



REPORT ON SUPERVISORY ACTIVITIES IN 2018

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European Insurance and
Occupational Pensions Authority

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1. EXECUTIVE SUMMARY

EIOPA actively promotes a common supervisory culture and consistent supervisory practices ⁽¹⁾ across the European Union (EU) Member States and the European Economic Area (EEA) in order to ensure a high, effective and consistent level of supervision, safeguarding a similar level of protection to all European policyholders and beneficiaries.

After the publication of the key characteristics of the [Common Supervisory Culture](#) in November 2017, EIOPA published in April 2018 the [Supervisory Convergence Plan 2018-2019](#). These documents set out EIOPA's approach to supervisory convergence, i.e. through building common benchmarks for supervisory practices, reviewing the practices and EIOPA's own independent assessment. ⁽²⁾

Following its recent audit, the European Court of Auditors (ECA) concluded that 'EIOPA made an important contribution to supervision and stability in the insurance sector, but that significant challenges remain.' This report outlines main achievements in the area of supervisory convergence by providing an overview of EIOPA's supervisory activities in 2018, providing information on the progress made and challenges faced in achieving supervisory convergence across Member States.

In 2019, EIOPA will continue to focus on the practical implementation of the key characteristics of the common supervisory culture and further development of supervisory tools, the risks to the internal market and to the level playing field, which may lead to supervisory arbitrage, and the supervision of emerging risks. EIOPA will also pay attention to new issues and risks such as supervision of run-off undertakings or the use of risk mitigation techniques.

⁽¹⁾ See Article 29 of Regulation (EU) No. 1094/2010 of the European Parliament and of the Council of 24 November 2010.

⁽²⁾ This report is published in accordance with Article 259 of the Solvency II (SII) Directive that 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.

Figure 1 – Overview of supervisory activities in 2018



2. INTRODUCTION



EIOPA's activities contributing to strengthening supervisory convergence encompassed a number of tools at European level in 2018.

Convergent supervisory practices are needed to remain aware to emerging and future challenges. A recently performed audit by the European Court of Auditors (ECA) concluded that EIOPA has used properly a wide range of supervisory tools although their design and follow-up should be improved. The ECA found a number of systematic challenges such as in the area of supervision of cross-border businesses and internal models and sees a need that these challenges are addressed by EIOPA itself, by national competent authorities (NCAs) and by legislators. Convergent supervisory practices, such as the further development of supervisory tools, the analysis of risks to the internal market and to the level playing field, that may lead to supervisory arbitrage and last but not least the supervision of emerging risk are fundamental for the 2019 Convergence Plan to strengthen EIOPA's supervisory capacity even further. Moving forward, EIOPA always needs to remain ready to handle a dynamic environment and deal with issues on supervisory convergence that are not covered by the plan.

