



SUPERVISORY CONVERGENCE PLAN FOR 2020

SUPERVISORY CONVERGENCE

In the European context, EIOPA should ensure a high, effective and consistent level of supervision with the aim of guaranteeing a similar level of protection of policyholders and beneficiaries across jurisdictions, regardless of the location of the insurance undertaking's head office.

The goal of convergence of supervisory practices is to further improve the functioning of the internal market, in particular by preventing supervisory arbitrage and by guaranteeing a level playing field.

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

Convergence of supervisory practices should be built on a common interpretation of laws and regulations, and without prejudice to the application of supervisory judgment or the proportionality principle.

One of the main goals of the European Insurance and Occupational Pensions Authority (EIOPA) is to ensure a high, effective and consistent level of supervision across Europe.

Convergence of supervisory practices is not only achieved or assessed by outputs, i.e. by the number, quality and impact of opinions or assessments. Convergence is also about working together. The process of developing common benchmarks for supervisory practices, performing reviews and engaging in challenging interactions in itself leads to supervisory convergence.

Supervisory convergence does not mean a full harmonisation of the supervisory framework. NCAs may need to tailor the approach by considering the national specificities of their markets.

Therefore, to achieve a high, effective and consistent level of supervision across Europe, EIOPA identified supervisory convergence as its main strategic goal for the years to come.

Supervisory convergence work is a collective effort by all NCAs and EIOPA staff to deliver on this strategic goal.

COMMON SUPERVISORY CULTURE

As with any strong structure, the framework of supervisory convergence needs to be built upon clear, well-known and commonly understood foundations.

EIOPA's booklet, *A common supervisory culture — Key characteristics of high quality and effective supervision*, was the first step in building this framework. The booklet defines the following five key characteristics of high-quality and effective supervision: risk-based and proportionate, forward-looking, preventive and proactive, challenging, sceptical and engaged, comprehensive and conclusive.

A common supervisory culture cannot be built overnight. It is a long journey where, step by step, by working together, being focused and challenging each other along the way, supervisors will build a strong and fair supervisory culture that promotes consumer protection and enhances the stability of the financial system for the benefit of Europe's business, economy and citizens. As processes and procedures are easier to align than behaviour, convergence will occur at different paces.

The implementation of a common supervisory culture requires change. Going forward it is important to consider different and innovative tools, such as cooperation within supervisory networks and specific cooperation platforms to share information and experiences within the supervisory community.

It is of utmost importance that the supervisory community has, at all levels, easy access to EIOPA tools as well as the ability and willingness to use them.

SUPERVISORY CONVERGENCE TOOLS

To further strengthen supervisory convergence, EIOPA will use different building blocks, which will each have their own specific tools to support supervisory convergence.

› Building common benchmarks for supervisory practices

This is achieved through the work on supervisory guidelines and recommendations; opinions; the Supervisory Handbook; supervisory statements; questions and answers; public best practices; reports; training/networking of supervisors; and study visits between supervisors.

› Review of practices

A review of market practices through thematic reviews as well as of supervisory practices through the annual peer reviews conducted by the review panel.

› EIOPA's own independent assessment

EIOPA's oversight work focuses on monitoring and challenging supervisory practices and supporting NCAs. The tools used include bilateral visits; cooperation platforms on cross-border business; dialogue with group supervisors; participation in colleges; breach of European Union law; and a mediation role.

PRIORITY AREAS — CRITERIA CONSIDERED

The decision on the priority areas of EIOPA's convergence work follows a risk-based approach. In this sense a risk-based approach implies identifying the depth and scale of issues and focusing priorities and resources where they matter most.

When developing its supervisory convergence plan, EIOPA considers the following criteria to define priorities:

- Areas with relevant impact on policyholders and financial stability. The impact is not only about the scale or number of policyholders affected if risks materialise or the scale of the individual impact for policyholders, but also where this could have a potential effect on market reputation and on business models.
- Areas that can affect fairness, the level playing field or the proper functioning of the internal market through the existence of possible supervisory arbitrage (in particular referring to cross-border business within the EU and with countries outside the EU, regarding both equivalent and non-equivalent countries).
- Key areas of supervision where practices substantially differ.

