

**Second Progress Report on Supervisory Convergence  
In the Field of Insurance and Occupational Pensions for the  
Financial Services Committee (FSC)**

**Executive Summary**

At the request of the EU Financial Services Committee (FSC), this second report by CEIOPS covers the further development of its existing and new initiatives towards increasing convergence in supervisory practices in the field of insurance and occupational pensions, with their progress and limits.

The report adopts headings from the section of the FSC's approved Report on Financial Supervision, on challenges for supervision. These are, **(1) fostering supervisory convergence and cooperation**, **(2) enhancing the cost-efficiency of the EU insurance supervisory regime**, and **(3) improving cross-border supervision**. The **3 Level 3 Committees' joint cross-sector work** is reported in an Annex (Annex 2).

For CEIOPS, helping the European Commission to develop a new prudential insurance regulatory framework (the Solvency II project), continues to be the main work-stream and absorbs most resources. CEIOPS' preparation for enhancing supervisory convergence is becoming visible in its work on the future framework Directive. Issues are being analysed and advice to the Commission given, which will go directly to convergence in future supervisory standards and practice.

CEIOPS has set targets for improving supervisory convergence apart from the Solvency II project. The principal activities reported, some in more than one section, relate to:

- A new initiative to foster European supervisory culture;
- Supervision of insurance groups;
- Supervision of occupational pensions;
- Supervision of insurance mediators;
- Supervisory reporting.

The limits seen by CEIOPS on further progress in each of the three main headings are included. They are a combination of factors. Some may prove to be within CEIOPS' ability to overcome. Others appear beyond its scope.

CEIOPS is grateful for the possibility to report on its progress and the challenges being addressed to the FSC. Any comments on the report would be welcome.

## Introduction

CEIOPS is pleased to present its second report to the FSC on progress in supervisory convergence. The Introduction to CEIOPS' first report<sup>1</sup>, presented in September 2005, referred to the FSC's invitation to CEIOPS and the other two Level 3 Committees (CEBS and CESR) to report regularly to it.

CEIOPS has welcomed the opportunity to keep the FSC regularly informed of its efforts towards supervisory convergence. Its previous report included structural descriptions of CEIOPS' operation. These are considered sufficiently familiar not to need further elaboration. Further details of organization and work streams are available in CEIOPS' Annual Report 2005<sup>2</sup>.

Before reporting on the single work-streams, it is worthwhile to mention that on 24 February 2006 CEIOPS defined short term proposals for work under an overall project for supervisory convergence<sup>3</sup>. The project represents a first initiative for putting into practice some of the supervisory tools and activities outlined in the Consultation Paper on "Developing CEIOPS Medium Term Work Programme", issued in June 2005, and reflects the results of the public consultation.<sup>4</sup> It includes Level 3 activities in a number of areas.

The purpose of the project was declared to flesh out CEIOPS' activity for 2006 by identifying concrete mandates for CEIOPS working groups. These were to be based on areas which are functional to enhancing supervisory convergence and co-operation.

Further analysis was needed to shape the actions in detail and agree an appropriate timeframe. Some of the deliveries could obviously go beyond the year 2006. A proposal for the allocation of each work stream within CEIOPS' organization was included. The main ones are integrated into the following sections of this report.

This report is divided into three parts, addressing the main goals of Level 3 activity: (1) fostering supervisory convergence and cooperation, (2) enhancing the cost-efficiency of the EU insurance supervisory regime and (3) improving cross-border supervision. However, the activities described under each heading have close relationships with the scope and objectives of the others.

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<sup>1</sup> 'First Progress Report on Supervisory Convergence in the Field of Insurance and Occupational Pensions for the Financial Services Committee', CEIOPS-SEC-70/05.

<sup>2</sup> 'Annual Report 2005 and Work Programme 2006'.

<sup>3</sup> 'CEIOPS' work plan on supervisory convergence', CEIOPS-SEC-12/06 Rev. 1. See Annex 1 to this Report.

<sup>4</sup> 'Developing CEIOPS' Medium-Term Work Programme', CEIOPS-SEC-57/05.

