

Annual Report 2004
and Work Programme 2005



CEIOPS

Committee of European
Insurance and Occupational
Pensions Supervisors

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On behalf of CEIOPS I am pleased to present the Committee's first Annual Report. It provides a thorough overview of the work performed by the Committee since the date of the EU Commission Decision establishing CEIOPS on 5 November 2003 to the end of 2004. The institutional framework within which CEIOPS works is explained. The report includes a chapter on each Working Group established within CEIOPS and outlines the key points and progress made in each area. The report also sets out the work programme of CEIOPS for 2005, outlines our main priorities, and indicates the timeframe for the various projects identified.

Following the above mentioned EU Commission Decision, in 2004 CEIOPS was officially founded as the Level 3 Committee on insurance and occupational pensions following the extension of the Lamfalussy approach to these financial sectors. CEIOPS was established through the transformation of the former Conference of the European Insurance Supervisory Authorities, which had acted for a long time as a forum for cooperation and exchange of information between insurance supervisors. The Members of CEIOPS are the relevant supervisory authorities of the 25 EU Member States. The supervisors of the three EEA countries as well as the European Commission participate as observers. The Secretariat of CEIOPS was by decision of the ECOFIN located in Frankfurt am Main. It is currently composed of a Secretary General and five staff members. CEIOPS is grateful to the local authorities in Frankfurt for facilitating the setting up of the Secretariat.

The CEIOPS Consultative Panel was formed in 2004 as an important part of CEIOPS' transparency policy and consultation practice. It consists of 17 high level experts and acts as a sounding board to CEIOPS on policy issues. Until now the Panel has met twice.

The core issue of CEIOPS' work in the past year was Solvency II - i.e. the new solvency rules for insurance companies, which will continue to be CEIOPS' main project during the years to come. CEIOPS contributes to the European Commission's efforts to review the solvency rules by 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. The Commission intends to propose a draft Framework Directive in October 2006. At a later stage CEIOPS will develop recommendations, guidelines and standards to promote convergence of supervisory practices in the field of insurance and occupational pensions supervision.

Another important task in 2004 was the establishment of a working group on financial stability which will report about market developments on a regular basis. The group will also conduct Quantitative Impact Studies regarding the new solvency rules.

The third important issue in 2004 was the implementation of the occupational pensions (IORP) Directive into Member States' legislation and the drafting of a protocol for the cooperation between the members of CEIOPS on the cross border day-to-day supervision of occupational pension funds. CEIOPS will take a decision on the protocol in 2005 after public consultation. For the supervision of insurance companies and insurance groups two protocols for cooperation had already been agreed by the members of the former Conference in the past.

In 2005, as in the future years, the main task of CEIOPS will be the elaboration of the new solvency regime. The subject of insurance intermediaries will also require attention. A protocol for the cooperation of the supervisory authorities in the field of the implementation of the Insurance Mediation Directive is expected to be finalised in 2005.

The last year represented for CEIOPS a starting up period in which its structure and procedures had to be developed and refined. Although some initiatives are still underway in order to enhance the Committee's capability to react appropriately to the challenging demands made upon it, I'm confident that, with the increasing commitment of the Members and on the basis of a reinforced Secretariat, CEIOPS will be able to fulfil its tasks and live up to the high expectations which accompanied its creation.

We look forward to reporting the progress made in 2005.

Frankfurt, April 2005

Henrik Bjerre-Nielsen



INTRODUCTION TO CEIOPS

The **Committee of European Insurance and Occupational Pensions Supervisors (CEIOPS)** was established pursuant to the European Commission Decision 2004/6/EC of 5 November 2003.

The practical creation of CEIOPS was achieved through the transformation of the former Conference of the European Insurance Supervisory Authorities, which had acted for a long time as a forum for cooperation and exchange of information between insurance supervisors.

CEIOPS was established as a 'Level 3 Committee' following the extension of the so called 'Lamfalussy approach' to the field of insurance, reinsurance and occupational pensions.⁰¹

This approach, originally applied only to the regulation of the securities markets, was extended to the rule-making, implementation and enforcement process of the European insurance and pension sectors as well as of the banking sector. It is aimed at addressing the shortcomings identified in the previous system, which was seen as being too slow and too rigid in the definition of the rules, to allow too much diversity in the national implementation of the rules, and to be a source of too much ambiguity in their enforcement. The extension of this approach to the whole regulation of financial services is widely considered an essential tool for the creation of a sound EU Single Market.

The model is based on a four level structure, which defines separate steps in the process and introduces a

clear division of responsibilities between the actors involved in each step.

In summary, **Level 1** consists of the definition of framework principles and implementing powers through the adoption of a directive under the co-decision procedure. Accordingly, the Commission, the Council and the Parliament are the actors at this stage. The innovation is that the directive leaves the detailed implementing measures to be developed at **Level 2**. At this level, the Commission adopts implementing measures using a 'comitology' procedure. Following this procedure, it requires the advice of the committee of supervisors, the so called 'Level 3 Committee', before presenting proposals to the committee representing the competent ministries of the Member States, the so called 'Level 2 Committee'.⁰²

At **Level 3**, once the rules are defined, the 'Level 3 Committee' works at enhancing their consistent implementation, improving convergence of supervisory practices and facilitating cooperation between supervisors. Finally, at **Level 4**, the Commission verifies Members States' compliance with EU legislation.

As the 'Level 3 Committee' for the insurance and occupational pension sectors, CEIOPS' main tasks, in line with this role, can be classified into two main areas: the formation of the rules (Level 2) and their implementation (Level 3).

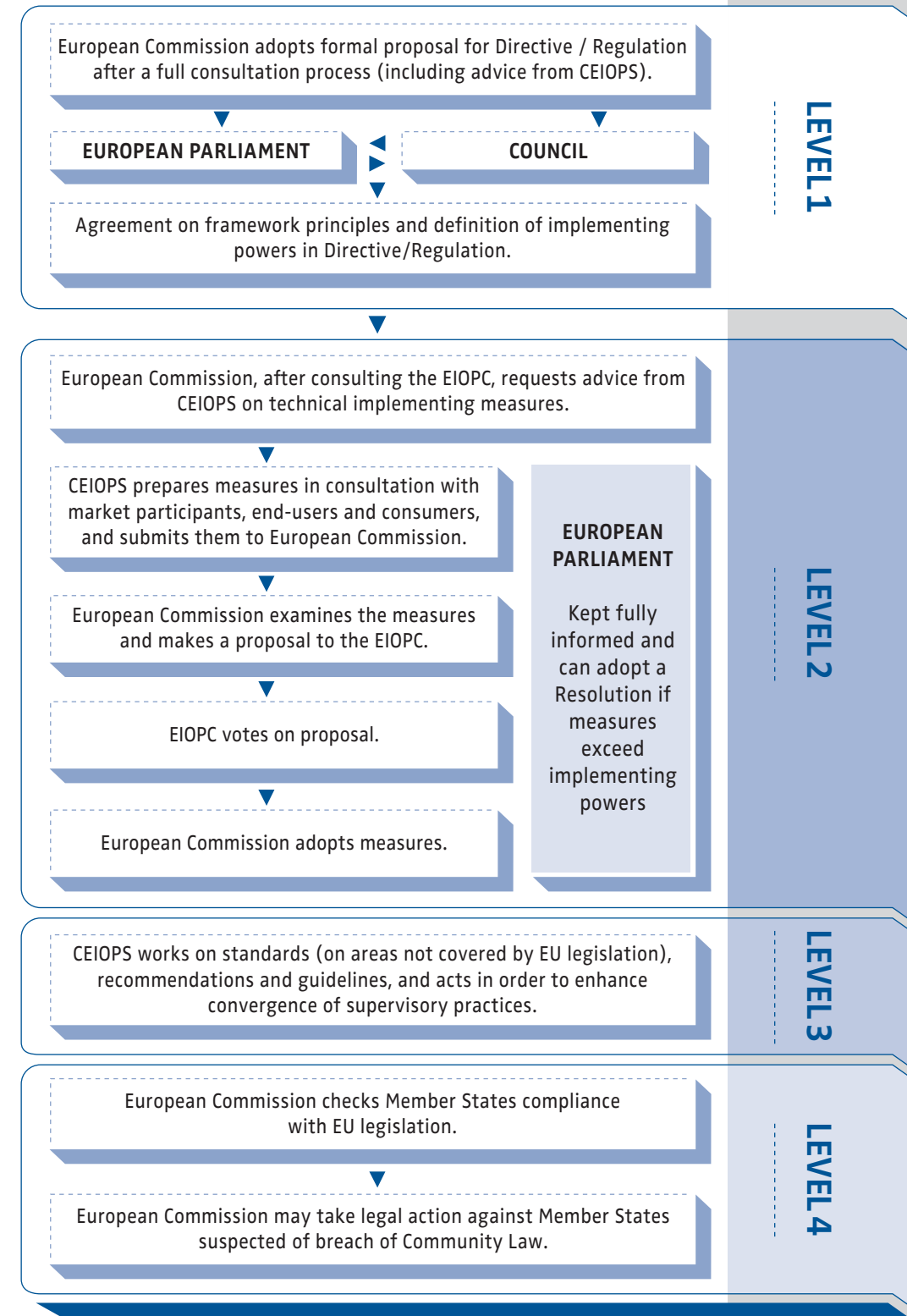
In the first area, CEIOPS advises the Commission, either at the Commission's request or on its own initiative, on the preparation of implementing

measures. In the second area it may issue guidelines, recommendations and standards aimed at promoting the consistent implementation of EU legislation, regulating aspects not covered by EU directives and improving effective and convergent day-to-day supervision.