SUPERVISORY CONVERGENCE PLAN

This plan provides, starting with the priorities identified for 2019, an update of the EIOPA priorities for 2020 regarding supervisory convergence practices.

The work developed in 2019 on supervisory convergence revealed a good degree of progress. However, it should also be noted that as part of the discussion under the Solvency II 2020 Review a number of areas were identified where further work is needed to contribute, not only from a regulatory perspective, but as well from a supervisory convergence perspective.

The priorities identified for 2020 remain mainly the same as in 2019 considering the need to further develop some of the areas but also three completely new areas of priority have been identified: Supervisory Technology (Sup-Tech), pension sector and cyber underwriting. In addition, as part of the advice to the European Commission on the Solvency II 2020 review, some "new" priorities were

added (e.g. regarding reporting requirements for Internal Models, technical provisions, group supervision, etc.).

EIOPA Supervisory Convergence Plan will continue to cover the priorities for the three building blocks of supervisory convergence (Figure 1). Experience reveals that the plan needs to accommodate room for flexibility to allow EIOPA to respond to emerging and future challenges.

Figure 1. Priorities for the three building blocks of supervisory convergence

1. Practical implementation of the key characteristics of the common supervisory culture and further development of supervisory tools;
2. Risks to the internal market and to the level playing field which may lead to supervisory arbitrage;
3. Supervision of emerging risks.

1. PRACTICAL IMPLEMENTATION OF THE COMMON SUPERVISORY CULTURE AND THE FURTHER DEVELOPMENT OF SUPERVISORY TOOLS

- a) **Risk assessment framework and application of proportionality**
 - Work on a convergent approach towards a 'risk based and proportionate' supervision, with particular focus on the assessment of risk, risk indicators and impact in the application of proportionality principle.¹
 - Finalise the Peer review on the supervisory practices and outcomes on the use of proportionality regarding the Regular Supervisory Report .
- b) **Common Benchmarks for the supervision of Internal Models**
 - 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

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

Commission on the Solvency II 2020 review) to lay the foundation for future IMOGAPIs (Internal Model On-Going Appropriateness Indicators) containing a prototype dashboard.

c) **Supervisory assessment of conduct risks**

Thematic review on travel insurance:

- Follow-up to the publication of the Review and the Warning to the industry on high commissions;
- Analysis of the outliers and discussion of potential supervisory measures to ensure a convergent supervisory response across the EU.

Continue the work on the Conduct of Business Supervisory Handbook:

- Finalise the chapter on the supervision of Product Oversight and Governance (POG) requirements;
- Initiate the work on how to implement a risk-based approach to conduct of business supervision; and
- Initiate the work on the supervision of the implementation of Packaged Retail and Insurance-based Investment Products (PRIIPs) Key information documents (KIDs).

d) **Group supervision**

After the evaluation of supervisory practices and proposals to improve the legislative framework under Solvency II 2020 Review, EIOPA will develop supervisory convergence tools to promote supervisory convergence on the areas not covered by the 2020 Review, namely:

- good practices on the treatment of own funds of the related undertakings that fall under the category of other financial sectors and for which sectorial rules apply, like the Financial Conglomerates Directive;
- 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.

e) **Supervision of captives**

After the evaluation of supervisory practices and proposals to improve the legislative framework under Solvency II 2020 Review, in particular to consider proportionality principle applied to the specific nature of captives, EIOPA will develop supervisory convergence tools to promote supervisory convergence, namely, development of differ-

ent examples on captives groups structures and types of captives insurance and reinsurance undertakings.