3. SUPERVISORY CONVERGENCE IN 2018

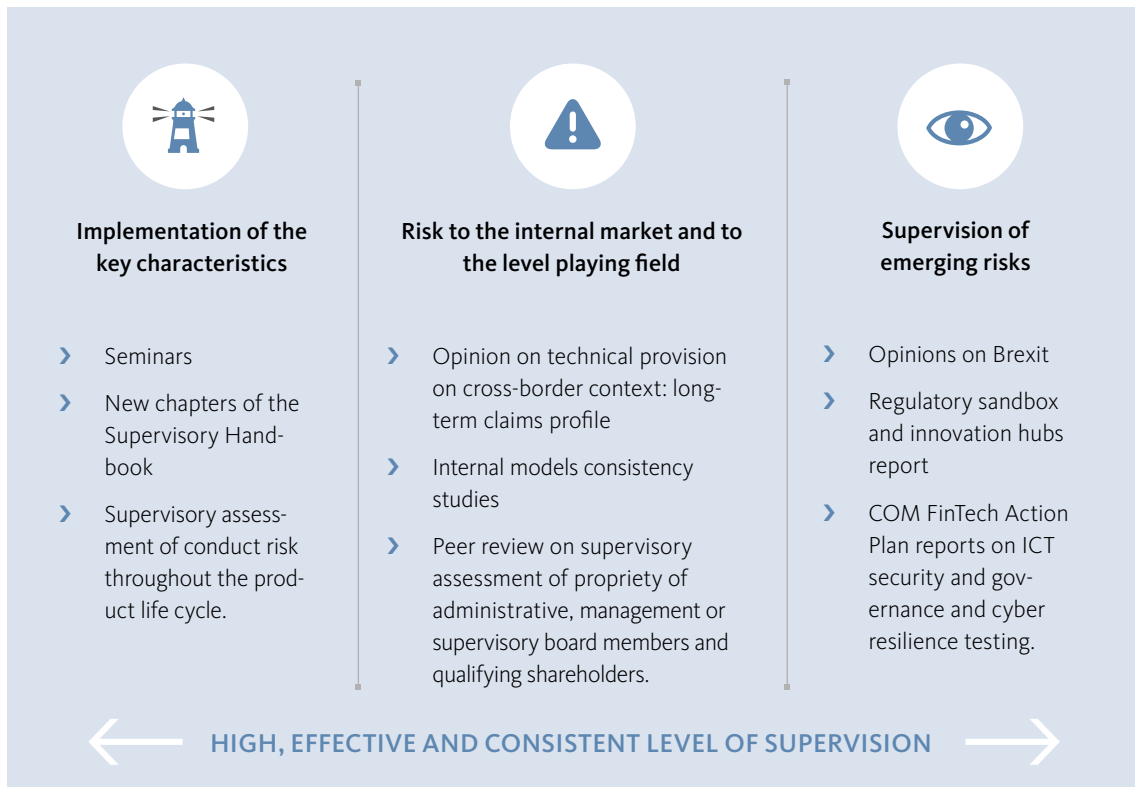
EIOPA addresses supervisory convergence from different perspectives depending on the issue and risks at stake. In particular, EIOPA is using different building blocks, that all have their own specific tools to support supervisory convergence and to protect policyholders.

1. In some areas EIOPA worked on building common benchmarks for supervisory practices (see section 3.1),
2. In other areas EIOPA reviewed existing practices, both from NCAs and from the market (see section 3.2), and

3. Other areas were better addressed through EIOPA's own oversight work (see section 3.3).

EIOPA has developed a broad range of tools to achieve supervisory convergence at European level. These include for example providing opinions to NCAs, conducting peer reviews, engaging bilaterally with NCAs, participating/ coordinating Colleges of Supervisors and cooperation platforms, building common benchmarks for supervisory practices and organising training.

Figure 2 – Supervisory activities at a glance



In 2018, work focused on the insurance sector, and specifically on the implementation of the Solvency II Directive and on conduct of business supervision, according to the approved supervisory convergence plan.

Supervisory convergence plan 2018/2019

1. Implementation of the common supervisory culture and further development of supervisory tools				
a. Risk assessment framework and application of proportionality	b. Common benchmarks for the supervision of internal models	c. Supervisory assessment of conduct risks	d. Group supervision	e. Remuneration policies
2. Risks to the internal market and to the level playing field which may lead to supervisory arbitrage				
a. Calculation of technical provisions	b. Cross-border business	c. Assessment of internal model outcomes	e. Authorisations, fitness and propriety	f. Consistent implementation of the EU – U.S. Covered Agreement
3. Supervision of emerging risks				
a. Supervision of data and IT-related risks, including cyber risk	b. Insurtech		c. Brexit	

3.1 BUILDING COMMON BENCHMARKS FOR SUPERVISORY PRACTICES

RISK ASSESSMENT FRAMEWORK (RAF) AND APPLICATION OF PROPORTIONALITY [supervisory convergence plan: 1a]

Exchange of knowledge and experiences between supervisors on the use of reported data in a risk-based and proportionate supervision.

EIOPA promoted in 2018 a seminar on the use of data for risk-based supervision by NCAs. The 26 participating NCAs shared their experiences on the use of Solvency II data, lessons learned from different tools used and how they addressed the challenges with around 69 supervisors. Future next steps were identified, such as the joint development of supervisory tools such as a tool to assess the reported non-life Technical Provisions. NCAs' continuously share experiences on more specific tools, in particular on how to use new technologies in the supervisory review process (Supervisory Technology, or SupTech). This work allows an efficient and effective use of the supervisory reporting, allowing a risk-based prioritisation of the supervisory activities and identification of the risks undertakings face or may face.

