



SUPERVISORY CONVERGENCE PLAN 2018-2019

How the European Insurance and
Occupational Pensions Authority
is building supervisory convergence



eiopa
EUROPEAN INSURANCE
AND OCCUPATIONAL PENSIONS AUTHORITY

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



Objectives of supervision

The primary objective of supervision is the protection of policyholders and beneficiaries. This protection needs to be seen from a broad perspective, as there is a close interrelationship between prudential and conduct of business issues. Furthermore, supervisors also need to duly consider the potential impact of their decisions on the stability of the broader financial system, especially in times of exceptional movements in the financial markets.

National competent authorities (NCAs) should promote the safety and soundness of insurance and reinsurance undertakings (hereinafter: insurance undertakings) and should focus on the risks they face or could face in the future. These objectives should be reached in an efficient and effective manner.



Supervisory convergence

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

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

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

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

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

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

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



Common supervisory culture

As with any strong structure, the framework of supervisory convergence needs to be built upon clear, well-known and commonly understood foundations. EIOPA's booklet, *A common supervisory culture — Key characteristics of high-quality and effective supervision*, was the first step in building this framework.

The booklet defines the following five key characteristics of high-quality and effective supervision.


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

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

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key characteristics of high-quality and effective supervision

{ To establish a common culture, everybody involved should have a common understanding of supervisory objectives and a common view of the key characteristics of high-quality and effective supervision. }




RISK-BASED AND PROPORTIONATE

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A risk-based system allows NCAs to prioritise and use their own resources efficiently and effectively.

A minimum-level of supervision supported by a proper risk assessment is essential and should apply to all insurance providers.

A risk-based regime sees the market as a whole and incorporates all developments, including distribution channels and products.




FORWARD-LOOKING, PREVENTIVE AND PROACTIVE

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Forward-looking: Supervisors need to be able to consider the evolution of the market to ask 'what can go wrong?' rather than 'what went wrong?'

Preventive: Supervisory Review Processes should adapt to emerging risks, such as new technologies, and their impact on business and risk management and internal controls.

Pro-active: Supervisors need to plan ahead for their Supervisory Review Process and executive supervisory actions and timely measures.




CHALLENGING, SCEPTICAL AND ENGAGED

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Challenging: Supervision needs to challenge providers' assessments, conclusions and decision-making without interfering with a provider's entrepreneurial freedom.

Sceptical: Supervisors should apply professional scepticism together with integrity and fairness.

Engaged: These approaches lead to open discussions between national supervisors and insurance providers.




COMPREHENSIVE

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A comprehensive view of the relevant markets, entities and products, reduces the risk that supervisors do not identify important risks, including emerging risks.

National supervisors should ensure a similar level of protection for policyholders across the Member States, regardless of the location of the insurance provider's head office.



CONCLUSIVE

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Supervisors must draw conclusions and follow-up on matters as soon as possible. Identified issues cannot be left without a proper conclusion and action plan.

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



Supervisory convergence until now ...

EIOPA and NCAs have been working on supervisory convergence in the last years using tools such as guidelines, peer reviews, supervisory opinions and statements, as well as thematic reviews. EIOPA, together with the NCAs, is developing a Supervisory Handbook, which is already in use by the NCAs.

Over the years, EIOPA has developed its own independent oversight function by putting in place a number of tools to facilitate more productive engagement with national supervisors, challenging supervisory practices and supporting the

strengthening of their supervisory capacity. These tools range from structured bilateral engagements, participation in cross-border colleges of supervisors to balance sheet reviews and the establishment of cross-border cooperation platforms.

A fundamental tool to achieve supervisory convergence is the Supervisory Handbook, which includes recommendations and good practices for the supervision of insurance undertakings. The handbook also includes examples and case studies, allowing for experiences to be shared between supervisors, promoting convergence and serving as a source of inspiration for supervisors across Europe.

EIOPA has been developing different chapters of the handbook over the last five years, and the first comprehensive version covers the most relevant areas of the Solvency II Directive: risk assessment framework; administrative, management and supervisory board; key functions; prudent person principle; own risk and solvency assessment; technical provisions; own funds; solvency capital requirement; group supervision; and ongoing supervision of internal models.

The development of the Supervisory Handbook will continue. Keeping the handbook up to date and used by supervisors is an ongoing EIOPA goal. For this reason EIOPA regularly organises and promotes training for supervisors on using the handbook. It will also be extended to cover additional important areas of relevance for conduct supervision where, amongst other frameworks, the Insurance Distribution Directive is of major relevance.



