

# **Statement on the role of the lead supervisor**

**in the Context of Supplementary  
Supervision as defined by  
the Insurance  
Groups Directive (98/78/EC)**

This paper sets out the tasks of a lead supervisor for insurance groups.

The proposals in no way impinge on the current legal responsibilities of supervisors in relation to solo or subgroup supervision and are to be interpreted within the legal limits of the legislation applying in the Member States.

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## Background

1. Although the Insurance Groups Directive 98/78/EC<sup>1</sup> (IGD) made no specific provision for the identification of a lead or consolidating supervisor to perform supplementary supervision, it could be inferred from Article 4.2 of the Directive that a single supervisor was to be identified with responsibility for carrying out this function:

*'Where insurance undertakings authorised in two or more Member States have as their parent undertaking the same insurance holding company, reinsurance undertaking, non-member-country insurance undertaking or mixed-activity insurance holding company, the competent authorities of the Member States concerned may reach agreement as to which of them will be responsible for exercising supplementary supervision.'*

2. The Helsinki Protocol<sup>2</sup> was introduced to deepen the co-operation between supervisors in order to exercise supplementary supervision. The Helsinki Protocol states that, in practice, it would be useful for a single supervisor to carry out most or all of the supplementary supervision provided for in the Directive. In section 1.5 of the Helsinki Protocol this expectation is clarified as follows:

*'The supervisory authorities acknowledge that efficient and effective co-operation does in no way diminish their own supervisory responsibility. The "solo" supervision will remain unimpaired the sole responsibility of the national authorities empowered by law or regulation to supervise insurance undertakings. As outlined in paragraph 2.2, the relevant competent authorities of the Member States should strive to co-operate in a Co-ordination Committee (Co-Co) formed by the competent authorities involved with an insurance undertaking. Furthermore, whenever the Directive leaves a choice as to which authority should exercise supplementary supervision, the competent authorities should strive for agreement as to which of them will be responsible for exercising supplementary supervision.'*

In section 2.2. the Helsinki Protocol provides:

*'Although the supervisors involved share a mutual duty to co-operate as far as the supplementary supervision is concerned, in practice it will often be useful to strive for one of the supervisors to carry out most or all of the supplementary supervision, and assume the responsibility to do so, whenever the Directive leaves a choice in that respect. This*

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<sup>1</sup> Directive 98/78/EC of the European Parliament and of the Council of 27 October 1998 on the supplementary supervision of insurance and reinsurance undertakings in an insurance or reinsurance group.

<http://europa.eu.int/eur-lex/lex/LexUriServ/LexUriServ.do?uri=CELEX:31998L0078:EN:NOT>.  
<sup>2</sup> Protocol of May 2000 relating to the collaboration of the supervisory authorities of the Member States of the European Union with regard to the application of Directive 98/78/EC on the supplementary supervision of insurance undertakings in an insurance group.  
[http://www.ceiops.org/media/files/publications/protocols/nl194\\_helsinki\\_gbfi.pdf](http://www.ceiops.org/media/files/publications/protocols/nl194_helsinki_gbfi.pdf).

*supervisor will be called the lead supervisor for supplementary supervision (further: lead supervisor).'*

It suggests that this lead supervisor, who is appointed with the unanimity of the Co-Co, be the supervisor of the Member State where the dominant insurance undertaking of the insurance group is established. It suggests that one measure of dominance could be premium income. It also suggests that the lead supervisor will be chosen to chair the Co-Co, and act as the so-called key co-ordinator. According to the Helsinki Protocol a key co-ordinator should arrange and manage the supplementary supervision without taking over the responsibility to exercise.

3. The tasks of the key coordinator and the lead supervisor are described in more detail in the Co-Co Guidelines<sup>3</sup> published by CEIOPS in February 2005. The purpose of the guidelines is

*'to ensure consistency regarding supplementary supervision as well as to increase the level of efficiency and effectiveness of the work of the Co-Cos.'*

In section 2.2 of the guidelines it is explained that although supervisors may be able to waive supplementary supervision of subgroups (art. 2.1 Annex I IGD), when there is satisfactory supplementary supervision carried out at a group level, it is still within the powers and responsibilities of the affected supervisors to carry out supplementary supervision at any subgroup level. Examples where subgroup supervision may be considered necessary are if the subgroup is in a stressed financial situation or if the subgroup has a large market share in one country or region (affecting orderly financial markets). It is suggested that the Co-Co may avoid double reporting and reduce the burden on the Group by agreeing on one point for the collection of information at different levels of the group.