COMMON BENCHMARKS FOR THE SUPERVISION OF INTERNAL MODELS [supervisory convergence plan: 1b]

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

EIOPA continuously promotes supervisory convergence in the area of internal models. During 2018, a new chapter of the Supervisory Handbook on the "Supervisory Work Plan on Internal Models" was developed including recommendations on the many activities related to the on-going supervision of internal models providing sensible approaches for prioritisation and retaining at the same time flexibility within the plan to react to an ever-changing environment. Furthermore, EIOPA is working on a new chapter of the Supervisory Handbook addressing the on-going supervision of internal model validation standards.

In 2018, EIOPA also engaged with NCAs on the current format of internal model reporting standards, and potential improvements. It has also discussed its plan to reach for internal model indicators on European level, for the monitoring of the appropriateness of internal models in time and across undertakings. The main objective is to support local supervisory tasks and activities with a supplementing, common supervisory tool for the follow-up of developments of internal models. The ambition is to support the understanding and analysis of the potential

underlying reasons of the developments or to identify potential outliers. One tool discussed in the context is to monitor differences between internal model and standard formula results.

In 2018, EIOPA has also produced its first set of internal model statistics, providing national supervisors with a comprehensive overview of internal model users in the European market.

SUPERVISORY ASSESSMENT OF CONDUCT RISKS **[supervisory convergence plan: 1c]**

Work on a common basis for the supervisory assessment of conducts risks throughout a product's life cycle.

EIOPA approved a framework for assessing conduct risk through the product lifecycle. ⁽³⁾ The framework identifies drivers of conduct risk throughout all stages of the product lifecycle and the implications of these in the emergence of consumer detriment. It sets a common supervisory language, to result in greater supervisory convergence.

In particular, the framework will support NCAs identifying conduct and consumer protection risks, both sufficiently early and clearly for the preventative goals of effective conduct supervision, further enhancing market monitoring and conduct risk assessment and driving forward practical supervisory convergence. Ultimately, the framework will help both EIOPA and NCAs to become more proactive and to intervene earlier, focusing on the drivers of consumer detriment.

It is part of the next steps for the conduct of business supervision strategy, and is intended to be used alongside other key conduct of business work led by EIOPA. The framework is an important tool in the implementation of EIOPA's Conduct Supervision Strategy. ⁽⁴⁾ EIOPA anticipates further work in linking the identified conduct risks with the tools for assessing their impact and supervisory importance, making use of readily available data as far as possible. This is expected to evolve into more systematic on-going conduct risk monitoring as an integral part of practical supervision both at national and European levels. This includes, for instance, the development of periodic conduct risk dashboards as a platform for high-level debate and convergence on the evolving conduct risk landscape.

⁽³⁾ <https://eiopa.europa.eu/Pages/News/EIOPA-sets-out-framework-for-identifying-conduct-risks-.aspx>

⁽⁴⁾ https://eiopa.europa.eu/Publications/Opinions/EIOPA%27s%20Conduct_of_business_strategy%20-Next_steps.pdf

CROSS-BORDER BUSINESS **[supervisory convergence plan: 2b]**

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" ⁽⁵⁾ and "medical malpractice insurance". ⁽⁶⁾

To address some specific cross-border situations where evidence has shown that not all market players might be properly and prudently calculating the Technical Provisions and therefore could be jeopardising the policyholders of the host country, EIOPA published in December 2018 an "Opinion on non-life cross border insurance business of a long-term nature and its supervision." The objective of this Opinion is to ensure the appropriate application of the legal requirements and consistent supervisory practices with regards to the calculation of Technical Provisions and quantitative information on non-life long-term business with distinctive features or a high degree of local specificities.

Long-term non-life insurance business operated across cross-borders is typically uncertain. Such business requires both the knowledge of the local market specificities and the actuarial skills for the calculation of the Technical Provisions and the management of the activity. Experience has shown that these activities attract players that do not possess the required knowledge and skills, potentially leading to localised under-pricing and under-reserving to the detriment of policyholders.

In particular, following some real cases (e.g. under-reserving) which called for harmonised action, EIOPA communicated some expectations in relation to the complexity of long-term non-life business carried out by undertakings by the freedom of establishment or freedom to provide services (cross-border business).

