



1 March 2017

Year-end report 2016 on functioning of colleges of supervisors and priorities for 2017

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1. Introduction

1.1 Article 259 of the Solvency II (SII) Directive requires EIOPA to deliver an annual report to the European Parliament in accordance with Article 50 of the EIOPA regulation on all relevant and significant experiences of the supervisory activities and cooperation between supervisors in the framework of the supervision of insurance and reinsurance undertakings in a group.

1.2 As customary, also the 2016 report on colleges includes a forward looking part with the focus on the main overarching themes for 2017. Another important element of this year's report forms the future priorities of the new Strategy for Colleges of Supervisors 2016-2019 (Colleges Strategy 2016-2019) as approved by the EIOPA Board in 2016.

2. General developments

Solvency II - new dimension for the supervision of EEA-based cross-border groups

2.1 The European insurance market is dominated by more than 90 insurance groups with a head office in the EEA operating on a cross-border basis¹. Cross-border activities in the single market for insurance products have picked up during the last couple of years. This underlines the importance of high quality group supervision and an effective and efficient cooperation amongst supervisors².

2.2 In 2016 the cross-border insurance market was characterized by insurance groups adapting to the SII capital requirements with slightly increasing activities in merger and acquisitions, changing products especially in the life sector as well as improving their cost efficiencies.

No major change in the number of cross-border groups - new set-ups compensated by dissolutions

2.3 In the run up to the implementation of the SII framework some new mostly smaller groups were identified. Colleges for 10 groups were set up in 2016 in Greece, France, Germany, Malta, Spain and Sweden. Supported by EIOPA, they were quickly up to speed with their college work as they had the possibility to use processes and approaches already developed by EIOPA and other colleges. On the other hand some smaller cross-border groups in Belgium, Italy, Luxembourg and United Kingdom disappeared in 2016 as insurance groups disposed the cross-border activities or solo entities were turned in branches. The overall number of groups with a head office in the EEA for which a college is in place slightly decreased in 2016 compared to the previous year.

Supervision of EEA subsidiaries under non-EEA ownerships - a challenge ahead

2.4 Following the requirements of Article 213(2.(c)) of the SII Directive³, EIOPA initiated and coordinated the cross-border cooperation of EEA supervisors of insurance undertakings being ultimately owned by the same non-EEA parent undertakings. For some of these structures there is currently no group supervision, neither at the ultimate level nor at European level. EIOPA's activities in this area included the setup of meetings and conference calls amongst EEA NCAs with the focus on information exchange and assessment of potential risks stemming from activities and uncertainties on the strategy of the ultimate parent based in a non-EEA country. As next step EIOPA envisages to start up cooperation between EEA supervisors and the non-EEA supervisor of the ultimate parent.

¹ <https://eiopa.europa.eu/Publications/Administrative/List%20of%20groups%202016.pdf>.

² Sixty percent of the premium income of the large insurers comes from activities outside the home country and one third in terms of foreign-written premium in EU countries as a percentage of the total GWP of each country's insurance sector, whether domestically or foreign-owned, inward premiums coming from the EU is fairly high at 29 percent of total (Bruegel, European Insurance Union and how to get there, policy brief, December 2016 and Dirk Schoenmaker/Jan Sass, DSP Policy Paper Series, no 45, Cross-Border Insurance in Europe, November 2014. <https://eiopa.europa.eu/Publications/Speeches%20and%20presentations/DSF%20Policy%20Paper%20No%2045%20Cross-border%20Insurance%20in%20Europe.pdf>.

³ Member States shall ensure that supervision at the level of the group applies to insurance or reinsurance undertakings which are owned by an ultimate parent based in a non-EEA country (Article 213(2.(c)) of the SII Directive).

Supervision of financial conglomerates - room for improvement

2.5 According to the list published in 2016 by the Joint Committee⁴ of the three European Supervisory Authorities (ESAs) 79 groups were identified as financial conglomerates with head of group in the EU/EEA. High quality and coordinated supervision of financial conglomerates is of utmost importance for maintaining the financial strength at the level of the conglomerate and ensuring the stability of the financial system as a whole. Through attending insurance- and also banking-led conglomerates' colleges, EIOPA supports close cross-sectoral supervisory cooperation and promotes appropriate consideration and assessment of potential risks from interconnectedness of the operations across sectors. However, in EIOPA's view there is potential for further development of structured cross-sectoral supervisory cooperation in information exchange and risk analysis with the objective to better capture risk concentration and contagion risks across the operations in financial conglomerates.

EIOPA Colleges Strategy 2016-2019 - enhanced focus to address new challenges

2.6 As a response to the new challenges for EIOPA and the European supervisory community resulting from the introduction of the new risk-based Solvency II framework the strategy for colleges was reviewed and revised. The Colleges Strategy 2016-2019 reflects the joint collective effort of NCAs and EIOPA focusing on the content of group supervision. Given the available resources, risk-based choices will be made about EIOPA's engagement in colleges either on an ongoing basis, or in certain time intervals, or where EIOPA in principle will not engage. A number of criteria have been defined to determine EIOPA's focal areas of attention depending on the impact of a group's failure from a European-perspective taking into account scale, market position, dimension of risk exposure, complexity of organisation and operations and quality of supervision.