In this context, CEIOPS may also review and compare supervisory practices within the European Single Market, even though CEIOPS Members are expected to adopt the guidelines, recommendations and standards on a voluntary basis. In addition, as was the case for the former Conference, CEIOPS promotes practical cooperation and exchange of information between authorities, both on questions of general interest and on specific undertakings or groups of undertakings.

CEIOPS is composed of high level representatives of the insurance and occupational pensions supervisory authorities of EU Member States and includes also the authorities of the Member States of the European Economic Area (Norway, Iceland and Liechtenstein), which participate as observers.⁰³

Representatives of the European Commission are entitled to participate actively as observers in all debates and working processes of CEIOPS (CEIOPS Members' Meetings and CEIOPS Working Groups meetings), unless the discussions involve confidential information concerning the supervision of individual entities.



LAMFALUSSY-MODEL FROM THE PERSPECTIVE OF CEIOPS

⁰¹ This regulatory approach was proposed by a 'Committee of Wise Men', chaired by Baron Alexandre Lamfalussy, for the regulation of European Securities Markets. The Report of the Committee was endorsed by the European Council in March 2001. The relevant directive has been published only recently, see footnote 2.

⁰² The 'Level 2 Committee' in the field of insurance and occupational pensions is the European Insurance and Occupational Pensions Committee - EIOPC (former Insurance Committee), which has been recently established by Directive 2005/1/EC of the European Parliament and of the Council of 9 March 2005 amending Council Directives 73/239/EEC, 85/611/EEC, 91/675/EEC, 92/49/EEC and 93/6/EEC and Directives 94/19/EC, 98/78/EC, 2000/12/EC, 2001/34/EC, 2002/83/EC and 2002/87/EC in order to establish a new organisational structure for financial services committees, OJ No. L 79 of 24 March 2005

⁰³ See Annex 1: List of CEIOPS Members and Observers



INSTITUTIONAL BODIES

At its meeting of 4 February 2004 CEIOPS endorsed the decision taken by the ECOFIN on 20 January 2004 to locate CEIOPS in Frankfurt am Main in Germany. The Committee was formally established on 28 May 2004 as 'CEIOPS e.V.' ('eingetragener Verein'), a private non-profit organisation under German law. At this point, the former Bureau which had directed the business of the 'Interim CEIOPS', and had prepared the Committee's legal establishment, was transformed into the current Managing Board. Pending the creation of a permanent structure, the members of the Managing Board had put a staff member at the disposal of the Committee to support its activity by operating as a virtual secretariat. On 1 July 2004 the CEIOPS Secretariat, as the permanent structure of the Committee, took up its activities in Frankfurt am Main.

At the foundation assembly of CEIOPS the Articles of Association of CEIOPS e.V. were adopted. The Articles of Association lay down the purpose of the Association and define the rules regarding membership, structure, decision making and other procedures.⁰⁴

The main body of CEIOPS is the **Members' Meeting**, which includes all CEIOPS Members and Observers. The Members' Meeting is responsible for all tasks regarding CEIOPS, insofar as they are not defined by law or the Articles of Association to be within the competence of the Managing Board. It takes the main resolutions of the Committee, regarding both its organisational aspects, such as the approval of the budget, and its institutional tasks, such as the resolutions on the advice to the European Commission. The Members meet at least three times a year, but more frequent meetings can be called to make progress on the Work Programme if required.

ORDINARY MEMBERS' MEETINGS

2004	4 February 2004	Paris
	29 June 2004	Brussels
	21 October 2004	Ljubljana
2005	24 February 2005	Frankfurt
	28 June 2005	London
	27 October 2005	Frankfurt

On the basis of the existing Articles of Association, the Members' Meeting agrees its resolutions by unanimous vote of all Members, unless a resolution pertains to providing advice to the European Commission. Since this is a task that often requires adherence to rigid time limits, resolutions may be adopted by qualified majority, defined by reference to the relevant rules of the 'Nice Treaty'.

A revision of the voting rules is currently underway with the objective of expanding the scope for decisions to be taken by qualified majority. This revision, while maintaining the necessary wide representativeness of the decision, is specifically aimed at streamlining the internal procedures of the Committee and the effectiveness of its actions.

In particular, the Members' Meeting is responsible for:

- A :** Electing and dismissing the Managing Board;
- B :** Approving the budget, prepared by the Managing Board, for the following accounting year;
- C :** Receiving the Annual Report and annual accounts of the Managing Board, and granting discharge of the Managing Board;
- D :** Determining the amount and due date of the membership fees;
- E :** Amending the Articles of Association;
- F :** Liquidating CEIOPS;
- G :** Creating and compiling working parties;
- H :** Taking a resolution on the Annual Report for the European Commission;
- I :** Electing the Secretary General and the Vice Secretary General;
- J :** Taking a resolution on the annually published Work Programme.



Presently, members of the Managing Board are Henrik Bjerre-Nielsen, Thomas Steffen, Florence Lustman, Michel Flamée and John Tiner.



Henrik Bjerre-Nielsen

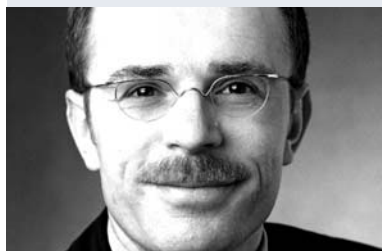
CEIOPS Chairman, Finanstilsynet, Denmark

The **Managing Board** is the body in charge of pursuing CEIOPS' business by implementing the resolutions taken by the Members' Meetings and fulfilling the administrative tasks of the Committee. It consists of the Chair, the Vice Chair and three further members, all of which are elected from among CEIOPS Members for a period of two years. Meetings of the Managing Board in 2004 took place regularly and always preceded the Members' Meetings.

In order to facilitate the integration of the new Member States, it has been decided to invite two observers from these countries to participate in the meetings of the Managing Board until the end of 2005, when the Managing Board will be renewed.

The Articles of Association assign the following duties to the Managing Board:

- A : Implementing the resolutions taken by the Members' Meeting;
- B : Calling and preparing the Members' Meeting;
- C : Conducting the Members' Meeting (Chair or Vice Chair);
- D : Preparing the budget for each accounting year and delivering the Annual Report;
- E : Closing and terminating employment agreements;
- F : Reporting to the European Parliament and
- G : Public relations work.



Thomas Steffen

CEIOPS Vice-Chairman, Bundesanstalt für Finanzdienstleistungsaufsicht, Germany



Florence Lustman

Commission de Contrôle des Assurances, des Mutuelles et des Institutions de Prévoyance, France



Michel Flamée

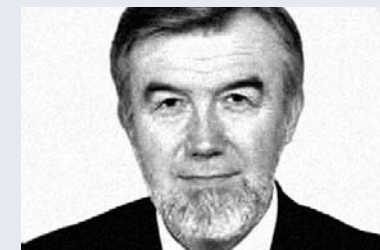
Banking, Finance and Insurance Commission, Belgium



John Tiner

Financial Services Authority, United Kingdom

The observers from the new Member States in the Managing Board are Jurij Gorisek and Marijus Mikalauskas.



Jurij Gorisek

Insurance Supervision Agency, Slovenia



Marijus Mikalauskas

Insurance Supervisory Commission, Lithuania

The permanent structure of the Committee is represented by its **Secretariat**, which assists the Managing Board and the Committee in carrying out its tasks. The Secretariat acts also as coordinator in the dialogue with market participants and maintains relations with the European Commission and other third parties.

During the last six months of 2004 the Staff and the infrastructure of the Secretariat have been progressively developed. However, some steps are still underway and some others are planned in order to increase its size and to enhance its tools and procedures. The Secretariat consists currently of five staff members. Considering the essential role of the Secretariat in allowing the Committee to fulfil its challenging tasks and in developing its role, in 2005 the programme of reinforcement of the structure will continue.

The Team

The Secretariat Staff is currently composed of the Secretary General, Alberto Corinti (Italy) and four Staff Members: Gerlinde Taurer (Austria), who joined the Secretariat in September 2004, Ines Alpert (Germany) and Nadine Berger (Germany), who started to work for CEIOPS in February 2005, and Catherine Coucke (Belgium), who joined the Secretariat in April 2005.

During 2004 Elke Schmidt and Ricarda Maier from the German Supervisory Authority contributed temporarily, but with great enthusiasm and professionalism, to setting up the structure of CEIOPS.

The Secretariat could also rely on the support of a number of experts from supervisory authorities for carrying out specific projects.

CEIOPS' OPERATIONAL ORGANISATION

To fulfil its tasks, CEIOPS establishes Permanent Committees, working on areas identified by terms of reference, and Expert Groups, which are in charge of carrying out tasks under a specific mandate and are intended to be disbanded once the tasks are accomplished.

The organisation of the Permanent Committees and Expert Groups depends on the Work Programme of CEIOPS (see chapter 4.0.0 for a description of the activity of the individual Groups and Committees).

As a 'Level 2' task, i.e. contributing to the creation of EU regulations, CEIOPS is deeply engaged in the development of the Solvency II Project, a wide project aimed at fundamentally reviewing the solvency regime applicable to insurance undertakings. CEIOPS has to provide the European Commission with a series of reports containing advice covering all the aspects of prudential supervision⁹⁵:

- ▶ Financial requirements (Pillar I);
- ▶ Aspects pertaining to an undertaking's management and to the supervisory review process (Pillar II) and
- ▶ Supervisory reporting and disclosure requirements for enhancing market discipline (Pillar III).