## **1. Fostering supervisory convergence and cooperation**

### ***Fostering European supervisory culture***

To carry out some of the tasks for CEIOPS' supervisory convergence project, a new Task Force, named Compass (CONvergence and iMPact ASSESSment), was recently established by CEIOPS. It was set up in February 2006, immediately on the launch of the convergence project. Its aim is to come forward with proposals for facilitating the creation of a European culture of supervision. CEIOPS is grateful that the European Commission is actively supporting this initiative.

Compass will first address the exchange of staff between supervisory authorities and the organization of EU-wide training schemes.

The Commission has separately asked CEIOPS to deliver input for the impact assessment of the forthcoming Solvency II regime on the structure and functioning of supervisory authorities. CEIOPS has mandated Compass to work on that issue as well.

The proposed tasks of Compass to carry out this work are therefore:

- to describe the possible impact of the forthcoming Solvency II system on supervisory authorities, based on the answers of CEIOPS' Members and Observers to a Questionnaire;
- to enhance the convergence of day to day supervision across the EU by presenting proposals to CEIOPS on how to organize the movement of staff, i.e. by permanent recruitments, secondments or short time shadow movements, and how to organize training, i.e. by information sessions, seminars or by developing or strengthening training facilities;
- to carry out a preliminary analysis on further initiatives that can be undertaken by CEIOPS to fulfill its tasks in enhancing convergence of current and future supervisory practices in the light of regulatory developments and, on that basis, present proposals.

CEIOPS is optimistic regarding the expected contribution Compass will make on its behalf to developing supervisory convergence in general and its planned tasks in particular. Its activities will be in close coordination with the work of the other Level 3 Committees.

### ***The Solvency II Project***

CEIOPS' principal and most demanding task remains to assist the European Commission in developing a new prudential, more risk-orientated and robust insurance regulatory framework (the Solvency II project). The project has as one of its aims, to achieve greater

harmonization across the EU, therefore facilitating the development of the Single Market and fostering competitive equality.

The current focus of the project is on designing, under the Lamfalussy model, appropriate EU legislation at Level 1. CEIOPS is providing answers to the calls for advice of the Commission under the assumption that the new framework Directive will also be the foundation for furthering convergence in supervisory practices. This is apparent in CEIOPS' latest advice to the Commission<sup>5</sup>.

In conjunction with these answers, CEIOPS has submitted on its own initiative, its recommendation on the independence and accountability of supervisory authorities<sup>6</sup>. Indeed, this is considered a precondition for achieving further convergence in supervisory approaches, decisions and practices across the EU.

Building on the Solvency II project's legislative groundwork, there is a general expectation that successful implementation will be enhanced by action to seek greater supervisory convergence through Level 3 work. CEIOPS anticipates considerable ongoing effort to secure this achievement, continuing to coordinate with the other two Level 3 Committees where appropriate. Prominent examples of present CEIOPS work-streams for this purpose are in the areas of the conceptual framework and criteria for validation of internal models and of the methods and tools for defining requests for additional capital (capital add-on) based on the supervisory review process.

The work leading to the adoption of the new prudential regime is itself already fostering a joint understanding of the objectives, concepts and tools that will form the bedrock of supervision under the new regime, thus paving the way for the successful deployment of eventual Level 3 measures.

In this respect, CEIOPS continues to emphasise the importance of leaving sufficient room for Level 3 measures when Levels 1 and 2 are being decided. A robust and appropriately harmonised regulatory framework will profit from a substantial Level 3. Standards, guidelines and recommendations, as tools for enacting Level 3 measures will enable the system to respond to relevant changes quickly and flexibly, as well as cover aspects that so far have not been dealt with in the EU prudential framework.

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<sup>5</sup> 'Answers to the European Commission on the second wave of Calls for Advice in the framework of the Solvency II project', CEIOPS-DOC-07/05; 'Answers to the European Commission on the third wave of Calls for Advice in the framework of the Solvency II project', CEIOPS-DOC-03/06.

<sup>6</sup> 'Recommendation on Independence and Accountability', CEIOPS-DOC-04/06.

## ***Supervision of Insurance groups***

CEIOPS' activity on the supervision of insurance groups, based on the operational network established under the "Helsinki Protocol" for the implementation of the Insurance Group Directive (IGD), is referred to in section 3 of this report, when addressing the subject of cross-border supervision. However, some work-streams undertaken by CEIOPS in this context are particularly relevant in fostering convergence and co-operation as well.

