

**Interim Progress Report on Supervisory Convergence
In the Field of Insurance and Occupational Pensions for the
Financial Services Committee (FSC)**

Executive Summary

The EU Financial Services Committee (FSC) has requested an interim report by CEIOPS, on the current position in its initiatives towards increasing convergence in supervisory practices in the field of insurance and occupational pensions.

This interim report follows the structure of CEIOPS' Second Progress Report for the FSC, which it is understood the FSC found helpful. It adopts headings from the section of the FSC's Report on Financial Supervision, on challenges for supervision. These are, **(1) fostering supervisory convergence and cooperation, (2) enhancing the cost-efficiency of the EU insurance supervisory regime, and (3) improving cross-border supervision.** The **3 Level 3 Committees' joint cross-sectoral mid-term agenda will be jointly reported as part of their final Report to the FSC.**

CEIOPS' initiatives for enhancing supervisory convergence have remained most apparent, through its work in helping the European Commission develop a new prudential insurance regulatory framework (the Solvency II project). Solvency II is CEIOPS' best means for working on convergence, and in particular on the FSC's Report's recommendations. The project provides a unique opportunity towards achieving these objectives across Europe.

CEIOPS' Solvency II contributions to EU institutions, its open discussions, and its voluminous published technical Advices to the Commission, are leading to a new understanding over supervisory convergence. This is evident with CEIOPS' input on the Level 1 Framework Directive. Enhanced convergence is also becoming increasingly apparent through CEIOPS' views on the subject-matter for Levels 2 and 3 measures. These views will form CEIOPS' major work once requirements for its Level 1 advice are satisfied. Meanwhile CEIOPS is targeting areas where lack of harmonisation prevents supervisory convergence, such as the valuation of assets and liabilities for insurance undertakings. Further convergence in supervisory reporting will be possible as a result. At the same time, new supervisory networks are being developed, for example within insurance groups supervision.

CEIOPS regards Level 3 activities in particular as the true mission of a Level 3 Committee in the Lamfalussy model. That point is still in the

future. CEIOPS is allowing time for new Solvency II work which may be sought from it, first. Some may concern Level 2 measures. Whatever the balance between Levels, the demands are expected to be extensive, extremely resource-absorbing, and leave CEIOPS less immediate time for pure Level 3 concentrated activities.

In the fields of Occupational Pension Funds and Insurance Mediation, CEIOPS' work has a different emphasis. Each area has its new Directive. Those provide limited harmonization. Their markets are characterised by significant diversity. The effects throughout the EU are not fully known. CEIOPS is analyzing these. It has also already put in place supervisory Protocols to foster convergence.

CEIOPS' ongoing perception of the main limits on further progress in the three main headings of the FSC Report, are summarized in a concluding section. They have been communicated to relevant EU political bodies. They divide between limits concerning CEIOPS itself, and others external to CEIOPS' responsibilities.

CEIOPS welcomes the opportunity to update the FSC on its progress and challenges. CEIOPS would also welcome any comments on the report, or generally.

Introduction

Background

CEIOPS is pleased to present to the FSC its interim report on progress in supervisory convergence. The Introduction to CEIOPS' first report¹, presented in September 2005, referred to the FSC's invitation to CEIOPS and the other two Level 3 Committees (CEBS and CESR) to report regularly to it.

CEIOPS has appreciated the opportunity to keep the FSC regularly informed of its activities towards supervisory convergence. CEIOPS' second report² described its work and targets at the time. It included short term proposals for work under a new overall project for supervisory convergence³. Detailed information on CEIOPS' organization and work streams are contained in its Annual Report 2006⁴, shortly to be available.

Report

This report has the same three parts, addressing the main goals of Level 3 activity: (1) fostering supervisory convergence and cooperation, (2) enhancing the cost-efficiency of the EU insurance supervisory regime and (3) improving cross-border supervision. The relevant recommendations of the FSC Report head CEIOPS' comments on them. However, the activities described under each heading are not confined strictly to the recommendations. Also many are inter-related to the scope and objectives of the others. CEIOPS considers a fuller interim report using this approach, should be more helpful to the FSC. A concluding section overviews main challenges to convergence as CEIOPS views them.

Beyond the focus covered, CEIOPS has increasingly participated together with the other two Level 3 Committees, in joint 3L3 cooperation and contact. The liaison can be expected to become even closer during 2007 and beyond.

CEIOPS Performance Assessment

To improve its forward planning and reporting to EU political institutions, CEIOPS has recently conducted a survey of its performance, like CEBS and CESR. Similar Questionnaires were prepared for Members and Observers, and for the industry. Separate responses were sought for insurance undertakings and for occupational pension funds. A Summary of the Replies from the Stakeholders is attached as Annex 1. Most main priorities and their presentation by CEIOPS are rated very positively.

1 'First Progress Report on Supervisory Convergence in the Field of Insurance and Occupational Pensions for the Financial Services Committee', CEIOPS-SEC-70/05.

2 'Second Progress Report on Supervisory Convergence in the Field of Insurance and Occupational Pensions for the Financial Services Committee', CEIOPS-SEC-45/06.

3 'CEIOPS' work plan on supervisory convergence', CEIOPS-SEC-12/06 Rev. 1.

4 'Annual Report 2006 and Work Programme 2007'.

Most respondents are satisfied with CEIOPS' work on convergent supervisory practices and cooperation. It is accepted that the impact of Level 3 measures is difficult to gauge to date. European good practices are emerging as first steps through parts of the Solvency II project.

The suggested improvements are largely well-known to CEIOPS. For example, the industry proposes that communication of CEIOPS' ongoing specific priorities, in a more timely fashion, would help its cooperation. CEIOPS fully recognizes the importance of clear and prompt public communication. It is given to understand that one of the most-used means is its website. There are arrangements in hand to make the present site more informative and user-friendly.

It was thought that the high priority of the Solvency II project should not hinder CEIOPS' other valuable work, such as the implementation of the Occupational Pension Funds and Insurance Mediation Directives. A mechanism to involve more consumer representatives and smaller pension funds could be helpfully developed. Possible effort might be made to help non-expert consumers understand better CEIOPS' general objectives and ongoing policy.