This should be done paying due attention to cross sectoral implications and group issues. CEIOPS has established five Expert Groups for dealing with these aspects under a precise mandate and in the framework of a coordination arrangement. In addition, the group dealing with

disclosure also follows accounting issues affecting insurance, analysing, in particular, the developments of International Financial Reporting Standards and their implications for supervision.

A number of other tasks, however, are presently carried out by CEIOPS, generally referable to as 'Level 3' activities, i.e. aimed at consistent implementation of EU regulation and convergent supervisory practices:

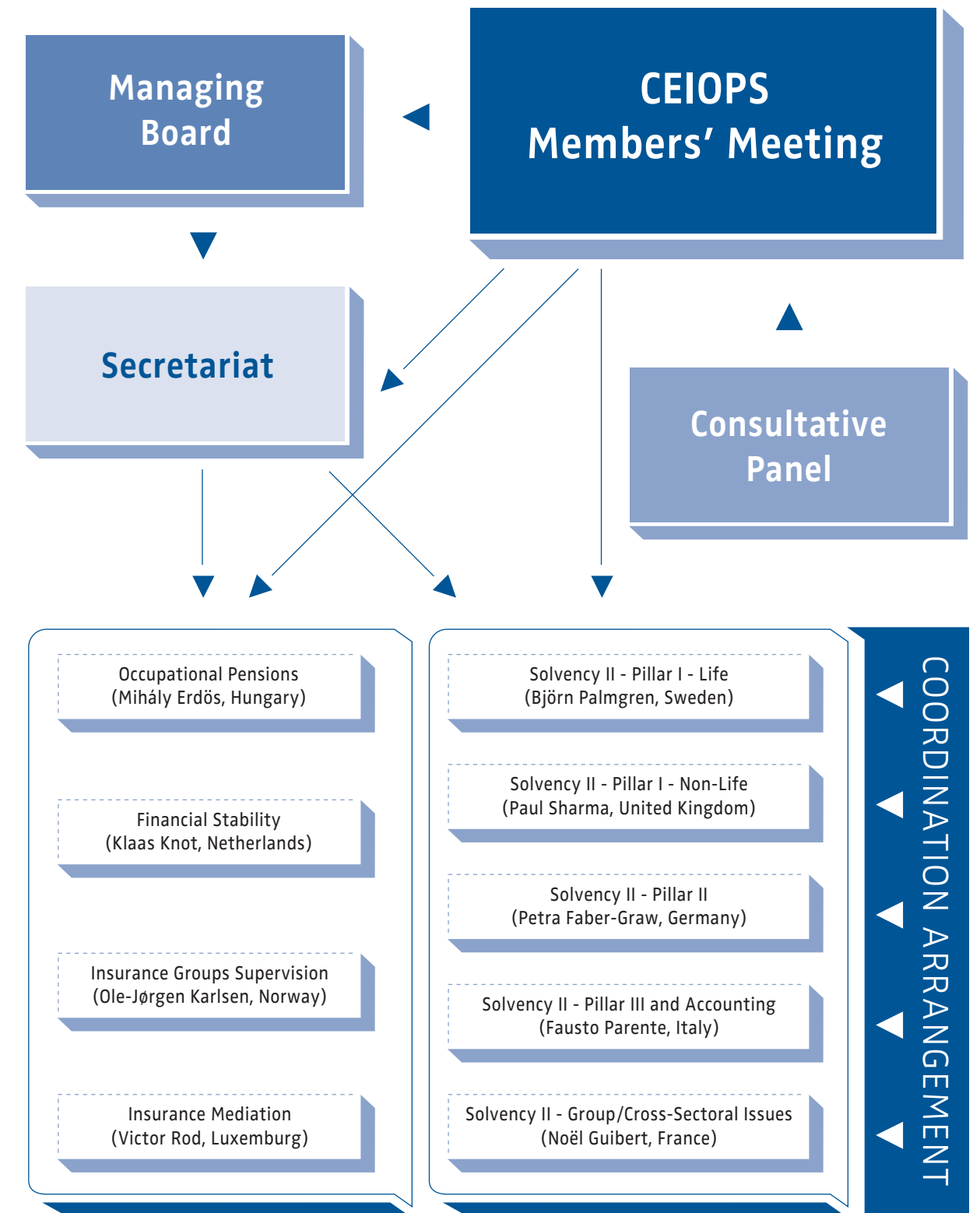
In the field of **occupational pensions**, a Permanent Committee is working on facilitating consistent understanding and implementation of the recent directive on the supervision of institutions for occupational retirement provision⁹⁶ (IORP-Directive), and on creating the cooperation framework needed for its effective enforcement. In the light of the economic importance of occupational pension funds, and their potential influence on financial stability, occupational pensions supervision will require increased attention by supervisors and may call for further developments in the applicable solvency regimes and in supervisory practices. Continuing the activity already in place within the former Conference of the European Insurance Supervisory Authorities, another Permanent Committee of CEIOPS deals with the issues raised by the application of **supplementary supervision of insurance groups** under the Insurance Groups Directive (IGD).⁹⁷ In particular, the Committee works on applying the coordination arrangements defined by the protocol concluded for the supervision of cross-border groups.⁹⁸ This area of work could be subject to further important developments considering the need to apply similar

supervisory arrangements and address similar issues in the field of financial conglomerates. Insurance and occupational pensions supervisors are already committed to dealing with supervisory cross-sectoral issues in cooperation with the other financial sectors' supervisors, relying in particular on the close connections established via the so called '3L3', which is the meeting of the Chairs and Secretaries General of the three 'Level 3 Committees'.⁹⁹

CEIOPS is also engaged in reviewing the macroeconomic situation of the insurance and occupational pensions markets. A Permanent Committee has been charged with establishing a **macro-prudential surveillance programme** for monitoring the interplay between the insurance and pension markets and financial stability. The Committee also deals with regular reporting of the macro-economic situation of the insurance and occupational pensions sectors as well as the reinsurance sector, and carries out analysis of particular market developments, keeping in close contact with the working groups in the other financial sectors dealing with financial stability.

A more recent initiative regards the area of **insurance mediation**. An Expert Group was created in the second half of 2004 to analyse issues related to the practical implementation of the Insurance Mediation Directive (IMD).¹⁰⁰

The following chart describes the organisation of CEIOPS, as foreseen by the Articles of Association and as derived from the current Work Programme:



⁹⁵ The areas to be regulated are represented under three 'pillars', inspired by, but not necessarily identical to the 'three Pillars approach' used in the Basel II Project for the banking sector.

⁹⁶ Directive 2003/41/EC of the European Parliament and of the Council of 3 June 2003 on the activities and supervision of institutions for occupational retirement provision, OJ No. L 235 of 23 Sept. 2003

⁹⁷ Directive 98/78/EC of the European Parliament and of the Council of 27 October 1998 on the supplementary supervision of insurance undertakings in an insurance group, OJ No. L 330 of 5 Dec. 1998

⁹⁸ Protocol relating to the Collaboration of the Supervisory Authorities of the Member States of the European Union with regard to the Application of the Directive 98/78/EC on the Supplementary Supervision of Insurance Undertakings in an Insurance Group (11 May 2000), so called "Helsinki Protocol".

⁹⁹ CEIOPS for insurance and occupational pensions, CEBS for banking institutions and CESR for securities. These Committees were established by Commission Decisions No. 2004/5/EC, 2004/6/EC and 2004/7/EC, OJ No. L 3 of 7. Jan. 2004

¹⁰⁰ Directive 2002/92/EC of the European Parliament and of the Council of 9 December 2002 on insurance mediation, OJ No. L 9 of 15 Jan. 2003



CEIOPS' ACCOUNTABILITY

The achievement of the EU policy goals in the field of financial services, for the benefit and protection of the policyholders and beneficiaries of insurance contracts or members and beneficiaries of pension funds will significantly depend on how CEIOPS accomplishes its tasks. Since CEIOPS is an independent Committee, this calls for clear accountability to policy makers and to other stakeholders.

CEIOPS' accountability is ensured through a number of ways. CEIOPS presents an Annual Report to the European Commission, which is submitted to the European Parliament and the Council.