In particular, as part of its work on the supervision of insurance groups, CEIOPS' tasks include:

- developing a framework model of the legal and operational possibilities of joint on-site inspections in the context of the Co-ordination Committees<sup>7</sup>;
- the creation of a common procedure and a consistent approach to be used by the supervisors involved in those Committees during a crisis situation, based on the work already done in other financial sectors;
- the collection and disclosure on CEIOPS' website of information on how Member States have exercised the various options provided for in the IGD. Transparency of regulation and supervisory practices is always regarded as fundamental, also in order to foster convergence.

## ***Supervision of Occupational Pension funds***

In the light of the transposition of the IORP Directive into national jurisdictions, CEIOPS is working, at this stage, on facilitating the exchange of information between supervisors, thus enabling a common approach to supervisory issues. In this context, priority will be given to:

- Authorisation and notification procedures;
- Interpretation of social and labour law;
- Definition of competent authorities;
- Investment requirements placed on cross-border schemes; and

Further it is envisaged to start exchanging information on basic aspects of national regulatory and supervisory frameworks, including:

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<sup>7</sup> The Coordination Committees were established to enhance cooperation between supervisory authorities in relation to each multinational insurance group, following the conclusion of the 'Helsinki Protocol' in 2000. See also later under 'Insurance Groups', page 11.

- Practices in the calculation of technical provisions; and
- The progress achieved in the adaptation of the investment rules and the use of depositaries in the national supervisory systems.

Case studies will be analysed to gain a better knowledge and understanding of the different national pensions systems within the EU. This analysis could generate further CEIOPS initiatives, both in the field of Level 3 measures and as recommendations to the European Commission. A report on the first implementation of the Directive is planned for the next year as a result of this analysis.

### ***Supervision of Insurance Mediators***

CEIOPS' future activities on insurance mediation will maintain the drive for supervisory convergence through tackling any supervisory issues arising from the first implementation of the Insurance Mediation Directive. It is planned to approach these through:

- sharing experience in applying the Directive;
- reaching a common understanding of the main provisions of the Directive.
- identifying and disseminating developing best practices.

This analysis could result in preparation of an inventory of the implemented key provisions, or of a more general survey of national implementations. Advice and recommendations to the Commission might be considered.

### ***Limits to convergence***

*For CEIOPS, there are varying stages of convergence within and between insurance and occupational pension sectors. These are historic and dictated by national cultures and jurisdictions. There is considerable divergence across Member States and their supervisory authorities.*

*CEIOPS is addressing these differences related to past traditions and approaches. The room for improvement is still significant from this perspective. However, it should be emphasized that, at this stage, challenges to achieving further convergence are also related to the low level of harmonization of the EU regulatory framework.*

*The Solvency II project takes up many of these challenges in the insurance sector, aiming at a harmonized EU prudential regime, including finding more streamlined arrangements for the supervision of multinational groups.*

*Regarding the Occupational Pensions sector, obvious limits to supervisory convergence have related to the lack of harmonization in the prudential regime, pending the actual implementation of the Directive. In addition, significant differences between jurisdictions in the legal status and management of the institutions concerned present particular challenges. As already mentioned, CEIOPS is planning to monitor and compare relevant aspects of national transpositions. The results of this work could lead to further initiatives.*

*As to the insurance mediation area, differences in the powers of competent authorities, as well as continued significantly divergent national markets (the number of market operators, legal characteristics and ways of operation) present particular challenges. A clearer view of the scope for CEIOPS' activity in converging supervisory practices will only be possible after all Member States have actually transposed the Directive.*

## **2. Enhancing the cost-efficiency of the EU insurance supervisory regime**

### ***Supervisory reporting, accounting implications***

Most of CEIOPS' activities in this report will impact on enhancing cost-efficiency of the supervisory regime. Some have been specifically identified here, for example in the supervision of insurance groups. Others will have benefits which will implicitly accompany their achievement.

CEIOPS recognizes the Commission's better regulation initiative. CEIOPS would be prepared to consider, jointly with CEBS and CESR, the role of impact assessments on future Level 2 and Level 3 measures.

The lead effort for CEIOPS towards direct cost-efficiency is in supervisory reporting and accounting implications for supervision.