CEIOPS' consultation process for the Solvency II project, while most appreciated, could benefit from stakeholders' greater access to the preparation of CEIOPS' draft Papers and their input to the formal process. CEIOPS might explain better its decisions against certain incoming comments. The pressure of the project's overall timetable is felt not to have improved industry's contribution, although CEIOPS' processes were well-enough coordinated with those of other institutions.

3L3 cooperation is noted to be increasing, but thought to have some way to go in achieving higher alignment. While this is certainly accepted by CEIOPS, some of the differences between the 3L3 Committees' own contexts seem less recognized. These are briefly referred to at the end of this report.

CEIOPS is encouraged by respondents to continue its improvements and open dialogues. The survey's results will be analyzed in depth. CEIOPS will include them as input to CEIOPS' ongoing planned development.

CEIOPS documents

All CEIOPS documents referred to in this report are available on its website, and on request, from the Secretariat.

1. Fostering supervisory convergence and cooperation

CEIOPS concluded last year that the most efficient and effective way for it to promote supervisory convergence and cooperation, and to formulate proposals for a mediation mechanism, was to make work not already part of its Expert Groups' mandates, the focus for a special CEIOPS team.

Recommendation 2: the FSC suggests that for these tools aimed at fostering a **European supervisory culture** – and which are already in place- each Level 3 Committee could provide, in its regular reporting on supervisory convergence beginning in 2007, an assessment on their functioning and indicate any ways to help them work better.

Recommendation 3: Preconditions to the establishment of a mediation mechanism should be explored – especially as regards the potential areas of application and the practical functioning of this mechanism – and, where appropriate, a mechanism tested in the Securities field in 2006 and in the banking and insurance fields no later than by the beginning of 2008.

Fostering European supervisory culture

For the purpose of fostering supervisory convergence as a dedicated project, with its own internal Experts and work-streams, CEIOPS set up its Task Force on CONvergence and IMPact aSSessment (COMPASS) in February 2006. The European Commission provided active support. The immediate aim was to support the creation of a European culture of supervision, by facilitating the exchange of staff between supervisory authorities and by analyzing how to organize EU wide training schemes. COMPASS carried out a first analysis and presented proposals in this area to CEIOPS' Members in 2006.

In its Report on Training and Exchange of Staff for 2006, COMPASS began by mapping CEIOPS Members' needs and potential for training and staff exchange. This was a first initiative of CEIOPS. The survey suggested a number of possible short and long-term actions. These were adopted by CEIOPS at the end of 2006.

On this basis, several seminars were to be organized in the short term. Already in October 2006 a first seminar on Solvency II for less-experienced staff was arranged. In the long run, COMPASS proposed to develop an overall training programme for EU insurance and occupational pension funds supervisors, with the support of CEIOPS' Members. In 2007, CEIOPS' previous year's work on training and exchange of staff in the insurance and occupational pension sectors will continue. CEIOPS has initiated a sectoral Training Programme for 2007, with four training sessions dedicated to supervisors. A first CEIOPS Seminar on Occupational Pensions was held in April 2007, with more than 60 persons attending. A seminar on Solvency II for beginners will follow at the end of June, one important two day-session on insurance groups will be held in October,

and another seminar on Solvency II for advanced supervisors will take place in December.

In order to improve exchange of information and cooperation between Authorities, and benefit the field of training, a short-term measure identified is to use CEIOPS' website more intensively and pro-actively. It is a discussion board for Members and Observers that allows them to make postings to read and reply on. The forum enables the exchange of information, by way of limited surveys on specific issues of concern to domestic supervisory practice which require regulatory or supervisory convergence. Separately, information can be provided on courses available in individual supervisory authorities and other bodies. A directory with contact points within each supervisory authority for training and staff exchange can be developed. CEIOPS' 'forum' tool will be further developed, especially for the promotion of training and exchange of staff.

On the exchange of staff, considering the obstacles identified, in particular costs, tax issues and understaffing, short-term secondments of up to 6 months were promoted. A potential tool identified was the setting up of a descriptive manual on how to solve tax, social security and other issues related to secondment, and to establish a co-ordination point of CEIOPS' Members' activities for training and staff exchange.

Alongside seminars addressed only to supervisors, CEIOPS is currently analyzing the opportunity of training sessions open also to industry representatives. In this light, a Regional Seminar on Solvency II could be organized for early 2008, involving new EU countries, in particular Romania and Bulgaria.

At the beginning of 2007, the former COMPASS was replaced by a permanent CEIOPS Committee, named Convergence Committee. Participation of CEIOPS' membership in the group has expanded. The revised Terms of Reference are attached as Annex 1.

The Convergence Committee will discuss how to carry on the work of COMPASS on training and exchange of staff. One particular workstream, proposed by the 3L3 Chairs at their last Meeting, is verifying the opportunity to develop a standardized procedure for the exchange of staff. It is hoped to seek the help of HR departments of Supervisory Authorities, in order to reduce the identified barriers and obstacles.

The Convergence Committee will continue to work in close co-ordination with any initiative taken at cross-sector level by the three Level 3 Committees. In particular, during 2007 the training issue will also be analyzed in the three Level 3 context. The feasibility of a common training platform will be investigated together, in order to enable coordination of training activities, on sectoral and cross sectoral issues.

Exploring the preconditions of a mediation mechanism and studying peer reviews

The Convergence Committee's scope of responsibilities broadened to other tools relevant to fostering convergence of day-to-day supervisory practices. These are headed by peer reviews and mediation mechanisms. In particular, the Convergence Committee has been mandated to explore preconditions for the establishment of a mediation mechanism for insurance and occupational pension funds supervision, and to present a report to CEIOPS' Members before the end of 2007.

This work will unfold in coordination with the equivalent developments by CEBS and CESR.

On mediation, the Convergence Committee drafted a paper endorsing the approach of the other Level 3 Committees towards consistency, especially with CEBS. Adjustments were made to the CEBS/CESR Protocol, to reflect CEIOPS' particularities and specific needs.

An overall consultation paper, after approval by CEIOPS Members, will be submitted for public consultation during summer. The target date for testing a CEIOPS mediation mechanism to become applicable to the insurance and occupational pension sectors, is recognized to be no later than by the beginning of 2008.

In 2007 peer reviews will also be studied. The investigation will start with an exchange of information and views in CEIOPS, and extend to representatives of the Secretariats of the other two Committees to seek joint progress.