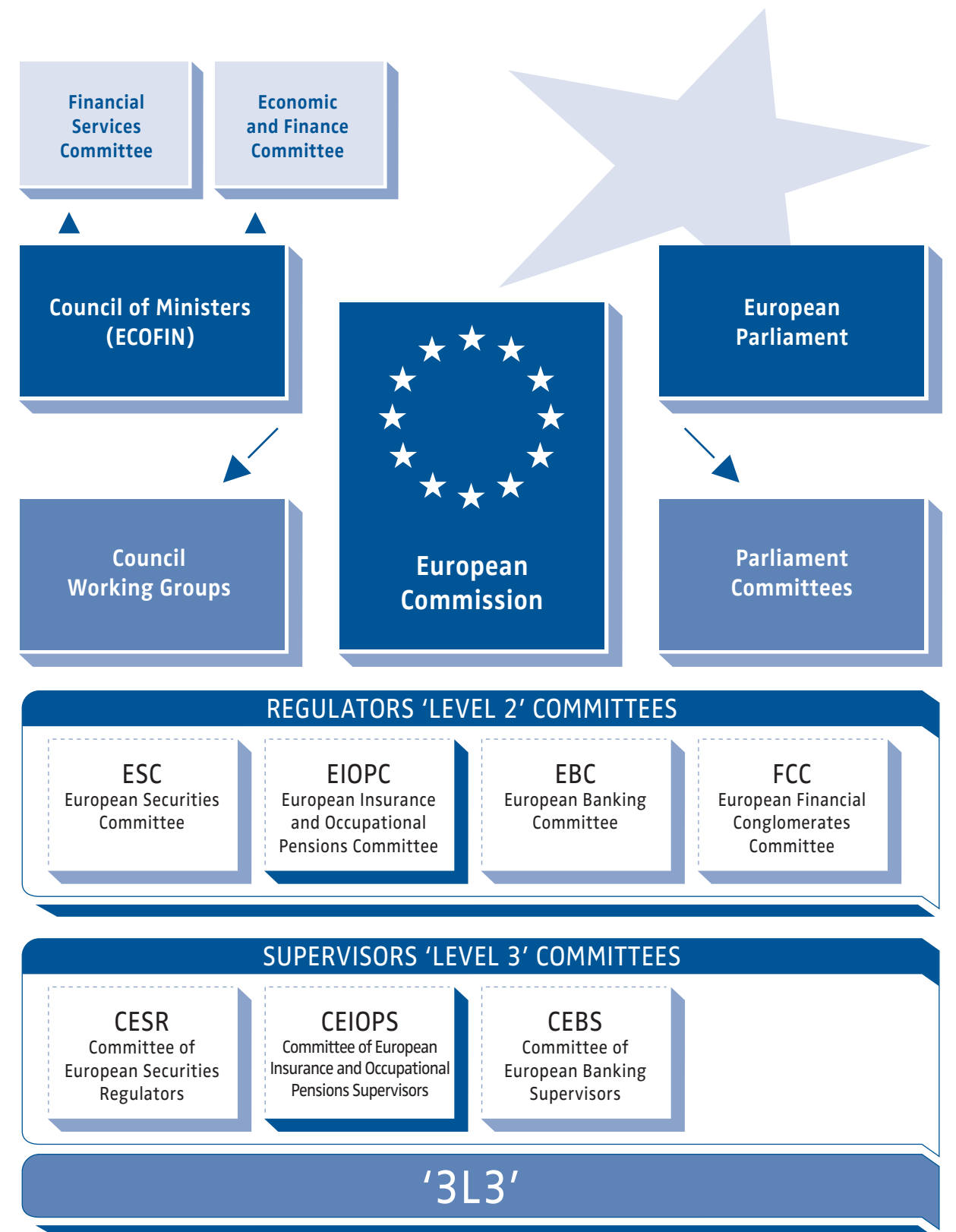
In addition, CEIOPS participates in EU Council Committees dealing with financial services, such as the Economic and Financial Committee (EFC - Financial Stability Table) and the Financial Services Committee (FSC), and will regularly report to these committees on the progress made in the field of convergence of supervisory practice.

CEIOPS is an observer in EIOPC (European Insurance and Occupational Pensions Committee, the former Insurance Committee), the relevant 'Level 2 Committee' under the 'Lamfalussy' process, and reports regularly to it and the European Commission on the development of its work on the Solvency II Project.

CEIOPS is also going to report regularly to the EU Parliament, via both formal and informal relationships with the Economic and Monetary Affairs Committee of the EU Parliament, so enhancing its accountability.

Besides, CEIOPS is asked to cooperate with the other 'Level 3 Committees' in order to adopt convergent approaches on aspects of common interest. Effective cooperation between financial services supervisors, both in terms of policy and day-to-day practice, has become essential in the light of the blurring of financial sectors' borderlines and of the growing importance of multinational groups. With this in view, the three 'Level 3 Committees' ('3L3') have established a framework for cooperation and regular exchange of information. Within this framework, each sectoral committee is expected to pursue actual cooperation in an accountable way.

CEIOPS is fully aware that being open and accountable entails not only being ready to report and explain its positions, but also being ready to seek inputs and inspiration from market participants and any interested external parties. In this respect, stakeholders need to be informed of developments in order to enable them to provide relevant contributions.





TRANSPARENCY POLICY AND CONSULTATIVE PANEL

As stated in the founding text of the Association, CEIOPS shall act in a spirit of openness and transparency. In particular, it shall publish regularly an annual Work Programme, consult extensively with market participants, consumers and end users and disclose the way in which it has taken into consideration the comments and suggestions received. CEIOPS shall follow appropriate practices for consultation and disclosure. With this in mind, CEIOPS' Public Statement of Consultation Practices has been adopted in February 2005.¹¹

Consultation and transparency are essential elements of CEIOPS' functioning and of the whole 'Lamfalussy' procedure. Indeed, the creation of a robust regulatory framework for supervision and the adoption of effective supervisory practices rely both on a clear and complete knowledge of market situations and needs, and on a wide sharing of the regulatory and supervisory policy.

CEIOPS shall, at an early stage, consult interested parties in preparing advice to the European Commission, but also in drafting its own recommendations, guidelines and standards. In general, it shall adopt an extensive degree of disclosure in fulfilling its duties, using

appropriate communication means, albeit within the limits of secrecy and confidentiality constraints established by EU legislation, which are inherent in supervisory activity.

In practical terms, CEIOPS is committed to consult (both ex-ante and ex-post) market participants, consumers and end users through three different means:

- A: On a continuous basis at Working Group level through informal discussions at an early stage with those most likely to be directly affected. In this phase, which is actually the most difficult to realise in an appropriate way, the operational organisation of CEIOPS aims to inform interested parties about the work underway and find practical ways for facilitating external inputs while a draft document or statement is under preparation;
- B: On the basis of wide, formal consultations also via its Website, once a draft document or statement has been finalised;
- C: By using inputs from the Consultative Panel, whose tasks are

mainly to oversee the policy and Work Programme of CEIOPS, i.e. when a document or statement is planned, and the practice of CEIOPS' consultations.

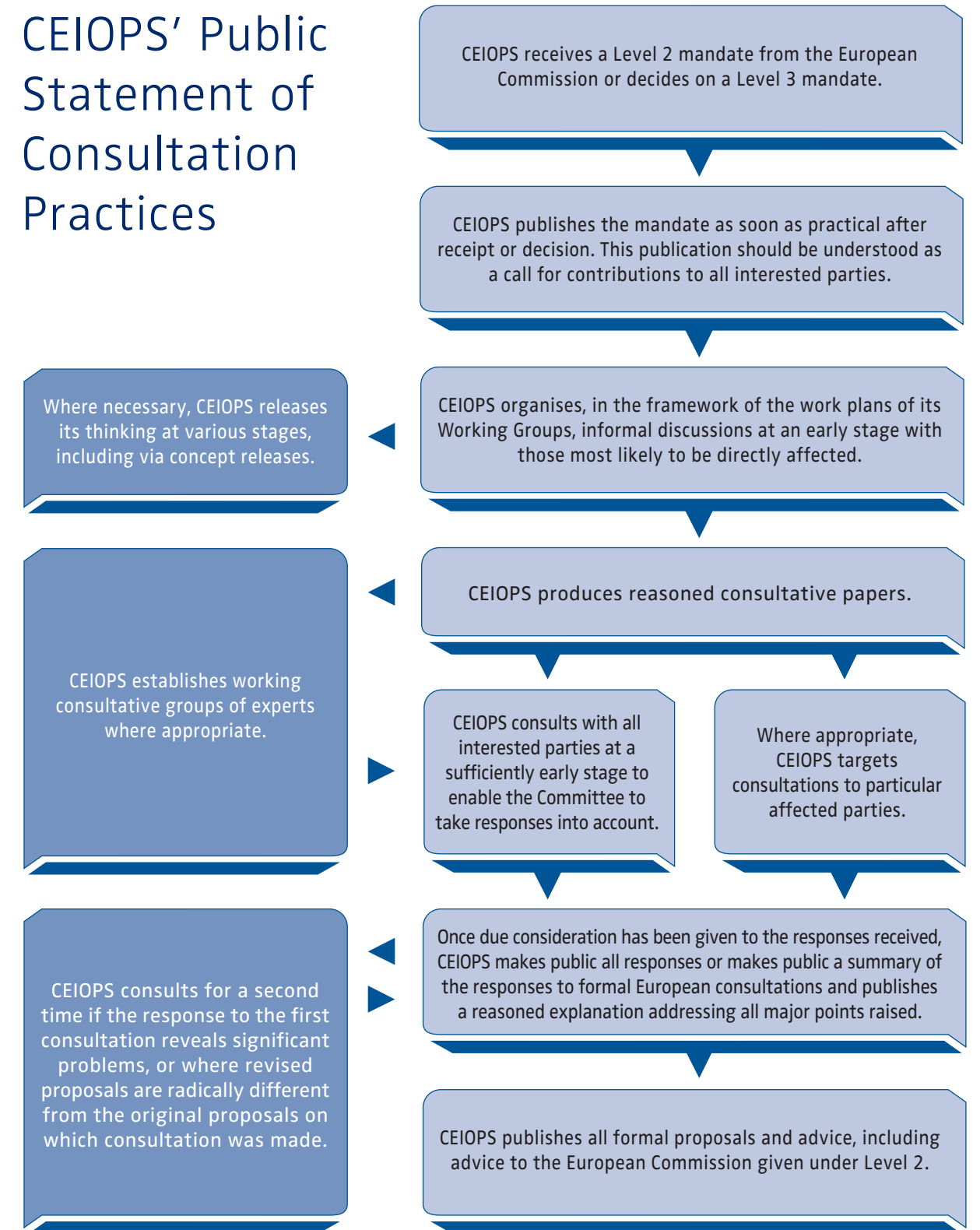
The **Consultative Panel**¹² regularly meets with CEIOPS representatives, providing suggestions for the work programme, presents comments on the interim results of the work being undertaken and makes proposals for amending existing practices. In other terms, the role of the Panel is to monitor the way in which CEIOPS is exercising its role and to act as a 'sounding' board for supporting the CEIOPS policy-making process.

