

## **Report on the Functioning of Colleges and the Accomplishments of the 2011 Action Plan**

### **Executive Summary**

1. The overall strategic target of EIOPA's college work is to build the position of the EEA supervisory community towards the cross-border operating insurance groups for the benefit of both group and solo supervision. The focus is on combining and leveraging the knowledge and forces of the national supervisory authorities in the EEA to form a strong and equal supervisory counterpart towards the powers of the mostly centrally organized and managed undertakings. In this respect, EIOPA as a member of colleges promotes communication, cooperation, consistency, quality and efficiency in colleges.
2. *College activities in 2011 and conclusions*

By end 2011 89<sup>1</sup> insurance groups with cross-border undertakings were registered in the EEA. After its first year of operation EIOPA's observations as a member of the Colleges of Supervisors are as follows:

  - Colleges of supervisors with at least one physical meeting or telco were organized for 69 groups.
  - 14 national supervisory authorities acted as group supervisors.
  - 6 colleges were chaired by FINMA as group supervisor.
  - During the set-up phase in the first year after establishment, EIOPA attended college meetings and/or telcos for 55 groups.
3. The following key conclusions can be drawn from EIOPA's observations as a member of colleges:

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<sup>1</sup> An updated list of the all cross-border insurance groups can be found at EIOPA's website under the following link: <https://eiopa.europa.eu/activities/insurance/colleges-of-supervisors/index.html>

- Substantial efforts were made by supervisors in preparing, organizing and contributing to the college.
- The exchange of the results of the fifth Quantitative Impact Study (QIS5) and the second European insurance stress test in most of the colleges enhanced the quality of the discussions and improved the supervisors' common understanding of the undertakings' risk exposure and solvency position.
- Similarly, the discussion of financial conglomerate aspects, where relevant, helped to improve college members' awareness about the financial strength of the groups as a whole.
- Concerns or legal constraints in some Members States related to the exchange of confidential information hampered the scope and quality of discussions in colleges.
- Differences were observed between colleges regarding:
  - Scope, content and the frequency of information exchange in colleges; and
  - Preparation and focus of presentations by, and discussions with, firms' representatives.

These are areas for improvement regarding the implementation of consistent, coherent and effective EEA-wide supervision of cross-border groups.

- The emergency infrastructure test was successfully completed by most of the colleges.
- Despite the still outstanding decisions at European level regarding the implementation of Solvency II and the lack of a final legal text, the colleges are making great efforts to prepare for the implementation of the new regulation, in particular the pre-application process for the approval of internal model use.

#### 4. *Priorities and tasks for Colleges in 2012*

The Action Plan 2012 for colleges has been established taking into account the experiences and conclusions from the college work in 2011. The main targets for 2012 are in particular:

- Drive the internal model pre-application process and preparation for the implementation of Solvency II.
- Enhance effective and regular information exchange in colleges, in particular comprehensive discussions in colleges of risks, the resilience of the undertakings to adverse developments and precautionary supervisory measures.

5. This report contains the following:

**A. Summary of accomplishments of the EIOPA 2011 Action Plan for colleges and main conclusions;**

- (i) Summary of accomplishments of the EIOPA 2011 Action Plan
- (ii) Main conclusions from EIOPA's participation in colleges

**B. EIOPA Action Plan for colleges 2012.**

**A. Summary of accomplishments of the EIOPA 2011 Action Plan for colleges and main conclusions**

**(i) Summary of accomplishments of the EIOPA 2011 Action Plan**

6. Target 1: Discussion of QIS5 results

Out of a total of 89 colleges registered at the end of 2011:

- 58 Colleges exchanged/discussed the results based on the QIS5 group summary report provided by CEIOPS in 2010. The main reasons for not complying with this target were concerns or legal constraints in exchanging confidential information in some Member States. A few colleges for smaller groups did not participate in QIS5 because cross border activities were of less importance.
- In the colleges where QIS5 results were discussed, the information provided good indication of the prospective solvency position of the specific group under Solvency II in comparison with the current Solvency I regulation.

7. Target 2: Agreement on a joint timetable for the pre-application process for the approval of group internal model (GIM) use

In July 2011 EIOPA's Board of Supervisors extended the deadline for this target until the end of January 2012 and mandated EIOPA to follow up and increase the response rate of the survey (the response rate on the Q2 survey was 75%). This initiative was successful.

All 89 group supervisors responded to the questionnaire sent on 15 December 2011 for completion by the end of January 2012 with the following results:

- 37 groups will most likely not apply for a GIM usage, including 6 large groups with a gross premium income exceeding 10 billion EUR. The main reasons for non-application are limited human and/or financial resources, as well as high development and implementation cost. Further arguments are a less complex and risky business model underpinned by a conservative investment strategy for which the standard formula is considered an appropriate method to evaluate the risk exposure.
- 43 groups intend to apply for a GIM of which 5 have not yet made the final decision at this stage.

- Only 7 plan to use a full internal model (FIM), while the majority will apply for partial internal model (PIM) use at the first step.
- The main reasons for PIM use are proportionality aspects with regard to the size and complexity of the business model and risk exposure of the undertakings. The amount of time and efforts required to integrate non-material risk categories and small undertakings into the internal modelling framework is considered to be disproportionate in relation to modest benefits from a more accurate risk assessment.
- The following risk categories are usually part of the internal modelling within the scope of the PIM: non-life underwriting, natural catastrophes, health, investment risks, in particular market and property risks.
- Operational risks are often excluded from internal modelling mainly because of the lack of an appropriate data base and modelling techniques. They are, however, in most cases controlled qualitatively through a strong risk governance framework.
- Of the 38 groups having decided to apply for GIM use. 35 intend to apply under Article 231 whereas there are only 2 groups which plan to apply under Article 230. 1 group has not yet made a final decision.
- 17 colleges have so far agreed on a joint timetable for carrying out the pre-application process for GIM use. There are several reasons for not having concluded a joint time table yet, e.g. the internal model use for group and solo solvency purposes is limited to the home country of the group supervisor or the internal model use at solo level in non-domestic countries is less complex. In other cases delays are resulting from group internal revisions of the time schedules for the pre-application process or from group restructuring programs influencing the number and nature of solo undertakings to be included in the pre-application process for internal model use.
- 13 colleges have agreed on delegation of tasks for the pre-application process.
- 16 colleges have agreed on carrying out joint on-site inspections for the pre-application process.