With the revised approach EIOPA aims to focus on those areas:

- where a potential failure of a supervised group would have significant impact on the financial market from a European perspective, and
- where EIOPA's support is needed in order to coordinate the cross-border supervision of EEA undertakings belonging to groups based in non-EEA countries with no formal sub-group structures at EEA level.

⁴ The Joint Committee is a forum with the objective of strengthening cooperation between the European Banking Authority (EBA), the European Insurance and Occupational Pensions Authority (EIOPA) and the European Securities and Markets Authority (ESMA), collectively known as the three European Supervisory Authorities (ESAs).

3. EIOPA Observations

Harmonised Solvency II regulatory framework drives interactions and improvements in colleges

3.1 This report includes EIOPA's findings regarding the consistent, efficient and effective implementation of group supervision under the SII regime for groups that are operating on a cross-border basis.

3.2 During the first year of SII, EIOPA observed increased interactions and discussions in colleges using the harmonised regulatory requirements and reporting templates as a basis.

3.3 Many colleges are in a position to exchange most recent 2016 Solvency II data and have incorporated the review and discussion of the ORSA reports in the ongoing college work, which are considered major improvements. In EIOPA's view it is important to convey the forward-looking approach into the college discussions.

3.4 Risk assessments in a number of colleges are still retrospective rather than forward looking. EIOPA expects this to change over time when analyses based on available data have become standardised. Also EIOPA's work programme for 2017-2019 promotes the discussion on business models, planning and risk analyses under stressed conditions.

Room for improvements in consistency and quality of ORSAs and transparency SII public disclosures

3.5 EIOPA also observed inconsistencies and room for improvements in quality of ORSA reports and SII public disclosures:

- Examples for inconsistencies observed between solo and group ORSAs include the assessment of sovereign risk and the reference dates of financial data. Quality of ORSA reports at group and solo level could benefit from enhancing forward looking aspects. Another area for further development is the consideration of scenarios which more appropriately address the specificities of the businesses and risks across the group. Furthermore ORSAs are not always taking into consideration adaptations of the strategy triggered by changes in the business environment.
- The SII regime puts high emphasis on transparency and public disclosure of SII financial positions. A first analysis of public disclosures of the SII positions and their drivers for the major cross-border groups revealed major inconsistencies regarding the use of the wide range of options provided in the SII regulation, in particular the use of long-term guarantee and transitional measures. This affects the comparability of published SII coverage ratios. EIOPA expects major improvements in transparency from the publication of the "Solvency and Financial Condition Reports" (SFCRs) throughout 2017. EIOPA plans for 2017 thorough analysis of the quality and consistency of public disclosures of the first SFCRs and will review the need for further improvements.

Colleges to develop further towards a continuous platform for supervision of cross-border groups

3.6 The college work is off to a good start under the new regulatory framework and in process to further develop to a continuous platform for supervision of cross-border groups. EIOPA observed in 2016 that group supervisors more frequently set up physical meetings, tele-conference meetings and other kind of activities (e.g. written procedure on feedback letters to the group, college work planning) in advance of or after college meetings. On the other hand, taking conclusions in colleges to support the group and solo supervisory processes and derive actions for follow up are areas for further enhancement. Different initiatives undertaken by EIOPA in 2016 (Colleges Strategy 2016-2019, Themes planning 2017) demonstrate EIOPA's commitment to support the college work.