The Panel is not composed so as to represent national positions or sectoral interests. To ensure productive input in the process, the Panel is composed of a limited number of independent high level persons, committed to the objectives of the European Union and appointed on a personal basis. Rotation of the membership after two years permits the expression of a large number of opinions in the long run.

The following figure summarises the procedure used for consultation.

The **Public Statement of Consultation Practices** (CEIOPS-DOC-01/05) was the first consultation paper of CEIOPS. Taking account of the comments received during the public consultation process, it was approved by the Members' Meeting on 24 February 2005. Its aim is to build consensus where possible between all interested and affected parties on what legislation or regulation or supervisory practice is appropriate by stating who, when and how CEIOPS will consult.

CEIOPS' Public Statement of Consultation Practices



¹¹ See 'Statement of Consultation Practices' on the Website
¹² See Annex 2: List of CEIOPS Consultative Panel Members

Source: CEIOPS' Public Statement of Consultation Practices, Annex

For summarising CEIOPS' activities, as already mentioned, two areas of work may be distinguished: 'Level 2 activities', consisting of giving advice to the European Commission, in particular on the technical implementing measures of Level 1 directives and regulations, and 'Level 3 activities', aimed at producing supervisory standards, guidelines or recommendations with the purpose of enhancing convergent and effective application of the regulation and facilitating cooperation between supervisors.

CEIOPS' 'LEVEL 2 ACTIVITIES' - THE SOLVENCY II PROJECT

As a 'Level 2' task, CEIOPS has been deeply engaged in the development of the Solvency II Project, an all-embracing project aimed at fundamentally changing the prudential regime applicable to insurance undertakings.

Background

At the 32nd EU Insurance Committee meeting in April 2003, representatives of the Member States endorsed the proposal by the European Commission regarding the fundamental principles for the design of a future prudential system for the supervision of insurance undertakings in the EU, i.e. the Solvency II Project. The design of the future system is based on the so called 'three pillars approach'¹³ as briefly described in chapter 3.2.0. In developing this project, the European Commission calls for CEIOPS' technical advice and support according to the policy principles and guidelines set by the 'Framework for Consultation on Solvency II'¹⁴.

CEIOPS has to provide the European Commission with a series of reports containing advice covering all aspects of prudential supervision, laid down in the three pillars structure, paying due attention to cross sectoral implications and group issues.

At this stage, CEIOPS' advice is asked for mainly in respect of the preparation of the European Commission's proposal for a 'Framework Directive' (Level 1 measure), under the meaning of the Lamfalussy model. CEIOPS will in a further step be asked to contribute to the preparation of the implementing measures (Level 2 measures) and will work at issuing supervisory measures (Level 3).

The European Commission has addressed to CEIOPS 'Waves' of specific Calls for Advice. CEIOPS received the '**First Wave of specific Calls for Advice**' on 23 July 2004. The 'First Wave' also included the 'Framework for Consultation Setting Policy Principles and Guidelines for Developing the Advice'. CEIOPS' answer to the 'First Wave of specific Calls for Advice' is expected to be submitted to the European Commission by 30 June 2005.

On 23 December 2004 the European Commission sent to CEIOPS a '**Second Wave of specific Calls for Advice**'. CEIOPS' answer on the 'Second Wave' is expected to be submitted to the European Commission by 31 October 2005.

Following the meeting of the EIOPC (former Insurance Committee) on 8 April 2005, CEIOPS is expecting to receive a '**Third Wave of Calls for Advice**' from the European Commission soon. The 'Third Wave' addresses a number of general issues not dealt with specifically in the first two waves. CEIOPS' answer to the Third Wave of Calls for Advice is expected by February 2006.

First Wave of specific Calls for Advice:

01. Internal control and risk management
02. Supervisory Review Process (general)
03. Supervisory Review Process (quantitative tools)
04. Transparency of supervisory action
05. Investment management rules
06. Asset-Liability Management

Second Wave of specific Calls for Advice:

07. Technical provisions in life assurance
08. Technical provisions in non life-insurance
09. Safety measures
10. Solvency capital requirement: standard formula (life and non-life)
11. Solvency capital requirement: internal models (life and non-life) and their validation
12. Reinsurance (and other risk mitigation techniques)
13. Quantitative impact study and data related issues
14. Powers of the supervisory authorities
15. Solvency control levels
16. Fit and proper criteria
17. Peer reviews
18. Group and cross-sectoral issues

Third Wave of specific Calls for Advice:

19. Eligible elements to cover the capital requirements
20. Cooperation between supervisory authorities
21. Supervisory reporting and public disclosure
22. Procyclicality
23. Small Undertakings

¹³ See European Commission document MARKT/2509/03. The three pillars are usually referred to for describing the overall prudential model which has been designed for insurance companies. Indeed, the general lines of the new model have already been defined. The current work is aimed at producing the detailed rules for giving content to these general lines. The 'three pillars approach' adopted in Solvency II is inspired but not necessarily identical to the approach used in the 'Basel II' Project for the banking sector.

¹⁴ See Website



CEIOPS' Organisation Regarding the Solvency II Project

In view of receiving requests for advice by the European Commission and in order to appropriately cover the whole Solvency II Project, in spring 2004 CEIOPS established an 'ad hoc' organisation devoted to the project. The organisation immediately started to work on the basis of the approved general design of the Solvency II regime.

In setting up the organisation and defining the requests for advice for the preparatory work, CEIOPS took into consideration the need to ensure an organic and comprehensive coverage of the overall solvency regime, thus allowing flexibility and effectiveness to its contributions along the development of the whole project, in relation to its different steps. To this end, the Expert Groups in charge of preparing CEIOPS' deliberations have been tailored to the fundamental lines of the new prudential model, i.e. the 'three pillars', and not to the expected specific Calls for Advice, nor to the way through which the future regime will be translated into formal requirements according to the 'Lamfalussy process'.

The preparation of the answers to the Commission's Calls for Advice being a very challenging task, from the aspect of time as well as content – additional meetings of the Managing Board together with the Working Group Chairs involved in answering the Calls for Advice took place (joint meetings on 2 December 2004 and 30 March 2005; a further meeting is scheduled for June 2005). In addition to the Members' Meetings already scheduled an Extraordinary Members' Meeting was called on 27 January 2005 to focus solely on the solvency issue. Another such meeting is foreseen to take place mid-May, to be followed by further meetings as necessary.

Number of meetings on Solvency II in 2004:

Joint meetings of Managing Board with Solvency WG Chairs	1
Solvency II - Pillar I Non-Life Expert Group	5
Solvency II - Pillar I Life Expert Group	6
Solvency II - Pillar II Expert Group	6
Solvency II - Pillar III/Accounting Expert Group	5

In line with this approach, CEIOPS has created five Expert Groups.¹⁵ Two Groups have the tasks to conduct preparatory work on Pillar I issues respectively for 'life' and 'non life' insurance business, in particular providing analysis on capital requirements and technical provisions. Two further groups were asked to carry out preparatory work with regard to the areas included respectively in Pillar II and Pillar III. Besides, considering the need to assess these issues also under the particular angle of groups of undertakings, as well as to take into account aspects related to the integration between financial sectors, another group was asked to analyse the implications for the supervision of groups and cross-sector activities. Each group has fixed a very committing time-schedule for fulfilling its mandate.

Considering the close relationship between financial disclosure and the accounting framework, the Expert Group on Pillar III also deals with accounting developments which are relevant for insurance.

As the definition of CEIOPS' advice entails carrying out Quantitative Impact Studies (QIS), it was deemed appropriate to ask the Financial Stability Committee, which has been established within CEIOPS with the main objective to deal with a macro-prudential surveillance programme based on market indicators, to assist the Expert Groups and coordinate their data collection exercises. Indeed, following the invitation of the European Commission, CEIOPS' intention is to start as soon as possible with the definition of data requirements and collecting procedure in order to develop QIS on the basis of interim conclusions achieved by the other groups.

Given the clear correlation between the areas dealt with by the above mentioned groups, a coordination arrangement has been created to ensure consistency among the groups' activities and avoiding overlaps. The Managing Board and the Secretariat play a significant role in this regard.

The tasks of the individual Solvency II Expert Groups are shown below.

Pillar I Non-Life - Expert Group

Chair: Paul Sharma (United Kingdom)

The tasks of the Expert Group are

- ▶ to conduct preparatory work on the adequacy of financial resources and technical provisions for non-life insurance business, in line with the design of the Solvency II prudential system;
- ▶ to deal with the formulation and analysis of approaches, models and methods for solvency requirements and technical provisions and in particular to look into aspects of practicability;
- ▶ to consider future quantitative analysis necessary to calibrate the Pillar I standards and assess their impact;
- ▶ to act as an information sharing platform in the field of experience with solvency requirements and technical provisions within the EU/EEA.



Paul Sharma
Financial Services Authority (FSA),
United Kingdom

¹⁵ See also CEIOPS Operational Organisation, page 13



Pillar I Life - Expert Group

Chair: Björn Palmgren (Sweden)



Björn Palmgren
Financial Supervisory Authority (FSA), Sweden

The tasks of the Expert Group are

- ▶ to conduct preparatory work on the adequacy of financial resources and technical provisions for life insurance business, in line with the design of the Solvency II prudential system;
- ▶ to deal with the formulation and analysis of approaches, models and methods for solvency requirements and technical provisions and in particular to look into aspects of practicability;
- ▶ to consider future quantitative analysis necessary to calibrate the Pillar I standards and assess their impact;
- ▶ to act as an information sharing platform in the field of experience with solvency requirements and technical provisions within the EU/EEA.

