EIOPA has planned for the next cycle to perform more targeted and focused reviews with the aim to finalise in principle each review within one year.

As regard to the concrete topics, considering that the past reviews concerned mainly qualitative requirements⁶, EIOPA has considered for the next cycle to perform at least one review aiming more quantitative requirements of Solvency II.

During the 2023-2024 period EIOPA will also, following the publication of the report and before the launch of the follow-up of the review, request competent authorities, where relevant, to send an update on the progress of implementation of the recommended actions addressed to them (monitoring phase) regarding the review by peers being finalised until then.

► **Topic 1 - Review by Peers on supervision of technical provisions (TP): stochastic valuation**

Description:

The review by peers will focus on the supervision of Technical Provisions (i.e. best estimate valuation) in case of use of stochastic simulations to better value options and guarantees embedded in insurance contracts.

Although not highly widespread at the inception of Solvency II, stochastic simulations are increasingly being used by insurance undertakings, also thanks to the availability of reserving softwares (which generate the stochastic scenarios of economic/financial assumptions for the projections of future cash-flows). This is relevant for supervisory purposes also thanks to the link between reserving and the use of internal models (where stochastic models are often used to calibrate model parameters).

⁵ See Article 12 of EIOPA Decision on peer review.

⁶ Supervision of Key Functions in 2018, Propriety of AMSB and qualifying shareholders in 2019, outsourcing (on-going), requirements on product oversight and governance (POG, on-going),.

Also, when used extensively, due to the nature of the business, the use of stochastic simulations to better value options and guarantees embedded in insurance contracts may have a material impact on the undertakings' solvency positions.

For these reasons, the review will represent a good opportunity also to assess market maturity in the use of stochastic valuation practices and identify best practices for their supervision.

As stochastic valuations represent a more sophisticated way of assessing liabilities, this review is expected to be more relevant with regard to life insurance liabilities with material options and guarantees.

This review is planned for 2024.

Topic 2 - Review by peers on supervisory practices relating to some aspects of the prudent person principle (PPP) in insurance

Description:

Following the review by peers on the Prudent Person Rule for IORPs completed in 2019, this review will focus on the supervision of some aspects of the prudent person principle⁷ in insurance.

EIOPA has planned this review in light of the importance of the investment activity for the insurance business model⁸ and considering that the supervision of this principle-based requirement is often mentioned by the NCAs as a challenge (i.e. in the case of need to take supervisory actions).

Furthermore, the monitoring of investment strategies in a risk-based approach, where capital requirements are closely linked to the type of investments, is key, including identification of new types of investments or trends in investment strategies.

Considering the broad scope of the prudent person principle as whole and the need to keep the review more targeted, it will focus on the aspects of investment in non-traditional or more complex assets, including derivatives (above all in case of their use for efficient portfolio management) and the cases of assets backing unit/index linked contracts where the risk is born by policyholders, including the option to Member States to restrict the type of assets or reference value to which policy benefits are linked⁹.

The review by peers could also offer the possibility to assess best practices on use of SupTech which can be spread to other NCAs.

This review is planned for 2023.

⁷ See Article 132 and 133 of Solvency II Directive.

⁸ To give an idea, it is worth reminding that in 2021 the SCR (Standard Formula) for Market risk accounted for 76% of the Basic SCR (without considering the diversification effects) for Composite undertakings, 75% for Life undertakings, 55% for Non-Life undertakings and 53% for Reinsurance undertakings.

⁹ See Article 133, paragraph 3, of the Solvency II Directive.

Follow-ups to reviews by peers

The follow-up of the review shall include, without limitation, an assessment of the adequacy and effectiveness of the implementation measures enacted to address the recommended actions set out in the peer review report, resulting in a follow-up report.

▶ **Topic - Follow up on the review by peers on supervisory practices with respect to the application of the prudent person rule for IORPs (due date Q3 2023)**

Description:

This peer review published in April 2019 resulted in 27 recommended actions to 19 NCAs mostly in the context of the frequency and granularity of the data collected, the manner in which NCAs conduct their supervisory assessment, the regular application of the look-through approach, the appropriate consideration of interest rate risks for Defined Benefit schemes, the NCAs' supervisory practices with regard to IORPs' governance, and the frequency of on-site inspections.

In addition to the follow-up of the recommendations to each NCA it is foreseen to ask NCAs if they have made use of best practices collected and identified as such in the peer review report. The information on the level of implementation of the best practices and reasons for its implementation/non implementation will inform the decision on whether and how to include these in the Supervisory Handbook.

▶ **Topic – Follow up on the review by peers on the Decision on collaboration (due date Q1 2024)**

Description:

This peer review published in December 2020 resulted in 60 recommended actions to 26 NCAs mostly in the areas of effective application of the Decision, authorisation, notification, supervision of continuous basis, and data storage.

In addition to the follow-up of the recommended actions to each NCA it is foreseen to ask NCAs if they have made use of best practices collected and identified as such in the peer review report. The information on the level of implementation of the best practices and reasons for its implementation/non implementation will inform the decision on whether and how to include these in the Supervisory Handbook.