The Solvency II Project

The FSC will know that Solvency II is the European Union's fundamental, root-and-branch review of the prudential supervision regime for insurance undertakings. It is a unique opportunity to create convergence and overcome limits to greater supervisory cooperation.

It needs to be understood that while the legislation has been taking shape, CEIOPS' contributions have spanned input at Level 1 towards the Framework Directive, and the preparation of advice at Level 2 towards the development of possible implementing measures. CEIOPS is seeking an appropriate level of harmonization as a pre-condition for convergence. This has to include a common understanding and approach to supervision apart from the legislation. For example, CEIOPS' proposals for the valuation of assets and liabilities creates an essential base for convergence, especially for common reporting, the potential ability of supervisors to share common data, and their ability to use common tools. Where issues are still open, such as the EU approach for the overall supervision of insurance groups, CEIOPS is progressing through a clear definition of supervisory responsibilities and by strengthening the role of the lead supervisor.

Looking ahead, when the Commission's current and any anticipated requests for work will have been completed, CEIOPS will increasingly concentrate on the Level 3 preparation of supervisory standards, guidelines and recommendations. Successful implementation will be enhanced through CEIOPS' Level 3 measures, which will seek real supervisory convergence. In that way, CEIOPS aims to pursue the enhancement of convergence of supervisory practices, rather than identify too precise and rigid harmonized rules.

Contributing to the Solvency II project has been, and continues to be, CEIOPS' major and most important task. It will remain so, but at Level 2 as well as 3, for some time. New work possibly anticipated for CEIOPS may be considerable, even by Solvency II's heavy standards. In the short run, CEIOPS will not be free to undertake dedicated Level 3 activities alone.

For convergence through work to date, CEIOPS can demonstrate that despite the multitude of traditions and approaches that each CEIOPS Member brought with them when CEIOPS started, significant progress has been made in negotiating convergent approaches between Members. CEIOPS can say that there are a large number of key areas where consensus has been achieved. Some are matters of principle while others are difficult technical issues. Accordingly, in one sense Solvency II has already proved to be a success, underlining the benefits of the Lamfalussy approach. There is an increasing appreciation amongst CEIOPS Members of the multitude of joint problems which are being sought to be solved cooperatively. Information and ideas are being exchanged. Trust is being formed.

These trends emerged in CEIOPS' development of further work on certain earlier issues. It had already commented on them in past advice, but had not fully elaborated or defined them. Following CEIOPS' advice on the first three Calls for Advice⁵, the European Commission in a letter dated 24 January 2006 asked for greater input on certain complex themes, over which considerable differences of view existed. These therefore required additional input from interested parties. The additional advice concerned key Pillar I issues such as the valuation of technical provisions, the development of the SCR standard formula and the MCR formula, and the recognition of reinsurance. Also certain Pillar II issues (Pillar II "capital add-ons" and the treatment of re-insurers) and group and cross-sectoral issues (e.g. admission of diversification effects, sub-group supervision and cooperation with third countries, the integration of the group dimension into CEIOPS' latest quantitative impact study, QIS3), needed to be elaborated.

Following this letter, CEIOPS drafted further Consultation Papers. They were published in July and October 2006, and published as advice after Members' approval in March 2007. These Consultation Papers mainly dealt with further Pillar II issues (safety measures, supervisory powers, internal

⁵ CEIOPS' answers to the "First Wave of specific Calls for Advice" were submitted to the European Commission on 30 June 2005, the answers to the "Second Wave" on 1 November 2005 and the answers to the "Third Wave" on 3 May 2006.

risk and capital requirements) and Pillar III issues (supervisory reporting and public disclosure) - all key candidates for convergence.

For CEIOPS, the assessment of the impact of convergent advices is done via several rounds of quantitative impact studies. These exercises provide a key input for the impact assessment report of the European Commission for the Solvency II Framework Directive. They are also indispensable in testing the practicability and materiality of certain convergent decisions that need to be taken under Solvency II. QIS2 focused on the design of the solvency requirements. The EU summary report was approved during CEIOPS' October 2006 Members' Meeting. CEIOPS launched QIS3 in April 2007. It focuses on the calibration of the solvency requirements. CEIOPS made efforts to encourage even wider industry participation in it than reached in QIS2.

It is in the context of this activity that CEIOPS is continuing its preparatory work for delivering answers to expected requests for advice on potential implementing measures. The European Commission is planning the preparation of implementation measures in parallel to that of the Framework Directive. As mentioned, CEIOPS' work will be also aimed at paving the way for future Level 3 measures. It is bound to become even more important once the Level 1 measures will have been initially finalized in the Framework Directive. Throughout, CEIOPS' advice is built round enhancing convergence.

2. Enhancing the cost-efficiency of the EU supervisory regime

A lead principle for CEIOPS to enhance cost-efficiency of the supervisory regime for insurance, is the achievement of a harmonized prudential regime through the Solvency II project. The lack of rationalization in the present system produces its own costs. These should be reduced through the introduction of the new proposed requirements of this project.

Recommendation 5: Supervisors are encouraged to work on common formats before the end of 2007, and to reflect on the question of IT data-sharing arrangements before the end of 2008, taking into account the costs and benefits of the different options available (common databases, interlinked national databases...). [...]

Supervisory reporting, accounting implications

CEIOPS believes that its pursuit of common reporting forms and convergence in common supervisory reporting generally, has to be realised through the Solvency II framework. CEIOPS' second report to the FSC explained why this is a pre-condition, including why convergence work in advance of the project would be strongly inadvisable, as well as problematic.

CEIOPS' recently published advices to the Commission within the project are still carrying this forward. CEIOPS has already made recommendations on developing supervisory tools. It has now added advice on the main information requirements to be fulfilled by insurance undertakings, appropriate to supervisory reporting and to public disclosure⁶. These will be followed by more detailed advice on what should be done by insurance undertakings to comply.

CEIOPS continues to support this foundation work, by following the progress of the International Accounting Standards Board. CEIOPS also carries out the preparatory work for its contribution both to the International Financial Reporting Standards-making process and to the related EU endorsement process. CEIOPS participates in the Accounting Regulatory Committee (ARC) and in the Insurance Working Group of the European Financial Reporting Advisory Group (EFRAG). It focuses on interrelationships between financial statements and supervisory reporting and acts as an information-sharing platform in the field of accounting. CEIOPS is also active in the Roundtable on consistent IFRS application. CEIOPS supports the consistent application of IFRS as a necessary background to convergent supervisory reporting, by identifying issues with a risk of divergent application, and recommending which of those should be taken up by IFRIC that need a common approach.

