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EUROPEAN INSURANCE
AND OCCUPATIONAL PENSIONS AUTHORITY

EIOPA's work on Supervisory Convergence

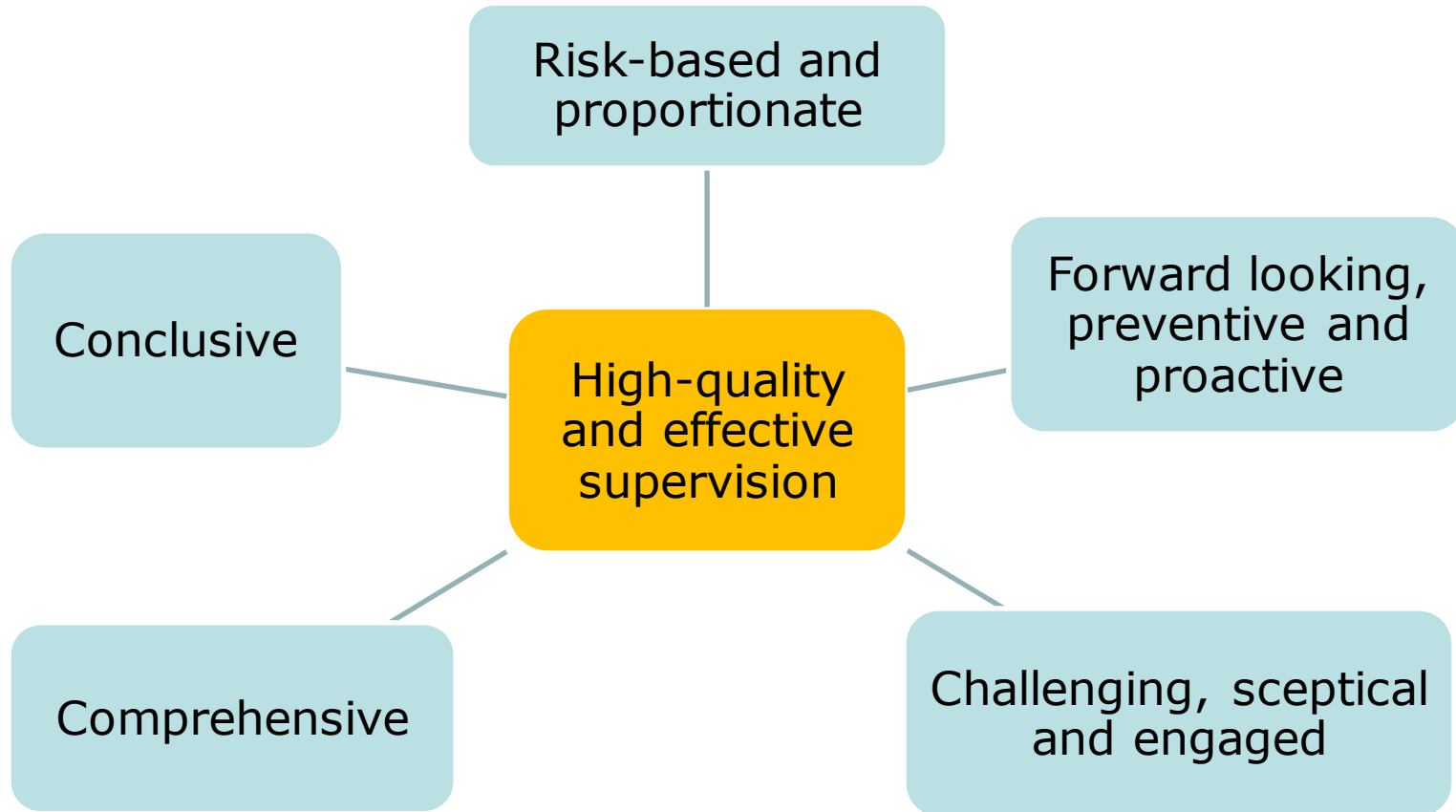
EIOPA Insurance and Reinsurance Stakeholder Group meeting
Frankfurt, 5 September 2017

- EIOPA Risk Framework
- Common European Supervisory Culture
- Supervisory Tools
 - o General
 - o Bilateral
 - o Cross-border
 - o Other

Market

Groups

**Level of
Supervision**



- Supervisory efforts should **focus** on the market participants that pose the **higher risks** to the objectives of supervision
- The frequency and intensity of supervision depends on the **potential impact** and **probability** of an insurance undertakings failure
- The potential impact depends *inter alia* on the size, type of business, risk appetite of undertakings, complexity and interconnectedness
- The potential probability should also consider qualitative criteria especially linked with the **undertaking's specificities**
- The risk-based prioritisation should be complemented with the assessment of potential **reputational risk** to the market or risk of **market disruption** that the failure of an undertaking (even if low impact) could have in the market as a whole
- Notwithstanding the risk-based prioritisation, all insurance undertakings should be subject to a **minimum level of supervision** and to a comprehensive review within a pre-defined frequency, irrespective of the perceived risk of failure