Pillar II - Expert Group

Chair: Petra Faber-Graw (Germany)



Petra Faber-Graw
Bundesanstalt für
Finanzdienstleistungsaufsicht (BaFin),
Germany

The tasks of the Expert Group are

- ▶ to conduct preparatory work on the appropriateness and consequent requirements related to qualitative aspects of management, such as risk management and internal control system or other requirements on the managers;
- ▶ to conduct preparatory work on appropriateness and consequent requirements related to all the phases of the supervisory action, both in terms of process and of prudential tools;
- ▶ to deal with supervisory powers of intervention as well as transparency and accountability of supervisory practice;
- ▶ to act as an information sharing platform in the field of experience within the EU/EEA.

Pillar III/Accounting - Expert Group

Chair: Fausto Parente (Italy)



Fausto Parente
Istituto per la Vigilanza sulle Assicurazioni
Private e di Interesse Collettivo (ISVAP), Italy

The tasks of the Expert Group are

- ▶ to carry out the preparatory work needed for the fulfilment of CEIOPS's tasks concerning Pillar III of the Solvency II project (financial disclosure and market discipline);
- ▶ to deal with accounting issues which are of interest to the EU supervisors, and in particular
 - to follow the developments of the work of the IASB and to carry out the preparatory work for the participation and contribution of CEIOPS both to the IFRS-making process and to the EU endorsement process (EFRAG/ARC consultation);
 - to deal with reporting to supervisors and with its relations with public financial statements. In this framework, it contributes to the work carried out by CEIOPS in the Solvency II project;
- ▶ to act as an information sharing platform in the field of accounting and disclosure.

Group/Cross Sector - Expert Group

Chair: Noël Guibert (France)



Noël Guibert
Commission de Contrôle des Assurances, des
Mutuelles et des Institutions de Prévoyance
(CCAMIP), France

The tasks of the Expert Group are

- ▶ to perform the preparatory work for CEIOPS on the supervision of groups and cross-sector activities within the specific frame of the Solvency II exercise;
- ▶ to identify and analyse issues related to the supervision of groups which are included in the three pillars of the Solvency II prudential regime;
- ▶ to deal with the concern of consistency of financial services regulation in order to avoid regulatory arbitrage.

Working Method

The CEIOPS Solvency II Expert Groups have developed their work on the basis of the received and expected Calls for Advice.

However, their Work Programmes are not exclusively tailored to the scope and the deadlines provided by the specific Calls for Advice; they are also aimed at producing - adopting a longer term perspective - a complete and detailed analysis for delivering contributions over the development of the entire Solvency II Project. In this perspective, CEIOPS' activity is developing along the principles and guidelines stated in the Commission paper on the 'Framework for Consultation' on Solvency II.¹⁶

Indeed, as stated in the cover letters of the European Commission accompanying the First and Second Wave of Calls for Advice, CEIOPS' technical advice, at this stage, is mainly requested in relation to the preparation of the Framework Directive on the new prudential regime. In CEIOPS' understanding, this means that the development of the subsequent implementation measures could likely require further CEIOPS contributions. Furthermore, it is also recognised that at this stage CEIOPS' advice is not expected to address all technical aspects exhaustively and that - Solvency II being a complex project - CEIOPS may in the future amend or revise advice already given in the light of its work on further areas or of more in depth examinations.

Considering the above, in preparing the answers to the Calls for Advice, CEIOPS' work is aimed at defining broad principles on the areas consid-

ered, as well as at identifying, as deeply as possible, the fundamental aspects of the future regime, but without entering into details which are not yet supported by appropriate analysis and tests.

According to the timeframe envisaged by the European Commission, a draft document containing the advice on the areas included in the 'First Wave of specific Calls for Advice' was approved at the Members' Meeting in February 2005, and a formal consultation process has subsequently been opened. The final approval of CEIOPS' advice is envisaged at the following Members' Meeting, scheduled for the end of June 2005. This should allow CEIOPS to meet the short deadlines fixed by the European Commission.

The consultation process related to the answer to the 'Second Wave of specific Calls for Advice' is expected to start in June 2005 (see Work Programme).

The draft answers to the 'First Wave of specific Calls for Advice' were approved for public consultation by the Members' Meeting on 24 February 2005 and published on the CEIOPS Website as Consultation Paper No. 4 (CEIOPS-CP-01/05). Comments of interested parties are invited until 25 May 2005.

¹⁶ See Website

CEIOPS' 'LEVEL 3 ACTIVITIES'

Number of meetings in 2004:

Financial Stability Committee	4
Insurance Groups Supervision Committee	2
Occupational Pensions Committee	4
Insurance Intermediaries Expert Group	1

Even though the creation of the new EU prudential measures, i.e. the Solvency II project, currently represents the main commitment of CEIOPS, a number of significant 'Level 3' activities have already been undertaken by CEIOPS in relation to the implementation of existing rules and the supervisory practices. The common underlying purposes of these activities are to enhance convergence in supervisory practices at European level and improve the cooperation between national supervisors. This is going to be pursued, at the moment, both by agreeing on standardised forms of cooperation and by facilitating the exchange of information. Further initiatives in the framework of the 'Level 3' tools, such as standards, recommendations or guidelines, will be considered according to the needs arising from the regulatory and supervisory situation.

Bearing in mind the major areas of work, CEIOPS' work on Level 3 activities in 2004 can be summarised considering the activities of the following Permanent Committees and Expert Groups:¹⁷

¹⁷ See also CEIOPS Operational Organisation, page 13



Mihály Erdős
Pénzügyi Szervezetek Állami Felügyelete
(PSZAF), Hungary

The draft Occupational Pensions Protocol ('Budapest Protocol') was approved for public consultation by the Members' Meeting on 24 February 2005 and published on the CEIOPS Website as Consultation Paper No. 5 (CEIOPS-CP-02/05). The public consultation phase to receive comments of interested parties will close on 30 May 2005. The Protocol provides a framework for the cooperation of supervisory authorities in the implementation of the Directive 2003/41/EC (IORP Directive) in relation to the supervision of IORPs that operate cross border.

Occupational Pensions Committee

Chair: Mihály Erdős (Hungary)

Terms of Reference:

The tasks of the Expert Group are

- ▶ to develop a common understanding of the IORP Directive;
- ▶ to facilitate the supervisory cooperation, coordination and exchange of information on the cross-border membership and on related issues;
- ▶ to carry out the preparatory work for dealing with issues related to pension funds.

Main issues under the Terms of Reference

- ▶ Preparation of a Protocol organising the cooperation, coordination and regular information exchange between occupational pensions supervisors in view of the implementation of the IORP Directive;
- ▶ Analysis of the current status of the pension savings institutions from the EU legislation point of view;
- ▶ Monitoring of the practices in the calculation of technical provisions;
- ▶ Monitoring of the progress achieved in the adaptation of investment rules and the use of depositaries in the national supervisory systems.

In 2004 the Committee's work was mainly focused on preparing a draft protocol organising the cooperation, coordination and regular information exchange between occupational pensions supervisors in view of the implementation of the IORP Directive. The draft protocol was approved at the Members' Meeting in February 2005, and a formal consultation process was launched. The final approval is envisaged at the Members' Meeting scheduled for the end of October 2005.

Besides, the Committee is analysing the current status of the pension savings institutions from the EU legislation point of view and has undertaken a number of information-sharing activities to facilitate the correct and common understanding of the Directive by supervisors. This activity will likely be emphasised after the transposition of the Directive into the national jurisdictions and its actual implementation.



Ole-Jørgen Karlsen
Kredittilsynet, Norway

The Guidelines for Coordination Committees in the Context of Supplementary Supervision as Defined by the Insurance Groups Directive were published at the end of February 2005 after adoption of the final text by the Members' Meeting on 24 February 2005 (CEIOPS-DOC-02/05).

After approval for public consultation by the Members' Meeting on 24 February 2005, the draft Report on Possible Need for Amendments to the Insurance Groups Directive was published for consultation on 3 March 2005 as Consultation Paper No. 6 (CEIOPS-CP-03/05). CEIOPS invited comments from interested parties until 3 June 2005. The final approval is expected at the Members' Meeting on 28 June 2005.

Insurance Groups Supervision Committee

Chair: Ole-Jørgen Karlsen (Norway)

Terms of Reference:

The tasks of the Expert Group are

- ▶ to enhance the understanding of the Insurance Groups Directive;
- ▶ to find ways of harmonisation or streamlining the supplementary supervision of insurance groups;
- ▶ to study solutions for enhancing cooperation between supervisors in dealing with multinational groups.

Main issues under the Terms of Reference

- ▶ General approach to supplementary supervision and the introduction of the Financial Conglomerates Directive;
- ▶ Analysis of methods for the solvency calculation;
- ▶ Analysis of reporting and assessment of intra group transactions;
- ▶ Analysis of ways for exchanging information with relevant third country supervisors;
- ▶ Analysis of ways for enhancing supervisory cooperation in dealing with crisis situations;
- ▶ Analysis of the actual implementation of the Insurance Groups Directive in view of any revision of the IGD provisions.

In 2004 the Committee prepared 'Guidelines for Coordination Committees', which were approved at the Members' Meeting in February 2005.¹⁸ The purpose of the Guidelines is to ensure consistency regarding supplementary supervision of insurance groups as well as increasing the level of efficiency and effectiveness of the work of the so called Coordination Committees (Co-Cos), which were established to enhance cooperation between supervisory authorities in relation to each multinational insurance group following the conclusion of the so called 'Helsinki Protocol' in 2000. They are composed of national supervisors charged with the day-to-day supervision of the insurance companies forming part of these groups, who regularly exchange relevant informations under the initiative of a key coordinator/lead supervisor, focusing on the solvency and financial stability of the supervised group.