Need for EIOPA to set priorities for its engagement in colleges

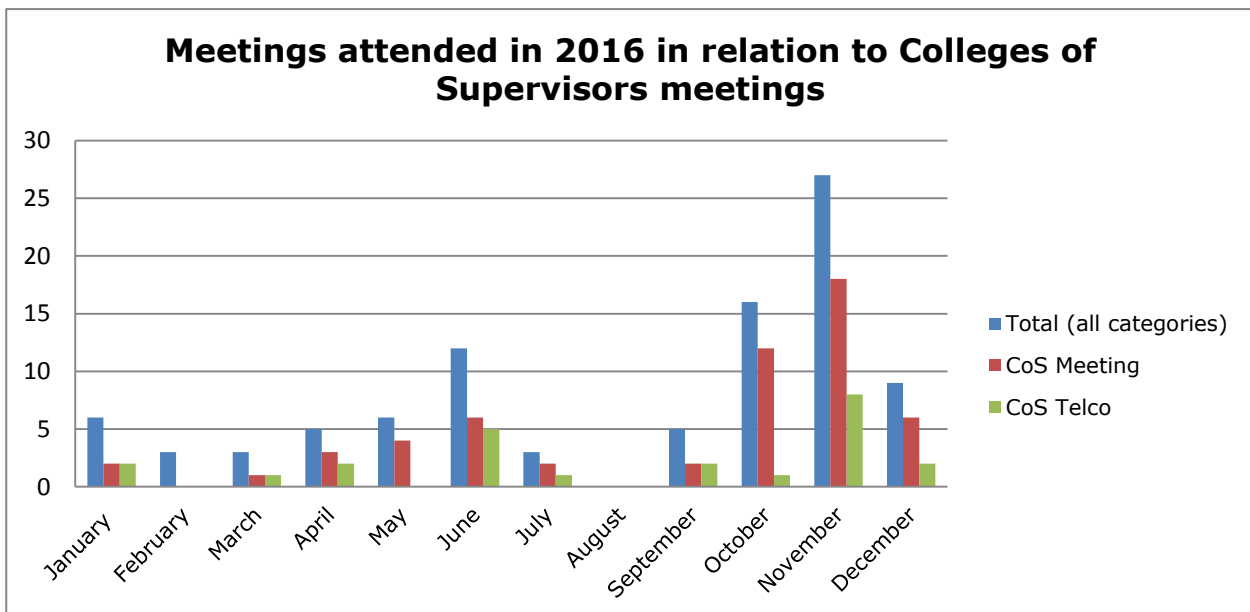
3.7 The operational goals and priorities of EIOPA as included in the Colleges Strategy 2016-2019 consider further maturing of colleges for the forthcoming years to ensure high quality, effective and efficient functioning of colleges based on trust. This includes also well prepared meetings with relevant topics on the agenda. Using a risk-based and forward looking approach and ensuring a proper follow-up are important to develop colleges to a continuous platform for group supervision.

3.8 Taking into account the Colleges Strategy 2016-2019 and its aim to deepen the level of engagement and supervisory analysis within colleges, EIOPA needed to prioritise its resource allocation to the different colleges. Therefore a prioritised level of EIOPA`s involvement in colleges has been introduced, to be reviewed on an annual basis using a combination of a factual scoring framework overlaid with supervisory judgement. This will amongst others incorporate the following elements:

- Economic/systemic importance of group and its solo entities from a European perspective;
- Complexity and functioning of the college;
- EIOPA assessment of the stage/experience NCA group supervision and the SII implementation;
- Group financial strength and risks.

3.9 In line with the above, EIOPA was not present in meetings and teleconferences of all colleges in 2016, but focussed mainly on colleges of 56 groups. For these groups EIOPA participated in physical and/or tele-conference meetings of colleges, meetings of specialised teams for example on internal model applications but also meetings of the CMGs (Crisis Management Groups) for the supervision of GSII's (Global Systematically Important Insurers). The graph below provides an insight in the number and distribution of physical and tele-conference meetings during the year in which EIOPA participated.

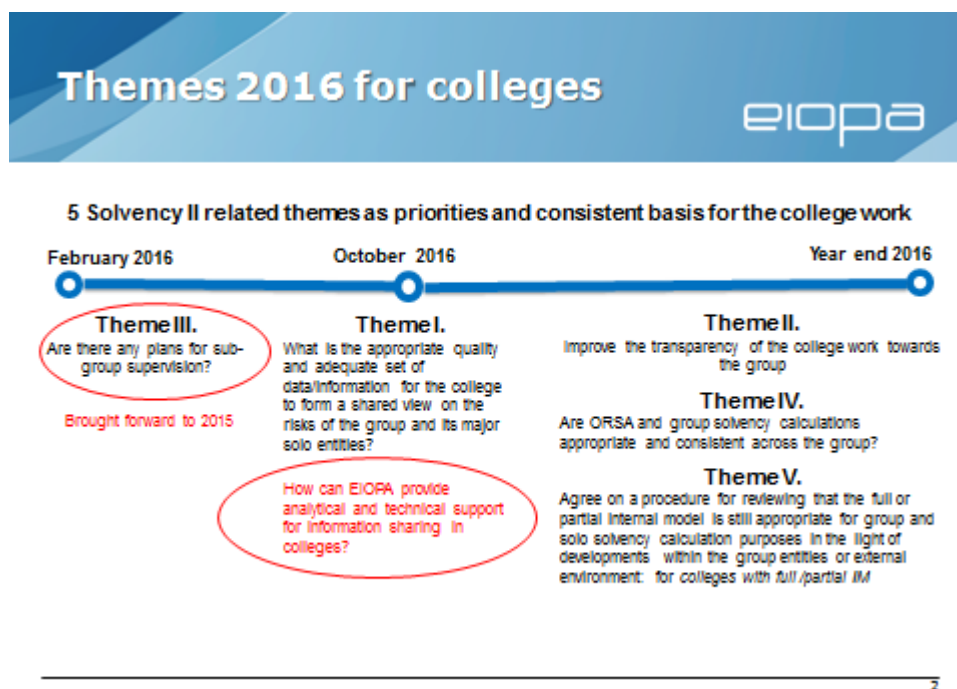
Graph 1: Number of physical and teleconference meetings of general colleges of supervisors in 2016 attended by EIOPA



4. Accomplishments of themes for colleges in 2016

Assessment of accomplishments based on themes and priorities set for 2016

4.1 The accomplishments of colleges are assessed taking into account the specific themes and priorities set for the work of EEA colleges in 2016 as approved by the EIOPA Board of Supervisors. The colleges led by the Swiss Financial Market Supervisory Authority (FINMA) and Bermuda Monetary Authority (BMA) take into account the EIOPA themes for colleges and are therefore included in this report. As such all figures and charts in this report include EEA, FINMA and BMA-led colleges unless specifically stated otherwise.