f) **Follow-up on recommendation to EIOPA from Peer Review on propriety**

Definition of common questionnaires to collect information from companies and to exchange information between supervisors. The development of such tools can effectively foster convergence between the practices adopted by the NCAs.

g) **Supervisory Technology (SupTech) (new)**

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

2. RISK TO THE INTERNAL MARKET AND THE LEVEL PLAYING FIELD WHICH MAY LEAD TO SUPERVISORY ARBITRAGE

a) **Calculation of Technical Provisions**

After the evaluation of supervisory practices and proposals to improve the legislative framework under Solvency II 2020 Review, EIOPA will develop supervisory convergence tools to promote supervisory convergence in Technical Provisions' best estimate calculations, with a special emphasis on:

- the practical implementation of contract boundaries,
- economic scenario generators and valuation of options and guarantees,
- future management actions,
- Policyholders' behaviour (including dynamic lapses),
- expenses projection; and
- expected profits in future premiums.

b) **Cross-border business**

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.

c) **Assessment of Internal Model outcomes**

- 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 **(new)**.

d) **Authorisations, fitness and propriety (new)**

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 to bring more convergence among supervisory authorities concerning fitness and propriety assessments' practices and outcomes.

e) **Use of risk-mitigation techniques and new financial engineering products for capital relief**

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

f) **Pension issues (new)**

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.

3. SUPERVISION OF EMERGING RISKS

a) **Supervision of data management, data quality IT security and governance-related risks, including cyber risk**

- Develop good practices on the supervision of data management, data quality and IT security and governance;
- Finalisation of the Guidelines on ICT and cyber security governance and promote pilot discussions regarding cyber resilience testing for large insurers;

- Work on a system for the exchange between NCAs of information regarding cybersecurity and cyber-attacks **(new)**
- Develop Data Governance Standards applicable to NCAs **(new)**.

b) **Insurtech**

Ongoing work on the 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. **(new)**

Participate and promote relevant discussions in the area on the insurance and pension sector in the European Forum of Innovation Facilitators (EFIF). The EFIF provides a platform for supervisors to meet regularly 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 treatment of innovative products, services and business models, overall boosting bilateral and multilateral coordination. EIOPA will chair the EFIF in the second half of 2020. **(new)**

c) **Brexit**

- 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.

d) **Supervision of Run-off undertaking**

- EIOPA will assess the specificities of run-off undertakings e.g. specific business model, governance arrangements, role of private equity, outsourcing and main risks 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.

e) **IBOR transition**

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.

f) **Cyber underwriting (new)**

EIOPA will promote appropriate cyber underwriting and cyber risk management practices by the industry and good supervisory practices, namely:

- Periodically assess cyber underwriting and risk management practices and supervision thereof to address supervisory concerns and foster supervisory convergence;
- Investigate in particular the issue of non-affirmative cyber exposures and potential accumulation risk, with an aim to provide guidance on solution-oriented

and mitigating actions on treatment of non-affirmative cyber risk, sound underwriting practices and accumulation risk;

- Engage with the industry and European Commission to investigate cyber underwriting as a separate line of business (LoB) to provide further clarity on the coverage provided and allow for better risk assessment; and
- Start collecting information on cyber underwriting and make it available to the public, making cyber an area addressed regularly in EIOPA Reports.

EIOPA will promote adequate assessment and mitigation tools to address potential systemic cyber and extreme risks by:

- Including cyber risk events and cyber incident scenarios in its stress testing framework to assess potential vulnerabilities/losses to cyber risk in underwriting.
- Incorporating cyber risks within its Risk Dashboard framework.

LEARN MORE



Visit the dedicated webpage:

https://www.eiopa.europa.eu/browse/supervisory-convergence_en

© EIOPA, 2020

Images copyright: Adobe Stock

Reproduction is authorised provided the source is acknowledged.

For any use of photos, permission must be sought directly from the copyright holder.

CONTACT US

Westhafenplatz 1,
60327 Frankfurt am Main, Germany
<https://www.eiopa.europa.eu/>