The Opinion includes some expectations on:

- i) calculation of Technical Provisions,
- ii) the role of the administrative, management or supervisory bodies,
- iii) the Supervisory Review Process and the collaboration between home and host supervisors.

⁽⁵⁾ Decennial liability insurance provides the building owners with effective protection against major damage that can occur or come to light in the decade that follows completion of the building.

⁽⁶⁾ Medical malpractice insurance provides physicians and other licensed health care professionals (e.g., dentist, nurse) professional liability cover, which protects from liability associated with wrongful practices resulting in bodily injury, medical expenses and property damage, as well as the cost of defending lawsuits related to such claims.

This Opinion is evidence of the role EIOPA has in guaranteeing the protection of policyholders in Europe, in particular in the situation of cross-border business. EIOPA's aim is to 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.

ASSESSMENT OF INTERNAL MODEL OUTCOMES [supervisory convergence plan: 2c]

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.

In 2018, EIOPA conducted two studies related to internal models.

› **Non-Life Comparative Study (NLCS)**

EIOPA and NCAs started an analysis of the modelling of non-life underwriting risks at European level considering 2016 and 2017 year-end data from a selection of undertakings. The study will assist supervisors in assessing non-life risk modelling for specific lines of businesses, identifying general market practices by making relevant information available, and aiming to provide larger peer groups for comparison than those available at national level. It also allows sharing of knowledge and tools between NCAs for more efficient communication and cooperation. The study focuses mostly on gross premium and reserve risks, excluding accumulation risks, catastrophe risk and certain risk mitigation techniques.

› **Market and Credit Risk Comparative Study (MCRCS)**

EIOPA performs regular studies on the market and credit risk modelling in internal models. Starting from the 2017 exercise, the study performed in 2018 (considering 2017 year-end data) ^(?) built on the lessons learnt from previous exercises and includes relevant aspects of risks associated with interest rates, credit spreads, equity and real estate. The study compared calibrations of different aspects of market and credit risk individually and in combination, across participating undertakings. These were undertakings with a significant exposure to assets denominated in

^(?) https://eiopa.europa.eu/Publications/Reports/EIOPA_MCRCS_2017_report.pdf

euro and an approved internal model covering market and credit risk. The results show sizeable variations between undertakings, with some cases requiring further review. In this context, supervisors will engage with the undertakings in feedback meetings to better understand and evaluate the results at European level.

CONSISTENT IMPLEMENTATION OF THE EUROPEAN UNION–UNITED STATES COVERED AGREEMENT [supervisory convergence plan: 2e]

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

EIOPA has been engaging with NCAs on the implementation of the Agreement and current practices on reinsurance and group supervision to identify any potential inconsistencies with the main elements of the EU-US Bilateral Agreement. ⁽⁸⁾

The EU is also monitoring the way the Agreement is being implemented in the US including the proposed revision of the Credit for Reinsurance Model Law, in particular the level of discretion the individual states are proposed to have regarding collaterals.

In the fourth quarter of 2018, a survey was launched and preliminary results support further work on supervisory practices on "other methods" for group supervision (Art. 262 (2) Solvency II Directive) and the own risk and solvency assessment (ORSA) summary/equivalent documentation. Regarding local presence requirements, the vast majority of Member States do not have such requirements for reinsurance whilst others are in the process of either changing the respective laws or providing administrative clarification regarding national application.

SUPERVISION OF DATA AND IT-RELATED RISKS, INCLUDING CYBER RISK [supervisory convergence plan: 3a]

1. *Develop good practices on IT security and governance*
2. *Work on common supervisory expectations on insurance undertakings' practices on cybersecurity and exploring efficient ways to perform a cyber attack test.*

EIOPA, together with the European Banking Authority (EBA) and the European Securities and Markets Author-

⁽⁸⁾ Such as reduction of collateral or amendments of local presence requirements, consistent application of "other methods" under Solvency II, implementation of group supervision and reporting requirements under the Agreement and the exchange of the ORSA summaries in colleges.

ity (ESMA), issued advice to the European Commission regarding the Financial Technology (FinTech) Action Plan as published in spring 2018. ⁽⁹⁾ EIOPA proposed to develop Guidelines on information and communication technology (ICT) security and governance to create a cyber resilience baseline across Member States. In addition, the three European Supervisory Authorities (ESAs) advised the European Commission to take a staged and proportionate approach regarding the possible development of a coherent cyber resilience testing framework for significant market participants, taking into account the different maturity levels of cyber resilience across sectors and within sectors. In the future, the role and any mandate of the ESAs within this framework should be defined.