Quality and efficiency gains in the information exchange in colleges experienced under the new SII rules

4.2 **Theme I** requests colleges to have a **critical look at the actual data set the college agreed upon in the coordination arrangements** (Annex 1C) to be exchanged. Adequate information exchange is the cornerstone for a well-functioning college as a core element of the college risk assessment. Exchange of high quality data ensures that main risks and vulnerabilities of the insurance group can be identified and enables the supervisory authorities to request proper management of these risks by the supervised undertakings.

4.3 Article 357 of the Commission Delegated Regulation (EU) 2015/35 (CDR) prescribes the documents and Quantitative Reporting Templates (QRTs) to be exchanged on a systematic basis in colleges. The EIOPA Guidelines on exchange of information on a systematic basis within colleges (EIOPA Information Exchange Guidelines) provide further practical guidance. Colleges can decide as part of their coordination arrangements on a more limited set of information in case not all data are needed for the activities of the college, as well as, decide that additional or other data are required.

4.4 As observed, most colleges follow the general CDR and EIOPA Information Exchange Guidelines. Some colleges decided to a limited set of data to be exchanged as they prefer to focus on the analyses of the data in the QRTs reported to the solo

supervisors in the college, whilst further details on the QRTs could always be collected in a second stage.

4.5 EIOPA recommends in this early stage of implementation of SII to exchange the full set of QRTs prescribed in the CDR and EIOPA Information Exchange Guidelines. It enables supervisors to get more familiar with the data by analysing the reporting in the college and get insight in possible group wide trends or inconsistencies. Furthermore a relatively small set of QRTs is asked to be exchanged. The same accounts for the list of key highlights from the RSR and SFCR reports. Last but not least non-EEA supervisors should be encouraged to submit similar information on a best effort basis as agreed in the coordination arrangements.

A good start in 2016 regarding the integration of non-EEA NCAs in the coordination arrangements of some colleges but still substantial further work needed

4.6 To enable supervisors from non-EEA countries to fully participate in EEA lead colleges, exchange of confidential information with non-EEA NCAs need to be made possible. The coordination arrangements enable the exchange of information with the supervisory authorities of non-EEA countries under the condition that the information to be exchanged is subject to guarantees of professional secrecy in those countries which are at least equivalent to those required under the SII Directive. This is a prerequisite to sign the coordination arrangement and being able to participate in full to a college.

4.7 There are 29 EEA colleges with non-EEA country participants, all with coordination arrangements in place. Until now 9 coordination arrangements have been signed by all non-EEA country participants and another 9 are in process to do so. Another 11 colleges still have to start to go through the process of assessing the professional secrecy regime of non-EEA NCAs. This hampers full information exchange in these colleges and can undermine trust.

4.8 Among the non-EEA NCAs who signed the coordination arrangements most are from countries whose professional secrecy regimes were assessed by EIOPA, followed by NCAs who undersigned the IAIS Memorandum of Understanding (MMoU). By end 2016 Bermuda, Canada, Hong Kong, Isle of Man, Guernsey, Japan, Singapore, State of New York, South Africa and Switzerland signed one or more coordination arrangements. To achieve worldwide recognition as a college member itself with an adequate professional secrecy regime in place, EIOPA signed the IAIS MMoU in 2016⁵.

4.9 For many other non-EEA countries and for most US states there are no EIOPA or IAIS assessments of the professional secrecy regime available. Therefore assessments still have to be made by the group supervisor or by college members individually. This is a time consuming procedure to which the legal departments of NCAs in general give a lower priority. EIOPA therefore stimulates the group supervisor to coordinate the process in the college and share assessments in the college as soon as available. In other cases the non-EEA countries do not see the advantage of signing the coordination arrangement, as participants have no voting rights on European matters in colleges. As a consequence information exchange will be limited with these non-EEA country participants and the college organisation needs to be adapted. This could lead to inefficiencies and a limited effectiveness of supervision. EIOPA's ongoing attention will be necessary in 2017 to oversee that also in the remaining 11 colleges non-EEA country supervisors sign the coordination arrangements.

⁵ <http://www.iaisweb.org/page/supervisory-material/mmou-signatories>.

Focus on the exchange and analysis of data for enhancing consistency and quality of cross-border supervision

4.10 At the beginning of 2016 EIOPA set up a work stream on "Adding value and generating new insight using data and analytics"(AVA). The main objective of the AVA work stream is to elaborate on the possible use of the EIOPA central repository of SII QRTs for additional reports, analytics and indicators to support the supervision at the national level. The AVA work stream has focused on the following three areas: (1) Improving data quality, (2) supporting information exchange in colleges and (3) producing peer group analysis and aggregates.