As to the latter, CEIOPS issued its Recommendation on the implication of IAS/IFRS introduction for the prudential supervision of insurance undertakings.<sup>8</sup>

CEIOPS recognises that, in the absence of changes to the supervisory rules and calculations, current accounting developments may affect the magnitude, quality and volatility of supervisory measures.

This paper, in the light of the ongoing work on Solvency II, is aimed at limiting suggested amendments to the current regime to a minimum and recommending supervisory reaction which largely depends on the actual

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<sup>8</sup> 'Recommendations regarding the Implications of the IAS/IFRS Introduction for the Prudential Supervision of Insurance Undertakings', CEIOPS-DOC-05/05, September 2005.



regulatory framework in force within each jurisdiction, both in the accounting and in the prudential fields.

As to the harmonization of the supervisory reporting for insurance, this has to be related to the twin ongoing work-streams of the International Accounting Standards Board, which is still working to complete and define the standard applicable to insurance contracts, and of Pillar III of the Solvency II project, which includes inter-relationships between financial statements and supervisory reporting.

In contributing to the development of Solvency II, CEIOPS is paying particular attention to the relationships between those two parallel work-streams. Indeed, the Solvency II regime is expected to be IAS/IFRS compatible. Assuming a progressive wide application of IAS/IFRS, or similar national accounting principles, this should allow for minimizing any adjustment of financial statements to satisfy supervisory purposes and, at the same time, facilitating harmonization of supervisory reporting across EU countries.

### ***Statistical information***

As a longer-term task, CEIOPS is working towards the harmonization of some statistical information on prudential aspects of the insurance and pension markets.

This is aimed at establishing a macro-prudential surveillance framework to analyse the development in the insurance and occupational pensions sector, and monitoring the interplay with financial stability.

Based on the collection of these data, regular reports are presented for discussions on the macro-financial conditions and overall stability of the EU financial system in the Financial Stability Table organised by the European Financial Committee (EFC/FST).

### ***Limits to convergence***

*The lack of a harmonized prudential regime pending Solvency II, represents the principal limit on CEIOPS achieving further convergence results beforehand. CEIOPS has publicly acknowledged the requirement to rationalize the EU system, and thereby reduce supervision costs. How, and the best means possible, are matters still under formation and advice to the Commission within the Solvency II project.*

*Meanwhile there remain the difficulties produced by the varying and sometimes limited scope of application of IAS/IFRS to insurance undertakings in several Member States.*

*Specifically, work had already been undertaken by CEIOPS in 2005 with reference to the definition of standardised IAS/IFRS compliant financial statement formats for supervisory purposes. CEIOPS concluded that the*

*standardisation of this specific supervisory reporting was too broad a goal to be achieved before the definition of the whole Solvency II project and of an international accounting framework. Further complications arose again in relation to the different scope of application of IAS/IFRS throughout the EU.*

*Therefore, in its 2006 work plan on convergence, CEIOPS highlighted the possibility of addressing the issue of standardisation of supervisory reporting, by starting with supervisory reporting related to specific, limited areas. One example is run-off triangles in insurance.*

*First analysis of the development of this work led to doubts on the real usefulness of any partial standardisation of reporting being in place before Solvency II is defined. In addition, since the new reporting could be only a step towards the new Solvency II supervisory reporting, undertakings could be subject to a double-change of their supervisory reporting system over a short period.*

*As another concrete instance, CEIOPS also investigated "optionality". This means in practice that before Solvency II is in place, CEIOPS could form a new supervisory reporting regime. That would still have to become a first step towards the new Solvency II supervisory reporting requirements, to be used at the discretion of undertakings. Pan-European groups could be the most interested stakeholders. They are most affected by the lack of harmonisation of supervisory reporting in different EU countries.*

*However, first reflections on "optionality" indicated that it might lead to the same problem of possible double-change. In addition, it might cause further difficulties for supervisors coping with a lack of homogeneity among their supervised entities in their jurisdiction.*

*None of the issues investigated by CEIOPS lead to clearly advantageous solutions for these limits. Further contact with the industry will be important for a clear understanding of the real and effective need for harmonisation of supervisory reporting before Solvency II is in place.*

### **3. Improving cross-border supervision**

#### ***Insurance groups***

In the recent period, the principal work for CEIOPS on improving cross-border supervision in the supervision of insurance groups, has been to draft the Recommendation on possible need for amendments to the Insurance Groups Directive. CEIOPS submitted its final Recommendation to the European Commission in October 2005<sup>9</sup>.