INSURTECH **[supervisory convergence plan: 3b]**

Stocktake of NCAs approaches to innovation including the use of sandboxes and innovation hubs

In a first step, the ESAs published a joint report on innovation facilitators (regulatory sandboxes and innovation hubs) in early January 2019 to set out a comparative analysis of the innovation facilitators established to date within the EU and to identify good practices. ⁽¹⁰⁾

As a next step, the ESAs will set out options, to be considered in the context of future EU-level work on innovation facilitators, to promote coordination and cooperation between innovation facilitators, which would support the scaling-up of FinTech across the single market.

Thematic review of the insurance industry's use of Big Data (covering underwriting, pricing, marketing, claims management and sales).

In February 2018, the Joint Committee of the ESAs published its final report on Big Data analysing its impact on consumers and financial firms. The report concluded that there is limited evidence about a number of risks materialising and therefore more in-depth analysis and supervisory oversight is required. EIOPA gathered empirical evidence about these risks as part of a Big Data analytics thematic review. Following an analysis, the results will be published during the first half of 2019.

⁽⁹⁾ https://eiopa.europa.eu/Publications/EIOPA%20Outsourcing%20to%20the%20cloud_Contribution%20to%20Fintech%20action%20plan%20%283%29.pdf

⁽¹⁰⁾ <https://eiopa.europa.eu/Pages/News/ESAs-publish-joint-report-on-regulatory-sandboxes-and-innovation-hubs.aspx>

BREXIT **[supervisory convergence plan: 3c]**

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

Following the Opinions issued in 2017 on supervisory convergence and on service continuity in insurance in light of the withdrawal of the UK from the European Union. EIOPA issued two additional Supervisory Opinions in 2018:

1. Opinion on the disclosure of information to customers about the impact of the withdrawal of the UK from the European Union

Without taking contingency measures, customers of cross-border contracts between the UK and the EU27 may face risks when it comes to the provision of services by insurance undertakings. The Opinion highlights that the importance of making customers and beneficiaries aware, in due time, of the implications for both existing and for new contracts before the withdrawal date. Insurers are expected to provide clear and non-misleading information on the contingency measures taken or planned.

2. Opinion on the solvency position of insurance and reinsurance undertakings in light of the withdrawal of the UK from the European Union

The Opinion calls upon NCAs to ensure that all risks to the solvency position of insurers arising from the UK becoming a third country are properly addressed. Technical Provisions, own funds and capital requirements of insurance and reinsurance undertakings in Member States other than the UK can change when the UK becomes a third country due to changed regulatory requirements.

In 2019, EIOPA already issued recommendations addressing the competent authorities who should aim in their treatment of cross-border business of UK insurance undertakings after Brexit to minimise the detriment to policyholders and beneficiaries. The general objective of these recommendations is to foster convergence and consistent supervisory approaches in the treatment of UK insurance undertakings and distributors across Member States by setting out guidance on the application of the existing legal framework considering arrangements between EU and non-EU counterparties.

3.2 PEER REVIEWING NATIONAL PRACTICES

To foster convergence and strengthen consistency in the outcome of supervisory actions, EIOPA conducts peer reviews on specific activities of NCAs based on an agreed methodology. Experts from NCAs act as reviewers in these activities coordinated by EIOPA.

In 2018 EIOPA further developed its public reporting on the peer review outcomes by providing more information on individual recommendations towards the NCAs.⁽¹⁾

Throughout 2018, EIOPA has concluded three peer reviews (which started in 2017).

1. On the principle of proportionality when assessing key functions in insurance undertakings.⁽²⁾ [supervisory convergence plan: 2d]

This peer review assessed how NCAs supervise and determine whether an insurers' setting of key functions fulfils the legal requirements of Solvency II with a particular emphasis on proportionality. The review showed that NCAs in general apply the principle of proportionality and that they have adopted similar approaches.