4.11 The objectives of the AVA project with regard to supporting information exchange in colleges are to create added value, improve efficiency, prevent NCAs from duplicating work and foster convergence across colleges in the EEA by centralising the collection of QRTs from different NCAs and the calculation of selected data, key indicators and production of standardised reports using consistent methodologies. The set of data and analytical reports for colleges generated from EIOPA's central repository is based on the requirements of the SII regulation (Article 248 and 249 of the SII Directive, Article 357 CDR) and the EIOPA Information Exchange Guidelines. The aim is also to provide a basis for further in-depth analysis and support high quality supervisory discussions in colleges, judgement and assessment of the risk and financial position of cross-border operating groups and their main undertakings.

4.12 During the testing phase which was finalised in December 2016, college members recognised the benefits and opportunities from using EIOPA's central repository and a consistent analytical approach for supervisory purposes of cross-border operating groups. The EIOPA Board of Supervisors approved the proposed approach and prolonged the mandate of the AVA work stream to continue and further develop the work.

Risk assessments in colleges based on a structured approach developed in the build-up phase to SII

4.13 Risk assessments within colleges are performed in different formats. Several NCAs leading more than one college developed their own approach which is used in all colleges for which they are the group supervisor. For NCAs being involved as solo supervisors in several colleges in different countries it is burdensome to provide input for individual risk assessment forms. To increase the efficiency the risk assessments methods are expected to grow closer together, however on the other hand flexibility in the systems remains needed to take into account size, nature and complexity of the undertakings.

4.14 The risk assessments approaches are also quite different in structure. Some of the risk assessments are using a handful of basic categories (like market risk, credit risk, underwriting risk, capital risk) while other risk assessment frameworks are more granular, introducing over 30 sub-categories. In some cases no formal differentiation is made between the entities and the impact they have within the group, in others weighting is introduced, based on gross written premium, technical provisions, or solvency capital requirement. There are differences how far the risk assessment frameworks and the SII reporting data are already integrated. Less than half of the colleges whose activities have been assessed had already explicitly aligned their risk assessment to the SII data.

4.15 The actual process of the risk assessment being performed is also different. Some colleges solely rely on written contributions by college members which are summarized and presented during the college meeting with very limited level of discussion. Other colleges have detailed discussions based on the risk assessment

summary while supervisors challenging each other and asking for explanations. As it has been mentioned in previous EIOPA reports on the functioning of colleges, organising break-out sessions is an approach which improves the quality of the discussion in larger colleges, in particular with regard to the risk assessment. The assessment of the group supervisor for certain risks is supported by the outcome of the college discussion.

4.16 The most significant task for the supervisory authorities is to make their risk assessment forward looking. For example developments of risk profiles have to be analysed, sustainability of business models have to be assessed by taking into account all the information available in particular the conclusions from the ORSA reports. EIOPA is collecting and sharing some good examples of the risk assessments - with the support of the group supervisors.

More transparency of the college work through enhanced communication

4.17 In the spirit of the Solvency II regime also supervisors are requested to enhance communication towards cross-border groups about the focal points of the college activities, the objectives, the outcome of the joint risk assessment, supervisory key issues and the performance of the group management in presentations and communications with the college (**Theme II**).

4.18 In 2016 almost all colleges with only few exceptions (mainly smaller and new colleges) discussed the feedback to be provided to the group by the group supervisor. For most of the colleges the feedback was agreed and also communicated by the group supervisor. The vast majority of group supervisors provided the feedback orally. Only in few cases an explicit written feedback report was consulted in the college and submitted to the group. EIOPA has observed a high commitment of groups' top management presenting at college meetings. Positive reactions from the group management on the benefits of improved transparency demonstrate the importance of this subject for the industry and encourage further enhancements in future. On the other hand EIOPA sees room to further enhance the group management performance in colleges by requesting more focussed presentations tailored to the concerns of supervisors.