#### 8. Target 3: Completion of the emergency infrastructure test

The crisis simulation was performed on the basis of the emergency plan set up in 2010 with the aim to test if all members of the College can be reached in a reasonable timeframe. The test was performed for all colleges. In general, the results of the test were positive.

Of about 90 group supervisors called by the EIOPA college team:

- About 62% were reached in a time period of below 15 minutes.
- Roughly 8% were reached between 15-30 minutes.

- About 27% were reached in a period of more than 30 minutes, however most still on the day itself.
- 3% were not reached.

Of the college members called by group supervisors:

- Primary contacts were reached in about 80% of cases, of these roughly 45% in less than 15 minutes.
- Secondary contacts were reached in about 60% of cases, of these about 50% in less than 15 minutes.
- Problems identified were usually as follows: no active number, no voicemail diversion or no alternate details.

9. Lessons learnt from the emergency infrastructure test were as follows:

- The regular update of the Emergency Contact/Helsinki list is important (more than once a year).
- Group supervisors/college members must have an alternate and/or mobile work phone.
- Clarity on the procedures how the test will be run has to be improved and in-between changes have to be avoided.

10. Target 4: Start discussions about the set-up of a coordination arrangement in the colleges in line with Article 248.4 of the Solvency II Directive

In December 2011 EIOPA submitted a first draft Coordination Arrangement to all colleges. This is a first step to help the colleges to fulfil the first action point of the Action Plan 2012 scheduled for January 2012. The draft will be updated by EIOPA. During 2012 EIOPA will monitor the progresses made by colleges to achieve this target.

## **(ii) Main conclusions from EIOPA's participation in colleges**

11. The EIOPA staff's engagement in colleges focused primarily on:

- Explaining EIOPA's role in colleges.
- Gaining experience from participating in college meetings for the first year.
- Monitoring the collaboration of college members regarding the appropriate information exchange and the discussion of relevant topics in the college.
- Providing input to the agenda and stimulating the information exchange within colleges on stress test results and the dialogue about risk exposure, financial strength and resilience to adverse economic and financial market developments.
- Providing regular updates on the working assumptions in light of the still pending decisions on the Solvency II timelines.
- Acting as link between colleges and Solvency II working groups and providing practical input to the Solvency II policy work.

12. Overall significant differences in the level of information exchange have been observed. Areas for improvements are in particular continuous and effective information exchange, as well the discussion and assessment of risks by taking a more prospective view.
13. The more effective college meetings clearly benefitted from an earlier circulation of agendas and documents, and involving all college members in the preparation at an early stage, including the elaboration of specific topics to be addressed. These points are helpful in generating more collaboration.
14. Some colleges arranged specific telcos on actual developments since August 2011, the month in which the financial crisis reached another peak. There is, however, still room for improvement with respect to effective and pro-active communication in case of adverse developments and financial market turmoil.
15. Still high focus on solo supervision: This tendency has been observed for both group and solo supervisory authorities. Combining know-how and forces would be of the benefit of both group and solo supervision.
16. There are also differences in the interaction with the insurers' management. The access to firms' management provides a useful opportunity for supervisors to assess and challenge the understanding of the insurer's risks. A good preparation of the group presentation and the involvement of the college members could be helpful.

## **B. EIOPA Action Plan for Colleges in 2012**

17. As there are colleges which are not fully fledged yet - not having constituted until now or fulfilled the College Work Plan 2011 - a specific action point is addressed to those, i.e. set the basics of the college by – among others - agree on the scope of group supervision, agree on a work plan for 2012, set up and approve an emergency plan.
18. The Action Plan 2012 for all colleges includes three items.
  - The *first* action point relates to internal models. As it has been mentioned, EIOPA acknowledges the importance and priority of the tasks related to the (pre-) application process for internal model approval.
  - The *second* action point is about mapping and planning the process of the preparedness of the colleges for Solvency II. The action point is to prepare a work plan when to take actions and decisions. The outcome of this process is expected to lead to delegation and sharing of tasks in the college to support the Group Supervisors.
  - The *third* action point relates to information exchange between the members of the college. A yearly exercise, i.e. exchange of data and information only at the instance of the college meeting, does not draw sufficient attention to the risks for the business and financial profile of the group and its solo entities. Colleges are expected to make a first step towards a better, structured and regular information exchange throughout the year. This will support both the quality of the group and solo supervision. It will also contribute to an effective preparation for Solvency II.

19. Finally, a specific task for group supervisors is to prepare a gap analysis by comparing the organisation and activity of the college with the guidelines on the Functioning of Colleges currently in development within EIOPA. EIOPA will support this process by providing guidance.
20. EIOPA's task will be to promote consistency, coherence and effectiveness of information exchange in colleges. Focal points will be to drive the implementation of an appropriate risk assessment approach and the evaluation of potential contagion risks which could spill over from the sovereign and banking sector. In this context EIOPA will also promote the discussion of potential risk mitigating actions from a supervisory perspective. Furthermore, EIOPA will continue to support the preparation of the colleges for the implementation of SII.