Supervisory convergence from now on ...

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

- **Building common benchmarks for supervisory practices**

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

- **Review of practices**

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

- **EIOPA's own independent assessment**

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



Priority areas — criteria considered

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

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

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



Supervisory convergence plan

The supervisory convergence plan for 2018-2019 focuses on the insurance sector, and specifically on the implementation of the Solvency II Directive and on conduct of business supervision. Moving forward, EIOPA will also include the supervision of the pensions sector. The plan identifies the areas to be addressed during the years of 2018 and 2019 and will be revised at the beginning of 2019. Over the following 20 months EIOPA will also remain ready to handle a dynamic environment and deal with issues on supervisory convergence not covered by the plan.

Considering the above criteria, over the next two years the priorities can be grouped in the following three key high-level areas.

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

1. Implementation of the common supervisory culture and the further development of supervisory tools

a. Risk assessment framework and application of proportionality

- Work on each of the key characteristics identified in the common supervisory culture, starting with 'risk based and proportionate'. The first step (in 2018) is to focus on the reported data and the use of these data. The information from regulatory reporting is one of the foundations under the further development of the risk assessment framework (in 2019).
- Peer review on the supervisory practices and outcomes on the use of proportionality regarding the regular supervisory report.

b. Common benchmarks for the supervision of internal models

- Develop good practices on the ongoing supervision of validation standards and assess whether and how solvency capital reporting requirements could be improved so as to lay the foundation for future internal model ongoing appropriateness indicators and for the setting up of a supervisory plan for internal models.

c. Supervisory assessment of conduct risks

- Work on a common basis for the supervisory assessment of conduct risks throughout a product's life cycle.
- Thematic review on travel insurance.

d. Group supervision

- Evaluate the supervisory practices on the treatment of own funds of the related undertakings that fall under the category of other financial sectors and for which sectorial rules apply, like the Financial Conglomerates Directive, and develop good practices on the supervision of intra-group transactions and risk concentrations.

e. Remuneration policies

- Ensure convergent supervisory practices on Solvency II remuneration requirements.

2. Risks to the internal market and to the level playing field which may lead to supervisory arbitrage

a. Calculation of technical provisions

- Analysis of the consistency of technical provisions' best estimate calculations, with a special emphasis on the practical implementation of contract boundaries, economic scenario generators, management actions, expenses projection and expected profits in future premiums.

b. Cross-border business

- Ensure the consistency of the calculation of technical provisions in a cross-border business context, focusing on non-life business lines with a long-term claims profile such as 'decennial liability insurance' and 'medical malpractice insurance'.
- Peer review of provisions of exchange of information regarding the authorisation, notification and supervision on a continuous basis, included in the EIOPA decision on the collaboration of the insurance supervisory authorities.
- EIOPA's oversight work on detecting potential unsustainable cross-border business models and on following them up by setting up specific cooperation platforms, for instance to outsource the management of general agents situated in host countries.

c. Assessment of internal model outcomes

- Perform comparative studies on the outcomes of internal models regarding underwriting risks (for main non-life lines of business) and market and credit risk, with an analysis of potential model drifts over time.

d. Authorisations, fitness and propriety

- Finalise the peer review on the supervisory assessment of propriety and issue the adequate recommendations.
- EIOPA's oversight work by engaging with NCAs on supervisory practices in the authorisation process, by critically examining the viability of the business model, and by assessing the fitness and propriety of key managers and/or owners.

e. Consistent implementation of the European Union–United States Covered Agreement

- Monitor and ensure the consistent implementation by NCAs of the provisions of the covered agreement.

3. Supervision of emerging risks**a. Supervision of data and IT-related risks, including cyber risk**

- Develop good practices on the supervision of data management, data quality and IT security and governance.
- Work on common supervisory expectations on insurance undertakings' practices on cybersecurity and explore efficient ways to perform a cyber attack test.

b. Insurtech

- Thematic review of the insurance industry's use of Big Data (covering underwriting, pricing, marketing, claims management and sales).
- Stocktake of NCAs' approaches to innovation, including the use of sandboxes and innovation hubs.

c. Brexit

- Monitor the consequences of Brexit in insurance and pension markets and ensure consistency in supervisory approaches by the EU-27 NCAs.

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