Against this background, in its work on Solvency II CEIOPS supports the idea of achieving a single set of accounts that could be used for both general purpose financial reporting and regulatory reporting, with as few adjustments as possible. Although IAS/IFRS are not directed at supervisory purposes, CEIOPS' work follows its belief that the policy and methodologies used for drawing up public financial statements should, as far as possible, be compatible with prudential purposes as well. In this way, public financial statements would become more easily reconciled with the reporting system used in applying the supervisory regime.

A current Discussion Paper of the IASB on insurance contracts, Phase II will be analysed and commented on by CEIOPS to the IASB, to foster further consistency.

Common databases and interlinked databases apart from Solvency II and any resulting from the above activities will be a new workstream for CEIOPS. Some preliminary investigation will be started by CEIOPS during 2007.

Statistical information

CEIOPS has prepared a common statistical reporting system which applies to the (re)insurance sector as well as, for the first time in 2006, the occupational pension funds sector. CEIOPS' long-term objective is to establish a macro-prudential surveillance framework for analysing the developments in the (re)insurance and occupational pension funds

⁶ Advice to the European Commission on Supervisory Reporting and Public Disclosure in the Framework of the Solvency II Project, CEIOPS-DOC-03/07, March 2007.

sectors, and monitoring the interplay with financial stability. CEIOPS has addressed there, the challenge posed by the fact that reporting formats and deadlines have not been harmonized in the EU. CEIOPS produces two semi-annual reports on the financial stability and financial conditions of the insurance and occupational pension funds sectors.

The newly developed fast-track reporting framework enables the reporting of key figures from a number of major European insurance groups or companies. It permitted CEIOPS to conduct a quick scan of the developments on the insurance market after the years' end and to facilitate a first exchange of views on topical market developments in the insurance sector. The financial stability reports are usually enriched with text boxes on special topics. In addition, in the summer of 2006 a first report on the financial condition of financial conglomerates was produced. In 2007 CEIOPS will initiate development of a framework for statistics on insurance groups.

The reports are presented for discussion on macro-financial conditions and overall stability of the EU financial system in various international committees, e.g. the Financial Stability Table organised by the Economic and Financial Committee (EFC-FST) and annually at the Banking Supervision Committee of the European Central Bank. CEIOPS publishes sanitized versions of both semi-annual reports.

3. Improving cross-border supervision

Cooperation and supervision of insurance cross border activity

A key supervisory superstructure for CEIOPS in the operation of cross-border supervisory convergence is provided by the Siena Protocol⁷ which was concluded in 1997.

The Protocol sets out procedures for cooperation and exchange of information between supervisory authorities in particular regarding the licensing of insurance undertakings, the setting up of branches and the provision of cross-border services as well as on-going supervision, on-site inspections and supervisory measures. After ten years, CEIOPS considered that it was necessary to review the entire text of the protocol. By the end of 2006 CEIOPS established a Task Force⁸ to perform this work. The Task Force has started a radical examination of the Protocol's functioning to be able to identify any weaknesses that can be addressed in the revision. A questionnaire and subsequent mapping exercise will be conducted. The findings will be reported to CEIOPS Members, to be followed by a preliminary and then a final revision of the text.

⁷ Protocol relating to the collaboration of the supervisory authorities of the Member States of the European Community in particular in the application of the Directives on life assurance and non-life insurance.

⁸ Task Force on the Revision of the Siena Protocol..

CEIOPS experts will draw on the benefit of EU supervisory experience. They will take into account changes in the law, structure and practice of the supervisory environment. These will include aspects of the Reinsurance Directive and the Winding-up Directive which make close cooperation between competent authorities necessary. Other drivers are the increase of the membership of the EU in recent years and the consequent increased information requirements between supervisors. They make streamlined and effective procedures and communications even more important for CEIOPS.

In addition to the natural objectives of ensuring the aims of financial stability and the highest possible protection of policyholders and other stakeholders, special attention will also be paid to the convergence and cooperation of supervisory authorities concerning non-financial issues. In particular the Task Force will consider the convergence on issues that directly influence policyholder protection, e.g. the treatment of cross-border complaints. The delivery target is autumn 2007.

Supervision of Insurance groups

Recommendation 4: Preconditions for the use of such delegation mechanism in the three sectors should be explored – especially through the use of guidelines – and where appropriate, arrangements tested before the end of 2007.

CEIOPS had identified the need to enhance convergence in the way that supervisory co-operation is practiced for groups, in order to reduce the burden both for industry and supervisors involved. CEIOPS therefore developed the operational network based on the so-called Coordination Committees (Co-Cos) of supervisors established for each insurance group with cross-border activity in different EEA Member States. This development has been carried out in advance of Solvency II, and therefore completely within the boundaries of the present regulatory regime.

In December 2006, CEIOPS issued a Statement regarding the tasks of lead supervisors. At the same time CEIOPS confirmed the intention to appoint a lead supervisor for each cross-border insurance group. The Statement⁹ sets out the tasks of the lead supervisor in the context of supplementary supervision of insurance groups as laid down in the current Insurance Groups Directive. It is intended to facilitate common assessments of the risk profiles of groups, common supervisory action in regard to them, and delegation of tasks, within the present legal structure. To date, about 70% of the more than 100 Co-Cos have appointed a lead supervisor. Other appointments are expected in the very short term.

The Statement also describes a 'Lead Supervisor Protocol Framework' setting out the components of an annual regulatory programme for each group. The lead supervisor is expected to produce with the other

⁹ Statement on the role of the lead supervisor in the Context of Supplementary Supervision as defined by the Insurance Groups Directive (98/78/EC), CEIOPS-DOC-07/06, December 2006.

supervisors in a Co-Co, an annual supervisory work plan based on a group risk assessment, a programme of inspections and review meetings, as well as an annual review of the effectiveness of the work plan and regulatory initiatives. Where the national legal framework permits and relevant supervisors agree, regulatory initiatives like joint programmes and joint on-site inspections may be undertaken. In 2007, within this general framework CEIOPS will seek to develop an agreed Risk Assessment System for groups, examine supervisory requirements and practices in the reporting of intra-group transactions with the aim of developing an agreed framework for reporting as soon as possible, and define a common list of items of information that are essential to be exchanged within a Co-Co.