The Committee has also worked at preparing a Draft Report on the Potential Need for Amendments of the Insurance Groups Directive (IGD) expressing CEIOPS' views on possible improvements of the directive in the light of its first period of application. The report was presented to the Members' Meeting on 24 February 2005 and approved for public consultation.¹⁹ The final report is expected to be approved by the Members' Meeting on 28 June 2005 taking account of the comments received during the consultation period. The European Commission will then be able to consider CEIOPS' inputs when reviewing, by the end of 2005, the Directive, as provided for by its Art. 11 (5).

In October 2004 the Committee was also asked to start work on the management of crisis situations, in particular for identifying tools and procedures for improving the exchange of information between insurance supervisors. The Committee is aiming at delivering a first draft of the report at the CEIOPS Members' Meeting at the end of June 2005.

¹⁸ See Website

¹⁹ See Website



Klaas Knot
De Nederlandsche Bank, The Netherlands

Financial Stability Committee

Chair: Klaas Knot (Netherlands)

Terms of Reference:

The tasks of the Expert Group are

- ▶ to establish a macro-prudential surveillance programme for monitoring the interplay between (re)insurance/occupational pension funds and financial stability, based on indicators reported by the Members and Observers of CEIOPS;
- ▶ to study and report on financial stability issues of relevance to the (re)insurance and occupational pension funds sectors in general.

Main issues under the Terms of Reference

- ▶ Delivery of an annual assessment of developments in the European (re)insurance and occupational pensions sectors which have implications for financial stability;
- ▶ Delivery of a six-monthly update on topical market developments between the annual reports;
- ▶ Inclusion of a follow-up review of failures and supervisory interventions in the EU/EEA in its regular reporting of macro-economic developments (with reference to the 'Sharma Report') as necessary;
- ▶ Organisation of quantitative impact studies for the Solvency II project, with the assistance of other Working Groups;
- ▶ Carrying out additional studies linked to the issue of financial stability as required by CEIOPS insofar as such projects can be accommodated with the Committee's core tasks.

Since 2004 the Committee has developed a number of activities in view of putting in place a macro-prudential surveillance programme for monitoring the interplay between insurance/occupational pension funds and financial stability, based on indicators reported by the Members and Observers of CEIOPS.

In line with its mandate, the Committee also prepared the following reports to the EFC – Stability Table:

- ▶ March 2004: Report on the financial stability of the insurance market in the EU/EEA (including the accession countries), prepared in response to a request by the EFC and discussed during the Spring EFC-Stability Table.
- ▶ March 2004: Interim Report on 'Credit risk transfer to the European insurance sector' (CRT), based on publicly available information.

- ▶ September 2004: Report on 'Credit risk transfer to the European insurance sector'. The report contains a survey among individual insurance companies to what extent they are exposed to credit risk on the asset as well as the liability side of the balance sheet.
- ▶ November 2004: Report on the financial conditions and financial stability in the insurance sector in 2003, based on regular reporting by insurers.

In addition, the Financial Stability Committee prepared a six-monthly update of the annual report on financial conditions and financial stability in the insurance sector, the occupational pension funds sector and the reinsurance sector, which was presented to the CEIOPS Members' Meeting on 24 February 2005 and submitted to the EFC Financial Stability Table in April 2005.

It is worthwhile to mention, finally, that the Committee is planning to prepare Quantitative Impact Studies in the framework of the Solvency II Project, in order to support the work of the relevant Expert Groups. To this extent and as a first step, a preparatory field test has been scheduled for the middle of 2005 in order to check the organisational arrangements and infrastructure needed for performing the quantitative exercises which will be necessary along the development of the project for analysing the impact of the working assumptions.

Insurance Mediation Expert Group

Chair: Victor Rod (Luxemburg)

Mandate

The tasks of the Expert Group are

- ▶ to develop a common understanding of the IMD;
- ▶ to facilitate the cooperation, coordination and exchange of information between competent authorities as concerns insurance intermediaries;
- ▶ to carry out preparatory work for dealing with issues relating to insurance intermediaries.

Main issues under the Mandate:

- ▶ Preparation of a Protocol organising the cooperation, coordination and regular exchange of information between competent authorities in view of the implementation of the IMD;
- ▶ Elaboration of a notification procedure with regard to cross-border business of insurance intermediaries within the EEA.

The main work undertaken by the Expert Group is the development of a Protocol organising the cooperation, coordination and regular exchange of information between competent authorities in view of the implementation of the IMD and the elaboration of a consistent notification procedure with regard to cross-border business of insurance intermediaries, under the provisions of the freedom of establishment and the freedom to provide services, within the EEA. The Expert Group plans to finalise a draft by mid-2005.



Victor Rod
Commissariat aux Assurances, Luxemburg

Solvency II - Pillar III Expert Group (Regarding its Work on Accounting)

The Solvency II - Pillar III Expert Group has been established not only to fulfil CEIOPS' tasks in the field of disclosure/market discipline, i.e. the Pillar III tasks of the Solvency II Project, but also - considering the close connections between the two areas - to follow all accounting issues that are of interest to European insurance supervisors. The Expert Group is also expected to act as an information sharing platform both in the field of accounting and disclosure.

In 2004 the Expert Group has basically focused its activities on accounting, also due to the fundamental changes in the EU accounting framework that took place in 2004.

The Expert Group followed the developments of the International Accounting Standards Board (IASB) work and contributed to the International Financial Reporting Standards (IFRS) making process by providing the IASB with letters of comment. In parallel, it also contributed to the EU endorsement process of the standards, through its observership in the EU Accounting Regulatory Committee (ARC) and by providing the technical advisory body of the European Commission, the European Financial Reporting Advisory Group (EFRAG), with some contributions on the main topics relevant for the EU insurance supervisors. Since early 2005 CEIOPS has an observer seat in the Insurance Working Group of EFRAG, which was established in early 2005.

But one of the main tasks of the Expert Group in the field of accounting is to deal with reporting to supervisors and with its relations with public financial statements. In this context, the Expert Group has undertaken an analysis of the implications of the introduction of IAS/IFRS for supervision. The results of this analysis are illustrated in Consultation Paper No. 3 'IAS Implications for Supervision', which is currently published for consultation on the CEIOPS Website.

The report 'Implications of IAS/IFRS Introduction for the Prudential Supervision of Insurance Undertakings' was approved by the Members' Meeting on 21 October 2004 and published for public consultation as Consultation Paper No. 3 (CEIOPS-CP-03/04). After finalisation of the consultation period the comments received are currently being processed in the Expert Group. A final approval of the draft is expected for the Members' Meeting on 28 June 2005.

Other Work

A number of other strands of work have been undertaken by CEIOPS since its establishment. The most important of these are summarised below.

4.2.6.1. E-Notification

A survey on the use of the electronic signature has been initiated in order to identify possible ways for streamlining the notification procedures between supervisors in dealing with cross border activities. A report on the findings of this survey is expected in the first half of 2005.

4.2.6.2. Use of Hedge Funds

A survey on the use by insurance companies of hedge funds in designing unit-linked life insurance products has been undertaken. A report is expected in the first half of 2005.

4.2.6.3. Cooperation with the Swiss Supervisory Authority

The supplementary supervision according to the IGD makes it necessary to exchange information with the Swiss Supervisory Authority (Federal Office of Private Insurance, OFAP) on certain insurance groups to enable the competent authorities to appropriately apply the Directive. To make an exchange of confidential financial information possible and in order to allow the Swiss supervisors to participate in the relevant Co-Cos, a Memorandum of Understanding between CEIOPS and OFAP is under preparation.

4.2.6.4. Cooperation with the US Supervisory Authorities

Intensive contacts were maintained during 2004 with the National Association of Insurance Commissioners (NAIC) in coordination with the European Commission in the framework of the so called 'EU-US Dialogue'. The dialogue is aimed both at improving the knowledge of the respective regulations and markets and identifying ways for enhancing cooperation and the exchange of supervisory information. For this purpose, a meeting has taken place on 3 and 4 February 2005 in Frankfurt. One concrete result of the meeting was the agreement to establish a bilateral task force for identifying forms of standardised cooperation for enhancing the exchange of information in the supervision of transatlantic insurance groups.



The Deputy Mayor of Frankfurt, Mr. Burggraf, welcomes the representatives of CEIOPS, the NAIC and the European Commission in occasion of the 'EU-US Dialogue' meeting in February 2005 (Emperors' Hall, Römer, Frankfurt).

CEIOPS WORK PROGRAMME FOR 2005

CEIOPS is currently developing its work according to a very challenging Work Programme. This has been driven mainly by the tasks related to the development of the Solvency II Project and, more in general, by externally generated demands (calls for advice and reports) or by the need to issue 'essential' Level 3 measures, such as protocols between supervisors, aimed at facilitating and improving the supervisory action and cooperation following the implementation of EU measures.²¹

Prudential aspects, together with the creation of a satisfactory accounting framework for insurance, are certainly priorities for the Committee at the moment. It is anticipated that the adoption of the directive on supervision of reinsurance, which currently is under EU Council negotiation, will create a further priority workstream for CEIOPS.

CEIOPS' objectives and tools are set out in the Decision of the European Commission establishing the Committee. CEIOPS has built its strategy and set its Work Programme on the basis of this framework and consequent demands.