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<sup>9</sup> Recommendation on possible need for Amendments to the Insurance Groups Directive', CEIOPS-DOC-04/05.

This paper, in the light of the ongoing work on Solvency II, is aimed at limiting suggested amendments to the current regime to a minimum.

However, CEIOPS has identified a number of areas where Level 3 measures could be beneficial to enhancing the effectiveness and efficiency of group supervision. To follow up CEIOPS' intention to reduce supervisory burdens and achieve further convergence, its Insurance Group Supervision Committee will address the areas covered in its Recommendation and in the previously published "Guidelines for Coordination Committees"<sup>10</sup>.

CEIOPS is aware however, that the introduction of appropriate legislative amendments in the context of the Solvency II project would be a better means of achieving more streamlined supervision while maintaining legal clarity and appropriate prudential standards, in line with the approach used for example by the Financial Conglomerates Directive.

To ease burdens both for the industry and the supervisors involved, within the boundaries of the present legislation, CEIOPS has identified a need to enhance convergence in the way that supervisory co-operation is put into practice. CEIOPS' view is that its current operational network, which is based on the Co-ordination Committees established for the Insurance Groups Directive's purposes, should be made further use of<sup>11</sup>.

Particular tasks now in hand include:

- addressing the issue of the appointment and competences of the lead supervisor in the different Co-ordination Committees (Co-Cos) in order to clarify its role in the supplementary supervision of groups and improve its functioning.
- In conjunction with the previous point, analysing the legal and practical feasibility of delegation of tasks between group supervisors (Home/Host).

CEIOPS has also planned a major survey, to be carried out in 2006, on the practical cooperation between supervisors within the Coordination Committees over the period 2005 / 2006. It is intended to publish the results of the Survey.

Apart from pan-European supervisory convergence for groups, CEIOPS is working internationally on the practical implications relevant to it of CEIOPS' cooperation with the Swiss and US supervisors. Memoranda of Understanding have been concluded with both at the beginning of 2006<sup>12</sup>.

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<sup>10</sup> 'Guidelines for Coordination Committees in the context of Supplementary Supervision as Defined by the Insurance Groups Directive', CEIOPS-DOC-02/05.

<sup>11</sup> The network is based on the provisions of the "Helsinki Protocol".

<sup>12</sup> Between CEIOPS and FOPI (Swiss Federal Office of Private Insurance), CEIOPS-SEC-17/06; between relevant US State Insurance Department and relevant EU / EEA Authority, model approved by CEIOPS 22 February 2006, endorsed by NAIC (US National Association of Insurance Commissioners) 6 March 2006.

## ***Supervision of Occupational Pension Funds***

In February 2006 CEIOPS finalized a Protocol organising the co-operation, co-ordination and regular information exchange between competent authorities in the implementation of the IORP Directive with a view to IORPs operating cross-border.<sup>13</sup>

It covers the general principles for co-operation between the Competent Authorities and aspirations for furthering effective supervision. It also provides the specific procedures both for authorisation of IORPs and their ongoing supervision, including the respective roles of the home Member State Competent Authority and the host Member State Competent Authority.

## ***Supervision of Insurance Mediators***

In April 2006 CEIOPS concluded a Protocol organising the cooperation, coordination and regular exchange of information between competent authorities in the context of implementation of the Insurance Mediation Directive.<sup>14</sup>

The Protocol sets out details of registration and notification, ongoing supervision and information exchange related to it, standardised forms for communications and contact details for all competent authorities.

Authorities that are competent under the Directive but who are not Members of CEIOPS, have also been invited to join the Protocol, by signing a joinder agreement.

### ***Limits to convergence***

*Regarding pension funds and insurance mediators, there are wide differences which are fundamental to their sectors. The institutions are very individualistic. This makes any comparisons and attempts at supervisory convergence of limited effect. They differ between themselves, across their Member States, and throughout Europe. Then their markets vary considerably. The make-up, constituent features and results of business dealings can all diverge considerably. This presents challenges to supervision of cross border activity.*

<sup>13</sup> 'Protocol Relating to the Collaboration of the Relevant Competent Authorities of the Member States of the European Union in Particular in the Application of the 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 (IORPs) operating Cross-Border' (the Budapest Protocol), CEIOPS-DOC-08/06.