Transparency is also important in enhancing the convergence of the methods of group supervision. CEIOPS has collected information on how Member States have exercised the various options provided for in the Insurance Groups Directive. CEIOPS expects to publish the results of this mapping exercise shortly.

CEIOPS has identified a number of further areas where Level 3 measures could be beneficial to enhancing the effectiveness and efficiency of converged group supervision. It is addressing the areas which were covered in its Recommendation to the European Commission and in its previously published "Guidelines for Coordination Committees".

CEIOPS recognizes that the introduction of appropriate legislative amendments in the context of the Solvency II project would be a better means of achieving more streamlined supervision. Legal clarity and appropriate prudential standards would be preserved and enhanced. The EU approach is still open and under discussion. CEIOPS has been seeking to build on the economic reality and diversification of insurance groups.

Supervision of Occupational Pension Funds

Following the transposition of the IORP Directive into national law, CEIOPS has been facilitating cooperation and exchange of information between supervisors. The immediate objective is a common approach to supervisory issues. A cooperation Protocol was concluded in February 2006. Titled the "Budapest Protocol", it covers the general principles for cooperation between the Competent Authorities and ambitions for furthering effective supervision. It also provides the specific procedures for notification and the ongoing supervision, including the respective roles of the Competent Authority of home and host Member States. Authorities competent under the Directive but not Members of CEIOPS, were also invited to join the Protocol, by signing a joinder agreement.

CEIOPS has started work on a mapping of the implementation of the IORP Directive. The objective is to increase the common understanding of the European legal framework and its different pensions systems and supervisory approaches, thereby fostering supervisory convergence. CEIOPS will also become aware of any need for further Level 3 measures

in areas where common approaches seem necessary. That will lead to input to the European Commission for its planned revision of the IORP Directive, targeted for 2008.

Over the past year CEIOPS has been conducting a number of surveys among its Occupational Pension Committee (OPC) members, in order to map out the legal and practical ways of implementing the IORP directive in the EU Member States. The objectives are:

- To create an inventory and a comparative overview of the national regulatory and supervisory approaches;
- To provide an opportunity to understand the basic rationale of each EU Member state in opting for the specific transposition of the IORP directive that fits optimally with the existing national framework;
- To gather information on the practical experience of applying the IORP directive and the effects on national and cross-border pensions.

The deeper insight will enable a better mutual understanding, and the overall understanding of the European legal framework, thus helping to pave the way for supervisory convergence.

The surveys conducted so far, cover topics such as:

- The role and use of a custodian / depositary;
- The application of the investment rule and the prudent person principle;
- The interpretation and the application of the requirement for the ring-fencing of occupational pension scheme assets and liabilities;
- The extent to which IORPS are allowed to enter into subordinated loans;
- The calculation and the funding of technical provisions of IORPs;
- The extent to which there exist obstacles to the development of cross-border occupational pensions (and hence an effective internal market for occupational pensions), such as the lack of the common understanding of the terms used in the Directive, legal uncertainty, differences in implementation, limited applicability of the Directive, or the limited co-operation among Competent Authorities;
- Supervisory reporting requirements;
- Small institutions and information to be provided to members and beneficiaries;
- The existence of insolvency protection institutions.

In order to develop a common understanding of the provisions of the Directive and to increase convergence in supervisory practices under it, CEIOPS has also focused its attention on the key concepts underlying the cross-border activity of IORPs. They include cross-border aspects themselves, host member state issues as well as social and labour laws.

As part of the initiative CEIOPS has also started to collect information on Member States' provisions regarding the relevant social and labour law to be followed in Host Member States by IORPs operating cross-border.

In March 2007 CEIOPS published a Report on Market Development highlighting the developments in cross-border occupational pension provision since the IORP Directive's coming into force.

CEIOPS aims to produce a comprehensive report based on its surveys and studies. The plan is to finalise the report by the end of 2007. The report will consider the need for, and the advisability of issuing Level 3 measures to further the convergence of supervisory practice.

Supervision of Insurance Mediation

CEIOPS' main convergence priority is the implementation of the Insurance Mediation Directive (IMD). CEIOPS has therefore agreed upon a Protocol to facilitate the close cooperation of supervisory authorities and the exchange of information between them. The "Luxemburg Protocol" includes details of registration and notification, ongoing supervision and information exchange related to it, standardised forms for communication, and contact details for all competent authorities. To extend supervisory convergence, Authorities competent under the Directive but not Members of CEIOPS, were also invited to join the Protocol, by signing a joinder agreement.

CEIOPS has issued a new mandate to its Experts. Their tasks are now to deepen the common understanding of the Insurance Mediation Directive (IMD) provisions amongst the competent authorities, and to facilitate further convergence in the effective implementation of the Directive. The natural means for CEIOPS is by sharing experience in application and by identifying and disseminating best practice. Where appropriate, CEIOPS will consider advice and recommendations to the European Commission on supervisory issues arising from implementation, or relating to the improvement of its provisions, and continue to facilitate the co-operation, co-ordination and exchange of information between competent supervisory authorities.

As a first step, CEIOPS published in March 2007¹⁰ a status report on the implementation of the key provisions of the IMD, based on a questionnaire. The report's first aim is to indicate how the different key provisions of the IMD were implemented in the different Member States and, in the light of this, to identify areas where further efforts are needed. In addition, the report aims at facilitating further convergence in implementation by sharing experience in applying it, and at identifying best practice or proposals for amending or clarifying the Directive and/or the Protocol.

10 CEIOPS' Report on the Implementation of the Insurance Mediation Directive's Key Provisions (CEIOPS-DOC-09/07), March 2007.

Besides this substantial work, CEIOPS was asked by the European Commission to work on a proposal for a converged definition of cross-border services under the IMD. A CEIOPS proposal on possible definitions will be sent to the European Commission later this year, for consideration and further analysis by EIOPC.

Finally, similar to other CEIOPS meetings, delegates are taking advantage of their regular meetings to exchange views on any issues arising from the practical implementation of the IMD, or from experience of supervising intermediaries under the Directive's provisions, on which advice and recommendations to the Commission might be considered.