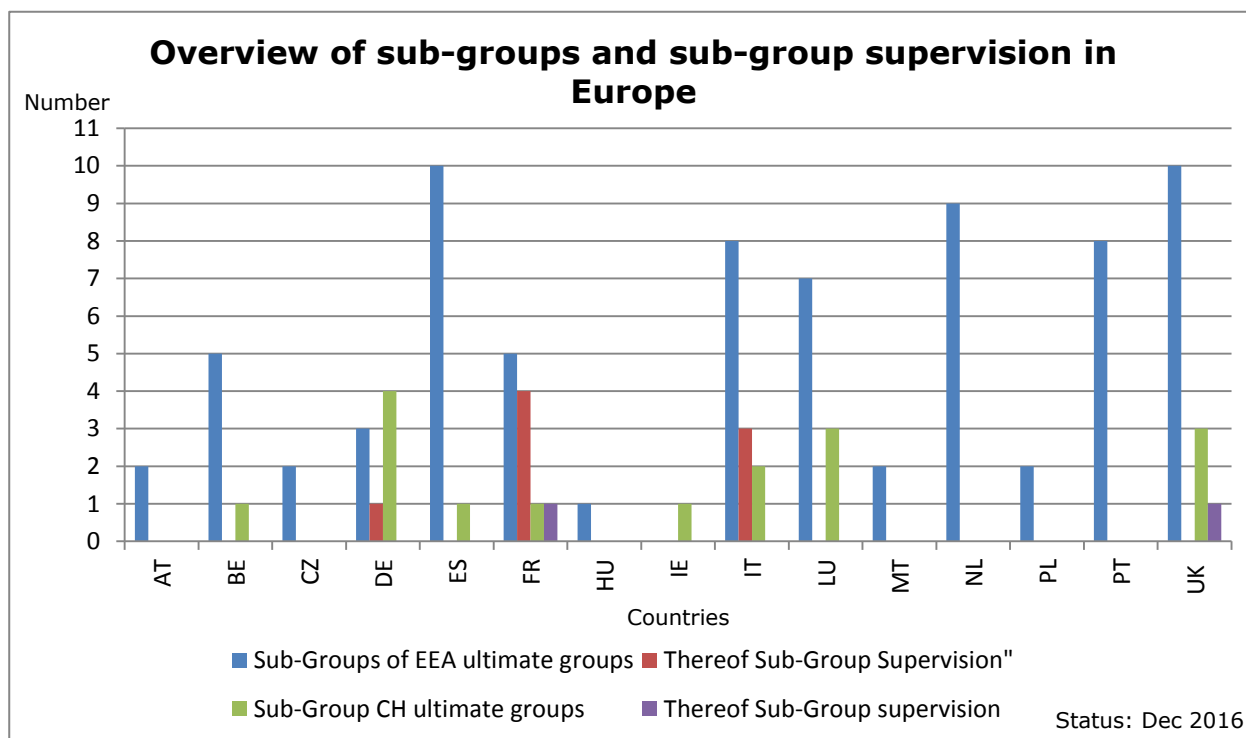
Sub-group supervision - an option to support risk-based supervision under certain criteria

4.19 The objective of sub-group supervision is to improve and contribute to the effectiveness and provide added value for risk-based supervision of a cross-border operating group by identifying and mitigating risks which could arise between pure solo supervision and supervision at the ultimate group level. However there is a risk of additional complexity following the introduction of multiple layers of 'group' supervision. EIOPA therefore supported the decision making process of individual NCAs for establishing sub-group supervision. EIOPA has provided guidance for the application of the criteria of the SII regulation and shared its evaluation of the added value with the group supervisor. It also emphasised the importance of transparent governance for the consultation and decision making process in the assessment phase and discussions in the college. The college task was to discuss **plans for/extent of sub-group supervision at national level or EEA regional cross-border level (Theme III)**.

4.20 As per status November 2016 90 sub-groups of EEA- and Switzerland based ultimate groups were operating in 15 Member States. Thereof, for 10 sub-groups in 4 Member States the application of sub-group supervision has been decided until the end of 2016. Out of the 10 sub-groups which are placed under sub-group supervision, 5 are pure national sub-groups whereas 5 are operating across borders. In 1 ultimate

group sub-group supervision is applied for 2 national sub-groups placed in 2 different foreign Member States.

Graph 2: Overview of sub-groups in Europe belonging to EEA and Switzerland (CH) based ultimate groups



4.21 EIOPA is closely monitoring the plans of sub-group supervision with NCAs, discussing the underlying reasons, collecting examples and good practices with the objective to support convergent, effective and efficient application of sub-group supervision across the EEA. Some good practices have already been observed for the organisation, specification and structuring of the requirements and processes. Additional complexity results from the existence of cross-border sub-groups and multiple sub-groups in one single ultimate group. Therefore, when applying sub-group supervision it is important to ensure efficient and clear processes by aligning approaches and methods to the practices used in the college at ultimate level and by streamlining the cooperation between supervisors at group and sub-group level.

First experiences with ORSA assessments in cross-border colleges seeking for a common approach

4.22 Colleges were also expected to review the consistency and quality of the **ORSA reports and group solvency calculations (Theme IV)**. In 2016 the vast majority of colleges organised an assessment of the ORSA with the aim to provide feedback to the supervised group. In some colleges no discussion took place as the ORSA reports were not yet available at the end of 2016 or the activities of new colleges were still in their starting phase.

4.23 For the assessment of ORSA reports the main issues for cross-border colleges are:

- Which documents are needed and useful for the college discussions, considering language, confidentiality and selected disclosure aspects? Full or parts of ORSA reports and/or the outcome of the supervisory assessments?

- How to organise the discussion in the college on ORSA? In 2016 most colleges used a free format approach, followed by colleges using a questionnaire and colleges using a structured template.
- How to improve the quality of ORSA reports regarding the appropriateness of scenarios used, sensitivity analysis performed and forward looking approaches applied?
- How to ensure that major risks on solo level are adequately captured on group level especially when the group is applying for the single ORSA document?