High-quality and effective supervision: Forward-looking, preventive and proactive



- Supervision assesses not only the current risks, but also those that could potentially arise in the future
- Supervisors should focus on '**what can go wrong?**' rather than only on '**what went wrong?**'
- The SRP process should take account of **changes** in the **economic** and **legal**, but also **social, behavioural** and **cultural environment**
- Supervisors should generally **intervene at an early stage**, in order to minimise disruption
- Supervision must be **countercyclical**, in particular in good times

High-quality and effective supervision: Challenging, sceptical and engaged



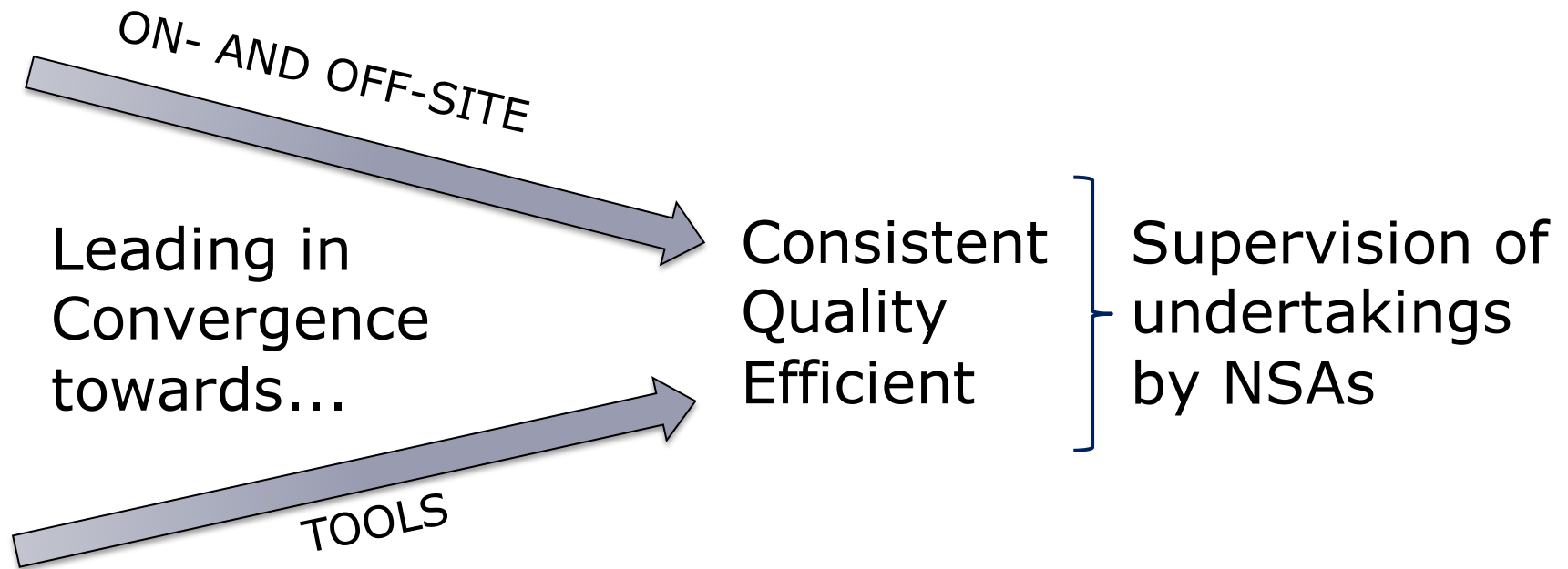
- Supervisors need to **question undertakings' assessment** and **challenge their conclusions** and decision making processes
- This challenge should cover all relevant areas, from the parameters used in the calculation of technical provisions to the business model adopted
- Supervisors need **comprehensive** and **intimate knowledge** of the **supervised entity** and make use of all information available to form their own opinion on the way insurance undertakings conduct their business and manages their risks, including the sustainability of the business
- Off-site analysis to be complemented by **off-site review** and/or **on-site activities** if relevant
- **Intrusive supervision with open and fair dialogue**; the intensity and frequency of this dialogue may differ depending on the undertaking's risk profile and the attitude of the undertaking to supervision