<sup>14</sup> 'Protocol Relating to the Cooperation of the Competent Authorities of the Member States of the European Union in Particular Concerning the Application of Directive 2002/92/EC of the European Parliament and of the Council of 9 December 2002 on Insurance Mediation' (the Luxemburg Protocol), CEIOPS-DOC-02/06.

*For insurance groups, it should be remembered that the current regulatory framework (Insurance Group Directive) is based on the s.c. "solo-plus" approach. This means that supervision still focuses on the individual company. CEIOPS is aware that, even within this framework, there is significant room for facilitating a common approach to supervising multinational groups and for finding more streamlined coordination arrangements. CEIOPS is striving to address these aspects in the context of its Level 3 activity. However, it is envisaged that significant progress can be made through the Solvency II project. More generally, CEIOPS is convinced that this area could benefit from a greater legal clarity with regard to the tasks and responsibilities among supervisors involved in the supervision of multinational groups.*

#### **4. Challenges to greater convergence**

Enhancing convergence requires that the supervisors develop their actual supervisory practices in line with the standards and practices agreed within CEIOPS.

Differences in terms of traditions and approach to supervision represent a challenge in this process. CEIOPS' activity is intended to smooth these differences through time. However, this requires that competent authorities are sufficiently resourced to allow for both active and informed engagement in the work of CEIOPS and to develop their own practices accordingly.

In this regard, experience to date suggests that it would be beneficial for there to be more commonality in the powers, objectives and resources of competent authorities.

As mentioned in parts of this report, most of the current limits to further convergence are expected to be solved or softened by forthcoming changes in EU legislation (Solvency II project) or through the implementation of recent EU legislation (IORP and Insurance Mediation). The challenges for CEIOPS in converging supervisory practices across the EU will be facilitated by limiting the scope for options left to national discretion in the Solvency II legislation and by an appropriate transposition of the recent EU directives.

At a higher level, divergences stemming from solutions adopted through the political process, could create challenges at the supervisory level.

## Annex 1



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### **CEIOPS' work plan on supervisory convergence**

#### **Level 1 (EFC and FSC) priorities on financial supervision**

The Economic and Financial Committee (EFC) and the Financial Services Committee (FSC) are developing analysis in the field of financial supervision with the purpose of identifying political guidance for enhancing supervisory convergence in financial sectors. CEIOPS, in setting its work programme for 2006, planned to carry out "Level 3" activities on a number of areas. The purpose of this note is to report on the state of the ongoing activity carried out at political level and, also on the basis of the preliminary conclusions reached in this context, to flesh out CEIOPS' activity for 2006 by identifying concrete mandates for CEIOPS working groups on areas which are functional to enhancing supervisory convergence and co-operation. This is intended to give CEIOPS members the elements for taking resolutions during the Members' Meeting on 22 February accordingly.

#### **The EFC-FSC analysis**

ECOFIN, in its June and November 2004 conclusion, supported an approach to further integration of the financial sector where the emphasis should be on convergence of supervision.

A report prepared by the FSC in June 2005 (on the basis of the work of on an ad-hoc subgroup chaired by Mr Thierry Francq) was discussed by the EFC in early September 2005.

The report was welcomed as a good starting basis for further discussion. A final report with a set of operational conclusions concerning, among other things, the activity of Level 3 Committees, including a road map with strategic priorities, is envisaged to be submitted by the FSC to the EFC in spring 2006 and, possibly, to the ECOFIN. Currently the ad-hoc subgroup mentioned above is preparing the report.

The forthcoming report is intended to build on the June FSC sub-group report, taking into consideration the subsequent discussions in the FSC and in the EFC as well as contributions of the Level 3 Committees.

CEIOPS contributed to the FSC work with a report on supervisory convergence (September 2005) and a letter of comments on the FSC sub-group report (December 2005) – both available on CEIOPS' web-site.