4.24 In most colleges the outcome of the supervisory assessment of the original ORSA report was shared. This approach is less resource-intensive for NCAs and more effective under the condition that a summary of the main elements of the ORSA report of considerable technical detail is available for the college (e.g. parameters stress analysis etc.) and the supervisory assessment is performed in a consistent way at group and solo level. According to EIOPA's experience college discussions benefit from sharing the group ORSA and providing information from on-site inspections at undertaking level.

4.25 Most group supervisors have developed templates or qualitative questionnaires for the ORSA discussion in colleges. The approach is considered beneficial especially in larger colleges as it supports a consistent supervisory assessment of ORSA reports, enhances the comparability between supervisory assessments and supports a common risk based perspective.

4.26 The quality of the approaches observed in colleges varied significantly from high level discussions to more advanced in-depth reviews and assessments. The quality of the supervisors' contributions to the ORSA discussions in colleges depends on the sophistication of the approach developed and used at NCA level. Furthermore, the use of specific scenarios, time horizons or stresses at local level could make comparisons and identification of outliers throughout groups more difficult. However, undertaking specificities may justify this approach.

4.27 In practice, college members have shared their local assessments of the ORSA reports for the supervised undertakings with the objective to identify common issues of concerns to be communicated to the group for further improvement. Such common issues already identified in some colleges for further improvement include:

- the engagement of top management in embedding ORSA results in the strategic and operational decision making processes;
- the need for stronger links with the undertaking's risk appetite, risk tolerances and limit systems;
- the appropriateness and severity of stress scenarios and sensitivity analysis;
- the need for more sophisticated forward looking approaches taking into account business developments, plans, risks and strategic choices;
- the inclusion of non-EEA countries in the group ORSA and comparability of ORSA like reports of non-EEA entities;
- the need for improving the assessments on deviations of the standard formula.

4.28 So far, only in few cases groups have applied and received approval to prepare a single ORSA document, however compared to 2015 a slight increase in the requests for the submission of single ORSA reports was observed.

Review of quality and consistency of material items of the SCR calculations started in colleges

4.29 Two thirds of the colleges EIOPA attended have reviewed the quality and consistency of the SCR calculations based on the 2016 QRTs. In general, not many issues on quality or consistency were raised at college meetings, as many NCAs were

still in the process of reviewing the quality of the QRTs received. In some colleges questions were raised in relation to the quality of own funds and use of subordinated debt, the loss absorbing capacity of technical provisions and deferred taxes and on the calculation of the best estimate for life business. In cases where the calculations were performed centrally in the head office of the group, supervisors often raised concerns on the understanding and potential lack of control of the solvency calculations at solo level.

4.30 Some colleges have agreed, as part of their college work plan for 2017, to select one or two topics of the reporting to be analysed in more detail with the aim of having a better view of the quality of reporting of material items and whether there are inconsistencies across the group. This is considered as a good practice.

Internal Models play a major role in the calculation of insurer's risk capital underlining the importance of high quality and consistent supervisory practices in Europe

4.31 The first statistics of Internal Model (IM) reports that EIOPA received in 2016 show that IMs play a major role in SII **(Theme V)**. 11 Member States have approved group internal models. Individual (solo) companies that use an IM (including also those belonging to a group and using the group model) are spread over 17 Member States. IM undertakings usually account for a significant part of the market share in these countries. Aggregated at European level, the Solvency Capital Requirement (SCR) of IM undertakings represents 44% of all solo undertakings' SCR and for groups the respective figure is 58%.

4.32 Despite the importance that group IMs play under SII, EIOPA does not yet receive much regular information on these models. The quantitative reporting to EIOPA is limited, which is partially due to the differences in IMs and in national reporting that the SII framework allows. Regarding IM documentation, EIOPA, in line with the discussion in the Board of Supervisors meeting in June 2015, does not generally receive the model application (and model change application) material, which hampers EIOPA's active participation in the discussions in the college. The reason often quoted by NCAs is, that EIOPA is not to be considered as a "concerned supervisor" in the joint decisions of colleges as EIOPA does not take formal part in IM approvals. On request of EIOPA, for instance for specific internal model projects, the information, however, will be made available.

4.33 EIOPA's main focus for IMs is currently on developing EU wide tools to assess and increase the consistency and quality of model supervision. In this area a benchmark study for market and credit risk models is underway and a comparative study for non-life underwriting risk is about to start. Life underwriting risk would be the next area to target. Moreover, there are some major inconsistencies observed in supervisory praxis concerning IMs that are targeted by specific consistency projects: currently a project on Volatility Adjustment modelling and a project on Sovereign risk modelling are on-going.

5. Conclusions and priorities going forward

Visible improvements but still a way to go to put the paradigm change towards risk-based supervision to life

5.1 The implementation of the SII regulatory framework has started to visibly improve the quality of the discussions and activities in colleges. However, there is still a way to go to put the paradigm change of the new risk-based regulation into full life for cross-border groups.