### **Content of supplementary supervision and tasks of the lead supervisor**

4. The content of supplementary supervision is defined in the IGD as being the supervision of intra-group transactions and positions, and the additional adjusted solvency calculations. The Helsinki Protocol states that supplementary supervision extends to the gathering and sharing of any information which is considered to be of assistance in the exercise of adequate supplementary supervision.
5. In accordance with the Co-Co Guidelines, the Co-Cos can appoint, by unanimity, a lead supervisor with the following role/tasks:
  - a) Co-ordinating the activities necessary to carry out the supplementary supervision (section 2.3);

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<sup>3</sup>CEIOPS' Guidelines for Co-ordination Committees in the Context of Supplementary Supervision as defined by the Insurance Groups Directive (98/78/EC).  
<http://www.ceiops.org/content/view/18/22/>

- b) Collating relevant information, analyzing it, and disseminating his or her conclusions to the other members of the Co-Co (section 2.3);
- c) Acting as Key Coordinator (section 2.3);
- d) Discussing, to the extent necessary, with local entity management in other countries, how those entities interact with the wider group, under the co-ordination of the local Supervisory Authority (section 2.3);
- e) Prior to the Co-Co meeting, setting out a clear statement of the expected outcomes of the meeting and seeking comments from all participants (section 3);
- f) Sending out an agenda for the Co-Co meeting, 2-3 weeks in advance (section 3);
- g) Endeavouring to ensure that reports or other information is submitted in, or translated to, a language understood by all members in the Co-Co of that insurance group (section 3);
- h) Assessing the internal control and risk management systems for the insurance group and its implementation, through a general top-down approach, supplemented with input from the other members of the Co-Co of the system used at the level of the individual undertakings (section 4.4);
- i) Assessing the overall standard of corporate governance (section 4.4);
- j) Collaborating with solo supervisors in the gathering and assessment of the information (section 4.4);
- k) If delegated, assessing the ability of the Group to raise additional capital, and where it may be able to source this from (this is an area where the lead supervisor and local supervisor may work more effectively together, as the lead supervisor will know the Group appetite for capital and the solo supervisor will know the possibilities for raising it (section 4.5);
- l) Working together with local supervisors to assess if it is possible to transfer capital around the Group and the possibility of that limiting the capital available in future to undertakings (section 4.5);
- m) Co-ordinating the request for information regarding the Group solvency (section 4.6);
- n) Co-ordinating, in order to ease the burden of reporting, the request for information regarding the Group (section 4.6);
- o) Requesting from the ultimate parent of the Group a submission for the Group Adjusted Solvency Margin in percentage and in financial terms, including which of the three methods is being used; the exact calculation, the implications of any waivers if granted by the lead supervisor; any changes in the Group Structure; and forward these details to all members of the Co-Co (section 4.6);
- p) Risk assessment regarding intra group transactions (section 4.7).

## Conclusion

6. The lead supervisor will assume all of the tasks of the lead supervisor as defined in the Helsinki Protocol and the tasks of the key co-ordinator as set out in the Co-Co Guidelines. In summary these could be described as:
  - o to organize, to prepare and to chair the Co-Co meetings;
  - o to set out and to agree in co-operation with all supervisors in the group, a regulatory programme in accordance with the attached Framework Document;
  - o the co-ordination of the gathering of information;
  - o the assessment of the intra-group transactions and positions and of the additional adjusted solvency calculations;
  - o the assessment of internal control and risk management; and
  - o the dissemination of any information or outcomes with the other Co-Co members.
7. A lead supervisor, however, does not inhibit the powers or reduces the responsibilities and competences of supervisors at subgroup level, including the request of adjusted solvency calculations at national subgroup level.
8. However it is suggested that the Co-Co may avoid double reporting and reduce the burden on the Group by agreeing on one point for the collection of information at different levels of the group and it may on a voluntary basis, where national legal frameworks permit, seek agreement to delegate other tasks<sup>4</sup> to or by the lead supervisor.

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<sup>4</sup> CEIOPS' Insurance Groups Supervision Committee will undertake further work in 2007 on the "Delegation of Tasks".

## **Lead Supervisor Protocol Framework Document**

### **Regulatory Programme for the Supervision of Groups**

1. On an annual basis, the lead supervisor will devise a work plan for the supplementary supervision of the Group.
2. This work plan will be discussed and agreed by the Co-Co.
3. The work plan will include carrying out tasks under the agreed risk assessment system ("RAS"). The RAS will be based on common standards inspired by the IAIS principles.
4. The work plan will include the regulatory initiatives necessary to ensure the appropriate supplementary supervision of a Group as set out in the IGD and as further articulated in the Helsinki Protocol and the Co-Co Guidelines as well as ensuring that all material risks in a Group are identified and addressed.
5. The work plan should include provisions for the exchange of information between supervisors.
6. The regulatory initiatives referred to above include, but are not limited to, a programme of inspections and review meetings.
7. Regulatory initiatives within a Group may include, with the agreement of the relevant supervisors, joint programmes.
8. The regulatory initiatives identified at 3 above may, where national legal frameworks permit, be delegated to or by the lead supervisor.
9. As well as the proactive initiatives proposed in the work plan, supervisors should be in a position to respond and to react to adverse developments within a Group.
10. On an annual basis the Co-Co will review the effectiveness of the work plan as well as the results of initiatives undertaken.