The forthcoming report is considering a number of supervisory tools to be prioritized and developed in the context of the supervisory activity. It is expected that it will recommend further actions by 3L3 Committees at least on mediation, delegation of tasks and common formats for supervisory reporting. In particular, the establishment of mediation mechanisms for reconciling diverging supervisory views has been singled out as one key issue in enhancing supervisory convergence and co-operation.

### **CEIOPS' work plan on convergence ("CEIOPS' convergence project")**

As clearly stated in CEIOPS' contributions to FSC, CEIOPS is currently mainly focused on the development of the Solvency II project, which is considered also a precondition for the better achievement of convergence of supervisory practices.

However, a number of "level 3" measures are included in the 2006 work programme which are aimed at improving co-operation and convergence of supervisory activities based on the current regulatory framework.

On the basis of the general content of the work programme, the following concrete initiatives could be undertaken in 2006. Initiatives are summarized and grouped according to the most relevant Level 3 objective. Further analysis is needed for shaping the actions in detail and agreeing on an appropriate timeframe. Some of the deliveries below could obviously go beyond the year 2006. A proposal for the allocation of each work stream within CEIOPS' organization is included.

### **Fostering supervisory co-operation**

1. Analysis of legal and operational possibility of joint inspections in the context of Co-cos.

*Possible product:*

*A framework model (Guidelines) on how, when and in what circumstances joint inspections might be carried out, who may initiate calls for joint inspection and what the content of joint inspections may be.*

*Responsibility: IGSC*

2. Creation of common procedure and a consistent approach to be used by the supervisors involved in the Co-cos during a crisis situation based on the work already done in other financial sectors.

*Possible product:*

*The developments in the wider financial sector will be monitored, seeking to develop of a framework/guidance for co-operation in crisis situations of insurance groups.*

*Responsibility: IGSC*

3. Analysis of the actual functioning of the Co-cos and implementation of the Guidelines for Co-cos.

*Possible product:*

*Report on the self assessment of Co-cos' activity in 2005/2006 on the basis of a survey to be undertaken in the last quarter of 2006.*

*Responsibility: IGSC*

### **Improving cross-border supervision**

4. Guidelines should be defined for clarifying the tasks of the lead supervisors as defined in the Helsinki Protocol. In this context, possibilities and methods for delegation of tasks should be clarified. This is intended to facilitate the appointment of lead supervisors for all insurance groups and the delegation of tasks.

*Possible Product:*

*Guidelines for the formal appointment and the competence of the lead supervisor for all insurance groups, including delegation of tasks amongst competent supervisors.*

*Responsibility: IGSC*

5. In 2005 CEIOPS published the report 'Recommendations on possible amendments of the Insurance Groups Directive' which includes a number of suggestions for Level 3 measures. CEIOPS should assess how to follow up its suggestions.

*Possible Product:*

*Guidelines on areas identified in CEIOPS 2005 report on 'Recommendations on possible amendments of the Insurance Groups Directive.'*

*Responsibility: IGSC*

### **Promoting transparency of supervision**

6. A collection of national legislation and regulation on supplementary supervision of groups could be compiled and disclosed on CEIOPS' website. The compilation could include, at this stage, just the basic



elements and could be enlarged in the future. Some pieces of information should be already available.

*Possible product:*

*Supplementary supervision data base on how Members States have exercised the various options provided for in the Directives.*

*Responsibility: IGSC and Secretariat*

### **Enhance cost efficiency of the supervisory system**

7. Pending the implementation of a harmonized prudential regime (Solvency II) and due to the lack of definition and harmonization of the accounting framework, the creation of a common supervisory reporting framework does not seem realistic in the insurance field at this stage. However, CEIOPS could undertake immediate work for standardizing specific and limited areas of supervisory reporting.

*Possible product:*

*e.g. Standardization of quantitative information on non-life technical provisions' run-off (run-off triangles).*

*Responsibility: Pillar III/Accounting WG*

8. Harmonization of statistical information on insurance and pension fund market

*Possible product:*

*Revision of statistical tables.*

*Responsibility: FSC (work already underway)*

### **Promoting supervisory convergence**

9. Pension Funds

CEIOPS planned to facilitate the exchange of information between supervisors on a number of areas related to the implementation of the IORP directive. This work should aim at singling out main issues and outline possible reactions (i.e. supervisory guidelines or recommendation to EU Commission). It would be appropriate to schedule a concrete delivery as a result of this analysis.