The outcome of the comparative analysis were summarised in 25 recommended actions to 18 NCAs and 17 observations to 12 NCAs. In addition, 2 recommendations for EIOPA and 4 good practices were identified.

2. On supervisory assessment of propriety of administrative, management or supervisory board members and qualifying shareholders.⁽³⁾

This review was initiated following a number of cross-border cases indicating a lack of harmonisation in relation to the propriety assessment across the European Economic Area, leading to potentially divergent outcomes in different countries in relation to the same person.

EIOPA reviewed national regulatory frameworks and supervisory practices followed by NCAs to assess the propriety of administrative, management or superviso-

ry board members and qualifying shareholders at solo and group level, both at the moment of authorisation and on an on-going basis. Furthermore, EIOPA assessed the effectiveness of cross-border cooperation.

The report presented the overall findings of the peer review, including identified good practices, case studies and recommended actions (53 recommendations to NCAs and 4 recommendations to EIOPA).

3. On the application of the Prudent Person Rule for supervision of occupational pension funds.⁽⁴⁾

The objective of this peer review was to explore supervisory practices relating to the Prudent Person Rule (PPR) for Institutions for occupational retirement provision (IORPs).

The review shows that NCA supervisory approaches towards ensuring IORPs' compliance with the PPR are to a large extent determined by the manner in which national legislators have embedded the PPR in national legislation.

One of the main findings of this peer review is those countries that adopted a risk-based or a prudent person plus supervisory approach use more sophisticated tools and perform their supervisory activities in a risk-based and forward-looking manner, whilst a compliance-based supervisory approach focuses on past compliance. The peer review also found that NCAs in a compliance-based legal system can enhance their supervision by including risk-based, forward looking tools in their supervisory approaches.

The review resulted in 27 recommended actions issued by EIOPA, addressing 19 NCAs located in 16 countries and 3 recommendations to EIOPA.

3.3 EIOPA'S OWN INDEPENDENT ASSESSMENT

EIOPA conducts own assessment work in close cooperation with NCAs to enhance supervisory convergence and to increase the quality, effectiveness and efficiency of national supervision using a set of different tools.

In 2018, EIOPA's own independent assessments comprised a range of oversight activities with special focus on

⁽¹⁾ June 2018, EIOPA's Board of Supervisors adopted the proposal for increased transparency as set out in the 'Strategy note on increasing transparency publishing EIOPA Peer Review Reports'.

⁽²⁾ <https://eiopa.europa.eu/Publications/Reports/Peer%20review%20Key%20Functions22-11-18.pdf>

⁽³⁾ <https://eiopa.europa.eu/Publications/Reports/2019-01025%20Peer-ReviewProprietyReport.pdf>

⁽⁴⁾ <https://europa.eu/!Tw97HV>

cross-border matters, analysis of market risk and market vulnerabilities, assessment of supervisory practices and risk profiles of insurance undertakings.

In addition, EIOPA engaged thoroughly with NCAs on supervisory practices of authorisation process and fit and proper assessment for a number of undertakings with cross border activities.