4. Challenges to greater convergence

Unharmonised European regulation

For CEIOPS, the most effective means for improving convergence of harmonized supervisory practices would be EU legislation based on clear principles, supported by EU-wide supervisory measures which work and are brought about by appropriate CEIOPS initiatives. They could be helped by setting European-wide objectives for Member States' national supervisory authorities, targeted at quicker convergence processes. These stages have yet to be reached. The current low level of harmonization of the EU regulatory framework represents one of the most fundamental challenges to increased supervisory convergence.

Solvency II represents a highly valued opportunity for CEIOPS to address this challenge. CEIOPS is dedicated to the aim of rationalizing of the EU regime and reducing supervision costs. Level 3 work should be invaluable, but must be deferred by a newly extended and very demanding work programme at the higher Levels.

'Non-standardised' international accounting standards

CEIOPS' persistent challenge concerns accounting across the EU. The problems created by the differing and sometimes limited scope of application of IAS/IFRS to insurance undertakings in several Member States, are insurmountable until their cause is resolved. Despite past efforts towards the definition of standardised IAS/IFRS compliant financial statement formats for supervisory purposes, it has not been possible for CEIOPS to achieve standardisation of this specific supervisory reporting before the definition of the whole Solvency II project, and of an international accounting framework.

Broad scope for implementing IORP and IMD

For the occupational pension funds and insurance mediation sectors, the implementation of the two new Directives - the IORP Directive and the IMD - may redress the imbalance of the lack of harmonization in their

regimes. Yet these Directives are noticeably broad. They leave considerable scope for differences at national level, as well as for national discretion. CEIOPS' Level 3 measures for them will have challenging ground to build on.

Limits in regulatory framework for insurance groups

The restraints of the current regulatory framework stay apparent in the supervision of insurance groups. As long as the IGD is based on the s.c. "solo-plus" approach, supervision will focus on the individual company. CEIOPS' progress through its Level 3 activity and through the Solvency II project is ongoing, as reported above.

Divergences between supervisory authorities

CEIOPS' Member supervisory authorities face the challenge of developing their individual supervisory practices in line with the standards and practices agreed by CEIOPS. Differences in background, supervision models, the exercise of national legislative discretions and national legal systems remain. CEIOPS' activity aims at balancing out discrepancies, but over time.

Competent authorities need adequate resources, not only to achieve convergence, but also for their positive and informed engagement in CEIOPS' work. CEIOPS considers more shared levels of powers, objectives and resources of competent authorities, is another pre-condition for full supervisory convergence.

Differences in supervisory positions will be open to resolution through a new mediation mechanism between supervisory authorities that will be developed and established by CEIOPS. The structure will be an untried and challenging process for its Members.

In any case national supervision needs to consider legitimate market differences and the limits to convergence, which extends beyond the remit of supervisors, such as taxation.

Overcoming these challenges will also be subject to smoothing - at a higher EU level - of the divergences which arise from solutions adopted through the political process.

Conclusion

CEIOPS is committed to its convergence tasks. It has demonstrated progress made. It raises issues representing challenges, with the appropriate bodies. CEIOPS looks forward to increased cooperation with those bodies, the Level 3 Committees, and to working more on its own Level 3 activities, towards this end.



CEIOPS-SEC-30/07

CEIOPS Performance Assessment - Summary of the Replies from the Stakeholders –

Introduction

The **Lamfalussy process**¹¹ will be reviewed this year. It was originally developed in March 2001 for the regulation of the securities market, and extended later to the field of banks, insurance, reinsurance and occupational pensions, to create a more efficient system for the EU institutions to prepare, adopt and implement new legislation to integrate financial markets. In particular the EU's Inter-Institutional Monitoring Group (IIMG) has been assessing the functioning of this approach and, in this context, the activity of the 3L3 Committees (CEIOPS, CEBS and CESR). The report by the IIMG will give elements for the review by the EU political institutions.

CEIOPS has already reported on its activity to these institutions, under its accountability policy, and will contribute to the review, together with CESR and CEBS. In line with the other two Level 3 Committees, CEIOPS decided to organise a performance assessment exercise to gather feedback from its various constituents and stakeholders about its work carried out since its foundation. The purpose is to support the development of CEIOPS' internal procedure and work plan as well as to provide further element in the assessment of the Lamfalussy process.

Since its formation in late-2003, CEIOPS has been dominated by helping the European Commission to revise the EU prudential solvency regime for insurance companies, the '**Solvency II project**'. In practical terms, this has meant advising the Commission on the content of a level 1 Framework Directive and on the content of the potential implementation measures to be enacted at Level 2. Level 3 work, on developing standards, recommendations and guidelines to promote convergence of supervisory practices in the fields of insurance and occupational pensions supervision, has largely taken second place.

The Solvency II project, privileged work for a Level 3 Committee, has significantly influenced CEIOPS' operational structure, activities and personnel. Participation has been very extensive, both internally and externally. For example, during the project, the Commission has issued **three waves of Calls for Advice**. They have covered **23 subjects**. Of CEIOPS' **20 Consultation Papers** composed and processed to date, **12** have been on Solvency II. Some have been on CEIOPS' own initiative. They have been accompanied by organised **public written and oral dialogues**. CEIOPS' many **representations** to political institutions, trade associations and the industry have also been characterized by the Solvency II project. Often CEIOPS' numerous ongoing **informal exchanges** have related to it.

Despite the prominence of this work, CEIOPS has devoted part of itself to some pure Level 3 activities. The best known are its **Protocols**. These enhance cooperation and exchange of information in the fields of insurance and occupational pensions supervision. CEIOPS has created the '**Budapest Protocol**', which formalises cooperation of authorities competent in the implementation of the IORP Directive (Institutions for Occupational Retirement Provision), in relation to the supervision of IORPs that operate cross-border. The Protocol is open to

¹¹ The Lamfalussy model: See www.ceiops.org / About CEIOPS

competent authorities that are not CEIOPS Members. CEIOPS' **'Luxemburg Protocol'** provides a similar framework for cooperation of supervisory authorities in the implementation of the IMD (Insurance Mediation Directive). For the supervision of insurance groups, CEIOPS developed **Guidelines for Coordination Committees** pursuant to the IGD (Insurance Groups Directive) and formed a **Recommendation on Possible Need for Amendments to the IGD** which was submitted to the Commission. **Memoranda of Understanding** were concluded by CEIOPS with the Swiss and US supervisors to extend cooperation over EU insurance groups with head offices or affiliates in those jurisdictions. More recently CEIOPS evolved and issued a **Statement on the Role of the Lead Supervisor**. CEIOPS has also worked with the other two Level 3 Committees, CEBS and CESR, on **3 Level 3** joint issues for EU financial services.