*Possible product:*

*Report on first implementation of IORP Directive.*

*Responsibility: OPC*

## 10. Insurance mediation

CEIOPS planned to facilitate the convergent and effective implementation of the IMD. This work should aim at singling out main issues and outline possible reactions (i.e. supervisory guidelines or recommendation to EU Commission). It would be appropriate to schedule a concrete delivery as a result of this analysis.

*Possible product:*

*Report on first implementation of IMD Directive.*

*Responsibility: Insurance Mediation Expert Group*

## 11. Facilitating the creation of a European culture of supervision by exchange of staff between supervisory authorities by means of secondment schemes and by the organization of EU wide training schemes.

*Possible Product:*

*Organisational platform for exchange of staff, and training schemes among supervisors, cross-border as well as cross-sectoral, in the day-to-day supervisory practice.*

*Responsibility: Ad-hoc Task Force/Secretariat*

## 12. Facilitating exchange of information between supervisors

*Possible product:*

*Setting up of a Question and Answer Forum on the web-site to be used by CEIOPS' members.*

*Responsibility: Secretariat*

## **Annex 2**

### **Annex to the sector reports of CEBS, CEIOPS and CESR**

#### ***Joint Level 3 work across financial sectors***

Key to supervisory convergence is the increasing cooperation and cross-sectoral work of the Level 3 Committees. The Level 3 cooperation ranges from information exchange on work under way in the individual sectors, to work undertaken together. According to the Joint Protocol signed in November 2005, the main responsibility for facilitating and ensuring good cooperation lies with the Chairs, assisted in this effort by the Secretariats.

The participation and results for cross-sector work of the three Committees may be summarised under the following subject headings:

#### Financial Conglomerates

CEBS together with CEIOPS have set up an 'Interim Working Committee on Financial Conglomerates' (IWCFC). The first aim of the IWCFC will be to assess the current status of the Financial Conglomerates Directive's transposition and assist in the consistent application of the Directive for the conglomerates identified. The IWCFC is prioritising the convergence of national supervisory practices on issues concerning, for example, capital requirements, intra-group transactions and risk concentration. Identifying and establishing cooperation and coordination requirements between the supervisors involved will be another important task.

#### Joint work

Besides the work on financial conglomerates, work aimed at providing common definitions of Level 3 measures (standards, guidelines and recommendations) is planned.

#### Consistency Projects

Under this heading, mapping and comparison of sectoral work projects are envisaged. They will aim to streamline processes and develop consistent approaches across sectors. This might lead to future joint initiatives. Work on the following aspects is currently planned:

##### *a. Outsourcing*

The objective of this work is to create consistency between CEBS' outsourcing standards and Level 1 and 2 requirements included in the MiFID. To avoid inconsistencies in these developments, CEIOPS is participating in the alignment in view of its work in the framework of the Solvency II project.

*b. Supervisory cooperation*

The Committees will compare their work on regulatory approaches and cooperative arrangements with regard to the relationship between home and host competent authorities in a group environment. The objective of this work is to research whether the individual sectoral work done by the Committees might be extended to cooperation with supervisors or competent authorities in the other sectors, and to take on board their respective good practices. This should ensure greater cross-sector consistency of approaches. The comparison will be done during the course of 2006.

*c. Reporting requirements*

The Committees will take stock of potential inconsistencies and overlaps between sectors in reporting requirements, which originate in sectoral EU directives applying to European supervised entities and market participants. The Committees aim at presenting a first result of this inventory within the second half of 2006. Based on the inventory, future work may be proposed.

*d. Internal governance*

The work within the context of the CRD and the MIFID on internal governance of banks and investment firms will be further discussed. An analytical report will be prepared and shared with the market on any overlaps and areas of possible future work. For CEIOPS' purposes, this will take into account the current thinking on Solvency II.

Information exchange

The Committees ensure frequent exchange of information on all the topics of interest to each other in regular meetings of the Chairs and of the Secretariats, as well as through intensive contacts and discussions by phone and mail between the Secretariats and between the Members who have taken responsibility for drafting sector specific proposals. All meeting documents are distributed across sectors, as well as early drafts of discussion notes if relevant.