5.2. EIOPA is through its membership pro-actively engaged in the work of the colleges. In the years to come EIOPA will focus its work on cross-border groups aiming to enhance appropriate and high quality supervision of cross-border groups in line with the principles of Solvency II. This includes detecting inconsistencies, discussing and assuring a level playing field in applying Solvency II (SII) for the supervision of cross-border groups. Risk assessment in context of group supervision needs to be used as an important tool to ensure an earlier detection of any emerging risk or crisis allowing the implementation of less costly crisis resolution plans. In order to achieve this target further maturing of college activities is needed whereby supervisors increasingly combine their forces in their interaction with cross-border insurance groups.

5.3 In 2016 the first benefits from the introduction of SII were shown in the college work but it also highlighted areas of particular attention for EIOPA, e.g. information exchange and the planned use of EIOPA's Central Repository, practices for enhanced risk assessment, sub-group supervision, consistency and quality of ORSA reports and internal models.

5.4 In EIOPA's view it is of utmost importance that new emerging risks are taken up in the ORSA reports and in the joint risk assessment in colleges. The previously experienced trend in branching out has lost impetus in 2016, though major cost reduction and efficiency improvement programs as well as restructuring of life insurance portfolios towards less capital-intense products are frequently observed initiatives in insurance groups.

Different initiatives demonstrate EIOPA's strong commitment in further developing the supervision of cross-border groups

5.5 The Colleges Strategy 2016-2019 and the Themes for colleges for 2017 are setting the priorities. In line with EIOPA's mandate according to Article 21(2) of the Regulation (EU) 1094/2010, EIOPA has confirmed its strong commitment to support the cooperation in colleges in further developing processes and by providing technical and analytical tools, peer comparisons, practical solutions and examples, expert knowledge and advice.

Trust, enhanced information exchange and further development of risk assessment techniques are important factors for enhancing supervision of cross-border groups

5.6 The success of colleges in enhancing shared supervision rests on building trust between supervisors and their authorities. Trust in colleges appears in different ways, through college members and participants' supervisory competences related to NCAs supervisory approaches, but also through the quality and security of the information exchanged and in general the engagement of supervisors in colleges. Contributions of solo supervisors are highly important to support the supervision of cross-border groups. In the larger colleges it is more difficult to involve all representatives of the

solo NCAs and therefore alternative ways for the organisation of those colleges shall be tested, e.g. by organising break-out session for topics or regions.

5.7 Colleges are expected to have focussed agendas following the outcome of the risk assessment using a forward looking approach in analysing business models and risk profiles, and increasingly sophisticated analytical techniques.

5.8 To ensure that colleges act as a continuous platform it is expected that:

- Joint on-site inspections will be set if needed for supervisory purposes of the group or entities within the group. EIOPA is likely to be involved and participate in accordance with article 21(1) EIOPA Regulation;
- the outcomes of the group and solo Supervisory Review Processes (SRPs) at NCA level are used as an input for information exchange and risk assessment;
- the outcome of the discussions and conclusions in the college are fed back into the group and solo SRPs at NCA level;
- SRP processes, activities and measures at group and solo level are built on a fully informed basis considering views and experiences from a broad multinational perspective.

Themes for colleges 2017 - next steps towards high quality, efficient and effective supervision of cross-border groups in the EEA

5.9 The definition of themes is an integral component of the implementation of EIOPA's strategy on colleges aiming to build convergence in high quality, efficient and effective supervision of cross-border groups throughout the EEA. The main areas for further development under the common risk based SII framework are processes and approaches to improve the operational functioning of colleges with regard to efficiency, quality and effectiveness of information exchange and the assessment of risks and financial strength of cross-border groups and their undertakings.

5.10 Against this background EIOPA adopted a two-fold approach for setting the themes for colleges in 2017. Based on EIOPA's strategic objectives and work programme overarching themes for colleges have been defined. These themes will be further specified and aligned at individual college level by taking into account the individual risk exposure, the financial and solvency position of the cross-border group and its undertakings.

Theme I for 2017: Further develop effectiveness, efficiency and impact of information exchange and joint risk assessment in colleges

5.11 Colleges are expected to perform an in-depth review and analysis of the efficiency and quality of information exchange and risk assessment approaches for one or few of the most important risks, identify areas for improvement and implement an enhanced approach by using the comprehensive data and information available in the common SII reporting framework. The aim is to achieve a high quality risk assessment outcome as a profound basis for the college to agree jointly on the need and type of supervisory activities.

Theme II for 2017: Ensure robustness and reliability of the SII balance sheet

5.12 With regard to EIOPA's strategic objective 2 "to improve the functioning of the EU internal market in the field of insurance" convergence in using consistent and reliable valuation methods in the balance sheet is crucial in particular for cross-border groups. Identifying the asset and liability positions being the main drivers of the solvency position and assessing the reliability and robustness of the valuation is important as it is this base valuation that is then stressed to evaluate the financial resilience of the group and the solo undertakings. Important topics for discussion in

colleges are differences in the application of valuation principles, the use of options and their impact on the group's and major solo undertakings' financial and solvency position. Findings are discussed within the college and supervisory actions are agreed.

Themes for colleges 2017 – A fully integrated approach