In setting its Work Programme for 2005, CEIOPS decided to continue to follow this pragmatic approach aimed at fulfilling in an appropriate way the demands on the Committee and delivering in due course the planned work.

However, further initiatives in the framework of the so called 'Level 3' tools will be considered according to the needs arising from the regulatory and supervisory environment.

Level 2 Activities

The development of the Solvency II Project will represent the major area of CEIOPS' 'Level 2' activity and will continue to comprise most of the CEIOPS Work Programme. In 2005 CEIOPS is expected to deliver its advice to the European Commission on the areas included in the First and the Second 'Wave' of Calls for Advice. Also, it will work for preparing the advice related to the Third 'Wave' of Calls for Advice.

The following table shows the time-schedule for the preparation of CEIOPS' advice in the framework of the Solvency II Project:

1st Wave	Public consultation: February 2005	Answer to European Commission: June 2005		
2nd Wave		Public Consultation: June 2005	Answer to European Commission: Oct. 2005	
3rd Wave			Public Consultation: Oct. 2005	Answer to European Commission: Feb. 2006

Besides preparing the specific answers to the Calls for Advice, CEIOPS will continue to work on the overall project for assisting the European Commission in dealing with all its different phases, according to the working method explained in chapter 4.1.3. of this report.

Indeed, considering the complexity and duration of the project, CEIOPS intends to cover the whole development of the new prudential framework, not only by contributing to the preparation of the Framework Directive (Level 1 measures), but also by continuing to assist the European Commission in the preparation of the implementing measures (Level 2 measures) and by issuing consequent supervisory measures (Level 3 measures).

The following table shows a forecast timeframe of the Solvency II Project:

2005	2006	2007	2008-09	2010
Consultation	Proposal of Framework Directive from Commission	Negotiation of the Proposal in ECOFIN/EP	Adoption of the Framework Directive	Solvency II enters into force
CEIOPS advises EU Commission on Framework Directive	CEIOPS continues its technical work and assists Commission	CEIOPS advises Commission regarding Level 2	CEIOPS advises Commission regarding Level 2 and prepares Level 3 measures	CEIOPS issues Level 3 measures

Parallel to the development of the work on aspects related to Pillar I issues (financial requirements), CEIOPS will organise rounds of Quantitative Impact Studies in order to support the definition of the proposed requirements with valuation of their actual impact on the market. CEIOPS will report on the organisation of this exercise in October 2005 when answering to the Second Wave of specific Calls for Advice issued by the European Commission.

²¹ For example, projects for concluding cooperation protocols are underway in the field of Occupational Pensions and Insurance Mediation.



Level 3 Activities

In the area of 'Level 3' activity CEIOPS intends to continue its work on the implementation of the Occupational Pensions (IORP) Directive, the Insurance Groups Directive (IGD) and the Insurance Mediation Directive (IMD) and on the application of the new accounting framework based on IFRS.

5.2.1. Occupational Pensions

Regarding the field of occupational pension funds, in particular, the Protocol for the cooperation between competent supervisory authorities in the implementation of the IORP Directive should be finalised. The Directive has to be transposed into national jurisdictions by September 2005. Exchange of information between supervisors will continue for facilitating a common understanding of the Directive. Besides, work aimed at facilitating convergent supervisory practices is envisaged following an analysis of the first implementation of the Directive. The actual type of supervisory action or measure will depend on the results of this analysis.

5.2.2. Groups Supervision

In the field of supplementary supervision of insurance groups, CEIOPS will continue to support the activity of the coordination arrangements put in place by the supervisory authorities following the 'Helsinki Protocol' for the supervision of multinational groups. Another important related strand of work will concern the analysis of appropriate tools for crisis management. In developing this work, links will be assured with the exercise under way on this issue at cross sectoral level, under the mandate of the EFC – Stability Table.

A further, complex area of work could be the implementation of the Directive on the supervision of financial conglomerates. To this regards CEIOPS is ready to cooperate with the other 'Level 3' Committees for arranging appropriate structures and dealing with 'Level 3' activities in this field.

5.2.3. Insurance Mediation

CEIOPS will continue its activity on the implementation of the IMD. The finalisation of a protocol organising the cooperation and exchange of information between competent authorities in the case of cross border operations is envisaged for the end of 2005. Further specific activities for facilitating the convergent and effective implementation of the directive could be carried out in consideration of the foreseeable difficulties related to the application of the new supervisory rules in this area.

5.2.4. Accounting

In the field of accounting, CEIOPS will work for contributing to the development of the IFRS and their application in the EU. Particular efforts will be required in relation to the development of the IFRS on insurance contracts (phase II). CEIOPS will directly follow this issue through its participation to the EFRAG work as an observer in the EFRAG Insurance Working Group.

The impacts of the changes in the accounting framework will also be considered, both in analysing issues related to their effects on the current prudential framework and in developing the new prudential measures in the framework of the Solvency II Project, in particular by monitoring their compatibility with the new accounting rules.

5.2.5. Financial Stability

In the field of Financial Stability Review and following the mandate of the EFC-Financial Stability Table, CEIOPS will continue to work on its regular reporting on the situation of insurance markets and the effects on the stability of the financial sectors, integrating the content and format of the 2004 report with further risk surveys and analysis. The report, usually issued in October, will be preceded in spring by a provisional report, underlining the main market trends.

The work will be developed in coordination with the parallel work under way in the other financial sectors.

Further specific macro-prudential analysis could also be undertaken as a response to market developments.

5.2.6. Other Work

Some other relatively minor strands of work are, at this stage, part of the CEIOPS Work Programme.

Under the mandate of the EFC-Stability Table, CEIOPS, together with CEBS and CESR, will work at identifying problems encountered by EU supervisors in exchanging information with 'non cooperative' supervisors (Offshore Centres) and studying possible solutions.

Close cooperation with the work of the other 'Level 3 Committees' will also feature in dealing with a number of issues of common interest, such as the supervision of outsourced activities and the coordination arrangements between 'home' and 'host' supervisors when controlling multinational activities.

Besides, in the framework of its role as platform for exchanging information between Members, CEIOPS will undertake surveys on specific supervisory issues, such as the survey currently under way on the use of 'hedge funds' in structuring unit-linked life insurance products, or on procedural issues, such as the use of electronic communication means for exchanging systematic supervisory information.



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Note: The Consultative Panel Members are appointed in their personal capacity and neither represent their organisations nor their countries.

List of Abbreviations and Terms Used

3L3	three "Level 3 Committees" (CEIOPS, CEBS, CESR)
ARC	Accounting Regulatory Committee
CEBS	Committee of European Banking Supervisors
CEIOPS	Committee of European Insurance and Occupational Pensions Supervisors
CESR	Committee of European Securities Regulators
Co-Cos	Coordination Committees
CP	Consultation Paper
CRT	Credit risk transfer
ECOFIN	Economic and Financial Council
EEA	European Economic Area
EFC	Economic and Financial Committee
EFRAG	European Financial Reporting Advisory Group
EIOPC	European Insurance and Occupational Pensions Committee
EU	European Union
e.V.	eingetragener Verein (legal form of CEIOPS; a private non-profit organisation under German law)
FCD	Financial Conglomerates Directive
FSC	Financial Services Committee
Helsinki Protocol	Protocol relating to the Collaboration of the Supervisory Authorities of the Member States of the European Union with regard to the Application of the Directive 98/78/EC on the Supplementary Supervision of Insurance Undertakings in an Insurance Group (11 May 2000)
IAIS	International Association of Insurance Supervisors
IAS	International Accounting Standards
IASB	International Accounting Standards Board
IFRS	International Financial Reporting Standards
IGD	Insurance Groups Directive (Directive 98/78/EC of the European Parliament and of the Council of 27 October 1998 on the supplementary supervision of insurance undertakings in an insurance group, OJ No. L 330 of 5 Dec. 1998)
IMD	Insurance Mediation Directive (Directive 2002/92/EC of the European Parliament and of the Council of 9 December 2002 on insurance mediation, OJ No. L 9 of 15 Jan. 2003)
IORPs	institutions for occupational retirement provision
IORP-Directive	Directive 2003/41/EC of the European Parliament and of the Council of 3 June 2003 on the activities and supervision of institutions for occupational retirement provision, OJ No. L 235 of 23 Sept. 2003
NAIC	National Association of Insurance Commissioners Quantitative Impact Studies
QIS	Quantitative Impact Studies

Audited Annual Financial Statements as at 31 December 2004

(in EUR)

	2004
Revenues	
Membership Fees	757.437,06
Interest Income	2.642,25
Total Revenues	760.079,31
Expenses	
Cost Refund for Staff Members	36.103,45
Rental	58.808,48
Travelling and Entertainment	20.786,86
Office Supplies	51.796,50
Organisation and Follow-up of Meetings	11.797,86
Printing	1.334,45
Telecommunication	8.641,95
Computer Installation and Maintenance	31.197,23
Professional Fees (Legal, Bookkeeping and Audit)	51.437,82
Delivery and Communication	275,49
Miscellaneous	24.884,28
Reimbursement of CCA 1)	88.557,69
Total Expenses	385.622,06
Excess of Revenues over Expenses 2)	374.457,25

1) The membership fee of France was offset against part of the amount owed to France by CEIOPS for Secretariat services which France performed for the former Conference of Insurance Supervisors, the predecessor of CEIOPS.

2) 2004 being a setting up period for CEIOPS, a certain amount of costs related to the first months of establishment were incurred, which were charged to CEIOPS only in 2005.



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CEIOPS

ANNUAL REPORT 2004 AND WORK PROGRAMME 2005

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