Comprehensive

- Supervision should cover **business models**, corporate **culture**, **integrity** and **decision making** processes
- Supervisors must be constantly vigilant in identifying **emerging risks** that may have important consequences for the insurance undertakings they supervise
- This includes **unregulated subsidiaries**, affiliates, and **off-balance sheet structures** associated with regulated institutions
- This also includes the **systemic risks** and those arising from interconnectedness within the insurance sector and across sectors

Conclusive

- The implementation of processes and procedures, including documentation, on decision making process, supported by a clear rationale should lead to a predictive judgment
- Supervisors must **draw conclusions** and **follow-up** on matters as soon as they are identified through the supervisory process
- Identified issues cannot be left without a proper conclusion and action plan
- Once supervisors draw their conclusion, this should be appropriately communicated to the insurance undertakings
- Follow up on inspection findings and recommendations to their final resolution is critical to have an impact and lead to changes



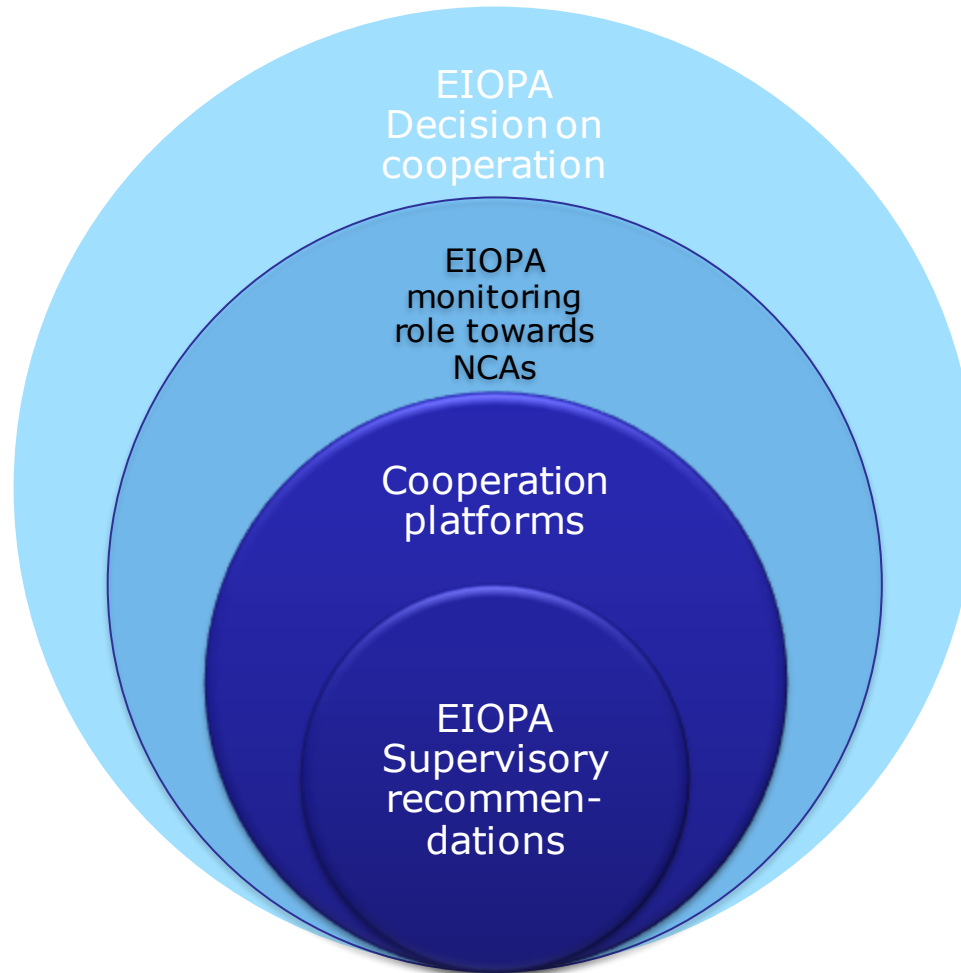
- **Gathering intelligence**
 - o Diagnosing and analysing markets
 - o Consumer trends reports
 - o Retail risk indicators
 - o Financial stability report
 - o Risk dashboard
- **With follow-up recommendations:**
 - o European Union-Wide Stress Tests
 - o Consistency Projects

Recommendations and Best Practices

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- **Structured Bilateral Engagements with National Supervisors**
 - o Update Risk Assessment on market and level of supervision
 - o Independent and challenging feedback
 - o Recommendations for improvements
 - o Follow-up measures including preventive and remedial actions
- **Balance Sheet Reviews (Romania + Bulgaria)**
- **Link to cross-border tools**



- Technical Assistance
- Assessment of Troubled Undertakings
- Lessons Learned Exercises
- Further Country Reviews
- EIOPA legal procedures
 - Breach of Union Law
 - Mediation
- Closed session discussions