This performance assessment exercise will allow CEIOPS not only to appraise its achievements to date, but also to design its present and future organizational and work planning. Looking ahead, in conjunction with the continued development of the Solvency II project, CEIOPS' work programme will be increasingly devoted to a number of activities aimed at further enhancement of convergence and cooperation of supervisory practices in the insurance and pension funds sectors. This report summarises the answers to CEIOPS' questionnaire published on its website in March 2007. The questionnaire had 2 parts, the first "Policy and Processes" covering CEIOPS' functional aspects and the second "Activities" covering CEIOPS work. Respondents were invited to answer with a simple 3-box rating choice system and/or to make "suggestions for improvement" or other comments where relevant.

Most of the replies were sent by European Associations representing the industry and consumer associations. As announced CEIOPS is publishing this summary of the replies according to its transparency policy. The individual response forms remain confidential.

The ratings to all questions are expressed in percent and represented in colour:

No opinion expressed	Rating "poor"	Rating "average"	Rating "good"
----------------------	---------------	------------------	---------------

1. POLICY AND PROCESSES

1.1. CEIOPS' general objectives¹²

- 1.1.1. How do you rate the way (clarity) CEIOPS has presented its general objectives (i.e. its role as set by its founding text)?

12	88
----	----

- 1.1.2. How do you rate the way (clarity) CEIOPS has presented and explained its ongoing policy (i.e. positions taken by CEIOPS on work issues)?

29,5	70,5
------	------

- 1.1.3. Suggestions for improvement

A large majority of the respondents are very satisfied with the way CEIOPS has presented and explained its general objectives and ongoing policy. However, they suggested that efforts may be needed to help non-expert consumers, for whom the current presentations could be too technical.

1.2. CEIOPS' specific priorities

- 1.2.1. How do you rate the way (clarity) CEIOPS has presented and explained its work plan?

17,6	82,4
------	------

- 1.2.2. In the context of its work plan, how do you rate the way (clarity) CEIOPS has presented and explained its ongoing specific priorities?

5,9	29,4	64,7
-----	------	------

- 1.2.3. How do you rate the appropriateness of CEIOPS' priorities in achieving its objectives?

41,2	58,8
------	------

- 1.2.4. Suggestions for improvement

In general the clarity of CEIOPS' manner of presenting and explaining its work plan and ongoing specific priorities, as well as the appropriateness of its priorities in achieving its objectives, are rated very positively. Cooperation with the industry could however be improved by communicating the ongoing specific priorities on a more timely basis. This is particularly relevant with regard to the Consultative Panel, to allow it to fulfill its mandate better. Where possible, the text should be illustrated with graphics. It is also stressed that the high priority of the Solvency II project should not obstruct CEIOPS' involvement in other key issues, such as the implementation of the IMD.

1.3. CEIOPS' communication policy:

- 1.3.1. How do you rate the effectiveness of the current communication tools between CEIOPS and third parties?

Website	5,9	41,2	52,9
Email alerts	5,9	29,4	70,6
Annual reports	23,5	76,5	
Working Groups (WGs)	11,8	29,4	58,8
Secretariat	23,5	86,7	

¹² Legend:

No answers	Rating "poor"	Rating "average"	Rating "good"
------------	---------------	------------------	---------------

Conferences	5,9	41,2	53
Public hearings	17,6	5,9	17,6
			58,9

1.3.2. Suggestions for improvement

CEIOPS' communication policy is rated positively, with the exception of the website and conference. The structure of the website should be more user-friendly. It is also suggested to publish the comments to the Consultation Papers in their original language, beside the English version. To foster CEIOPS' interest in the views of the stakeholders, the number of informal dialogues between CEIOPS WGs and the industry as well as consumer organizations should be increased, and the public hearings restructured. Brief conclusions of those meetings could be considered. A specific suggestion concerns the QIS 3 results, that could be broken down according to the following criteria:

- Joint-stock companies/mutual insurers,
- Size of players (small, medium and large for instance),
- Mono-liners/diversified players,
- Long-tail insurers/others.

This could give relevant insight into the main changes in the solvency position under Solvency I versus Solvency II for the different kinds of players and the range of results.

1.4. Public consultation policy ¹³

1.4.1. How do you rate the effectiveness of the current consultation policy?

6,7	66,7	26,6
-----	------	------

1.4.2. How do you rate access for input to the preparation of draft papers for consultation?

33,3	6,7	33,3	6,7
------	-----	------	-----

1.4.3. How do you rate access for input to the formal consultation process?

6,6	46,7	46,7
-----	------	------

1.4.4. How do you rate the clarity of the draft papers for consultation?

6,6	46,7	46,7
-----	------	------

1.4.5. How do you rate the clarity of the feed back to your comments?

6,7	53,3	40
-----	------	----

1.4.6. How do you rate CEIOPS' coordination of its consultations with those of other institutions?

6,6	26,7	66,7
-----	------	------

1.4.7. Suggestions for improvement

Most respondents are satisfied with the way CEIOPS implemented its public consultation policy. However, they suggest an easier access to the preparation of draft papers for consultation and for giving input to the formal consultation process. To improve the clarity of the draft papers, respondents recommend shortening them, and making them more concise, or including executive summaries. Some wording should also be revised to avoid misunderstandings. Another industry criticism concerns the feedback to the comments received. For the sake of clarity, CEIOPS should explain its objections to some comments better, provide a summary of the key changes and also publish a "track changes" version of the document on the website.

An overwhelming majority stressed that reducing the consultation periods to 2

¹³ Legend:

No answers	Rating "poor"	Rating "average"	Rating "good"
------------	---------------	------------------	---------------

months will not improve the contribution from the industry as requested in the Lamfalussy process.

The majority of the respondents take a positive view on CEIOPS' coordination with the consultations organized by other institutions. They however suggest developing mechanisms not only for allowing consumer representatives and small pension funds to be more involved, but also for evaluating the impact of CEIOPS' policies on consumers. A stronger interaction between the IMD and the MiFID is also recommended.

1.5. 3L3 Cooperation¹⁴

1.5.1. How do you rate the extent of 3L3 cooperation?

5,9	11,7	41,2	41,2
-----	------	------	------

1.5.2. How do you rate the way (clarity) the 3L3 Work Programmes have been presented?

11,8	5,9	52,9	29,4
------	-----	------	------

1.5.3. In the context of the 3L3 Work Programmes, how do you rate the way (clarity) 3L3 has presented and explained its ongoing specific priorities?

5,9	11,8	52,9	29,4
-----	------	------	------

1.5.4. Suggestions for improvement

In general the respondents take a critical view of the 3L3 cooperation. They recommend more transparency in the exchange of information on cross-sectoral issues (in particular regarding rules on eligible capital and the supervision processes), to support the legitimacy of this cooperation. A specific concern is expressed with regard to a level playing field in the supply of guarantees.

2. ACTIVITIES

2.1. Contribution of CEIOPS to EU Legislation

2.1.1. How do you rate the quality of the advices and the recommendations given by CEIOPS?

53	47
----	----

2.1.2. In the context of the "Lamfalussy" process, how do you rate the potential value of a "Level 3" contribution?

5,9	41,2	52,9
-----	------	------

2.1.3. Suggestions for improvement

The Level 3 contribution to the Lamfalussy process is received very positively. The quality of CEIOPS' advices and recommendations is also appreciated, even though sometimes stakeholders' concerns are considered not well reflected. The respondents therefore stress the importance of stakeholders' contributions to the establishment of Level 3 measures (also with regard to competition rules). The publication of a newsletter could contribute to following the progress made in key initiatives.

¹⁴ Legend:

No answers	Rating "poor"	Rating "average"	Rating "good"
------------	---------------	------------------	---------------

2.2. CEIOPS work on convergent supervisory practices and cooperation (Level 3)¹⁵

2.2.1. How do you rate the quality of CEIOPS "Level 3" measures (e.g. Standards, Guidelines, Recommendations, Protocols)?

29,4	23,5	47,1
------	------	------

2.2.2. How do you rate the extent to which CEIOPS is contributing to the emergence of European good practices?

17,6	41,2	41,2
------	------	------

2.2.3. How do you rate the potential impact of CEIOPS "Level 3" measures on your area of activity?

26,7	20	53,3
------	----	------

2.2.4. Suggestions for improvement

Most of the respondents are satisfied with CEIOPS' work on convergent supervisory practices and cooperation and stress the importance of CEIOPS' political independence. Although the impact of Level 3 measures is still difficult to measure to date, they recognize the importance of Level 3 measures for achieving maximum harmonization among Member States. They also stress that the first steps in some important fields of the Solvency II project are realized through the emergence of European good practices.

3. GENERAL DESCRIPTIVE COMMENTS

As final remarks, the respondents acknowledge and appreciate the effort and hard work of CEIOPS so far - especially with regard to the Solvency II process. Although the pace has increased with time, the consultation mechanism has also been continuously improving. The stakeholders encourage CEIOPS to continue its open and constructive dialogue, however, with more consideration for consumer protection related issues and effective consumer impact studies.

¹⁵

No answers	Rating "poor"	Rating "average"	Rating "good"
------------	---------------	------------------	---------------



CEIOPS

Convergence Committee

Terms of Reference

Background

In fulfilling its mandate CEIOPS and all of its working groups seek to achieve convergence in supervisory practice. This outcome of this work is manifested in the advice that CEIOPS has sent to the European Commission in the context of the Solvency II project as well as other work in relation to Occupational Pensions, Insurance Mediation and the supervision of insurance groups.

CEIOPS, carrying out “Level 3” activities to further foster supervisory convergence in insurance and pension funds, (see CEIOPS Convergence Project, CEIOPS-SEC-12/06 Rev. 1) set up its Task Force on CONvergence and iMPact aSSessment (alias COMPASS) in February 2006. The aim of the Task Force was to support the creation of a European culture of supervision, by facilitating the exchange of staff between supervisory authorities and by analyzing how to organize EU-wide training schemes. Additionally, the European Commission asked CEIOPS to deliver input for its impact assessment of the Solvency II project on the supervisory authorities. CEIOPS’ Members mandated COMPASS to work on this issue as well.

After the first analysis carried out by COMPASS, CEIOPS intends to follow up this work and extend the scope and membership of the Task Force. It will include work on other tools that, in addition to the issuance of standards, guidelines and recommendations, are relevant to fostering convergence of day-to-day supervisory practices, such as peer reviews and mediation mechanisms.

With this in mind, COMPASS has been restructured and renamed “Convergence Committee”.

The Committee’s work should also be seen in conjunction with the analysis and recommendations being developed by the EU Economic and Financial Committee (EFC) and Financial Services Committee (FSC) on

financial supervision, with the purpose of identifying political guidance to enhance supervisory convergence in the financial sectors.

Close coordination should also be ensured with the work on convergence carried out by the other L3 Committees.

Terms of Reference

The tasks of the Committee are:

To foster the creation of a European Supervisory culture in insurance and pension funds;

to work on the setting up and development of tools aiming at ensuring an appropriate follow-up of CEIOPS' standards, guidelines and recommendations, building on the work of CEIOPS and its working groups.

Main issues under the Terms of Reference

the Convergence Committee will be responsible for any analysis and implementation necessary to develop and progress COMPASS' proposals for the exchange of staff and training activity in the insurance and pension sectors. The actual implementation of the proposed initiatives will be carried out in cooperation with the CEIOPS Secretariat. The Convergence Committee will work in close coordination with any initiative taken at cross-sector level by the 3L3 Committees;

the Convergence Committee will carry out the necessary analysis and preparatory work to present proposals on the establishment of any "peer monitoring" mechanisms, such as supervisory transparency peer review and mediation. With respect to the latter, the Committee will explore preconditions for the establishment of such a mediation mechanism, as described in the "Report on financial supervision" delivered by the Financial Services Committee (February 2006). A report on this issue will be presented to CEIOPS Members by June 2007.