EIOPA OWN INDEPENDENT ASSESSMENT ACTIVITIES IN 2018

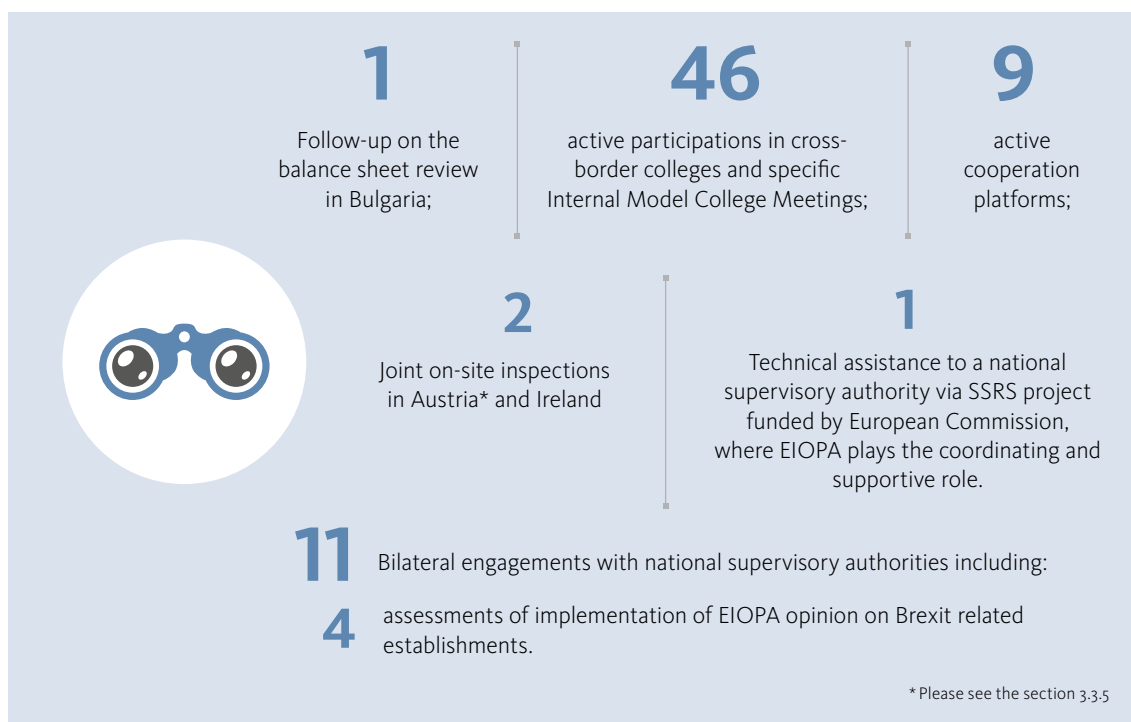
3.3.1 FOLLOW-UP ON BALANCE SHEET REVIEW

To gain insight into and raise awareness of risks and vulnerabilities of the national insurance sector, EIOPA participates in national, sector wide assessments. These reviews also serve to strengthen transparency and confidence for customers and policyholders. EIOPA participates in balance sheet reviews in a steering role, designing and overseeing the reviews, as well as working in close cooperation with the NCAs to support the implementation of follow-up actions.

The results of these exercises are factored into the on-going assessment of insurers' risks, leading to supervisory measures. In 2018, the Financial Supervision Commission of Bulgaria followed the sustainability of the supervisory measures that derived from the balance sheet review of the Bulgarian insurance sector and the assets review of its pension funds that was finalised in 2017, in close cooperation with EIOPA. ⁽¹⁵⁾

The soundness of the insurance and pension fund sector in Bulgaria is one of the cornerstones of the future EIOPA's recommendation in regards to fulfilment of the developed Action Plan. In this context, EIOPA has during 2018 followed up closely the financial and solvency situation of undertakings and pension funds in Bulgaria, and monitored the developments in terms of the supervisory authority and for the implementation of the Action Plan developed in 2017 by the Bulgarian authorities on the basis of the recommendations provided under the 2016-2017 Financial Sector Assessment Program performed by the International Monetary Fund and the World Bank.

Figure 3 – Oversight activities at a glance



⁽¹⁵⁾ <https://eiopa.europa.eu/Publications/Other%20Documents/Balance%20Sheet%20Review%20of%20the%20Bulgarian%20Insurance%20Sector.pdf>

3.3.2 COLLEGES OF SUPERVISORS

EIOPA is member of cross-border colleges of national supervisors and through this participates in the direct oversight of international groups, playing a coordinating role for supervision at European level and thereby contributing to overcoming potential national fragmentation and enhancing the effectiveness of European supervision. EIOPA's participation in colleges enables it to identify inconsistencies in supervisory approaches, which may adversely affect policyholders. In order to overcome the inconsistencies and ensure a proper follow-up of risks identified as well as further strengthen the group supervision, EIOPA provide the group supervisors with recommendations and technical support.

The level of engagement in Colleges is reviewed annually based on criteria, which include the economic/systemic importance of each group and its solo entities, the complexity and functioning of the college, the group financial strength, the level of its cross-border business, its risk profile and the supervisory environment. EIOPA actively interacted with Colleges of European Economic Area and with some third country Colleges that conduct major activities in Europe and with headquarters in equivalent countries, in particular Switzerland and Bermuda. In addition, EIOPA has increased the number of interactions

with group supervisors outside college meetings, to assist them on supervisory activities and risk views.

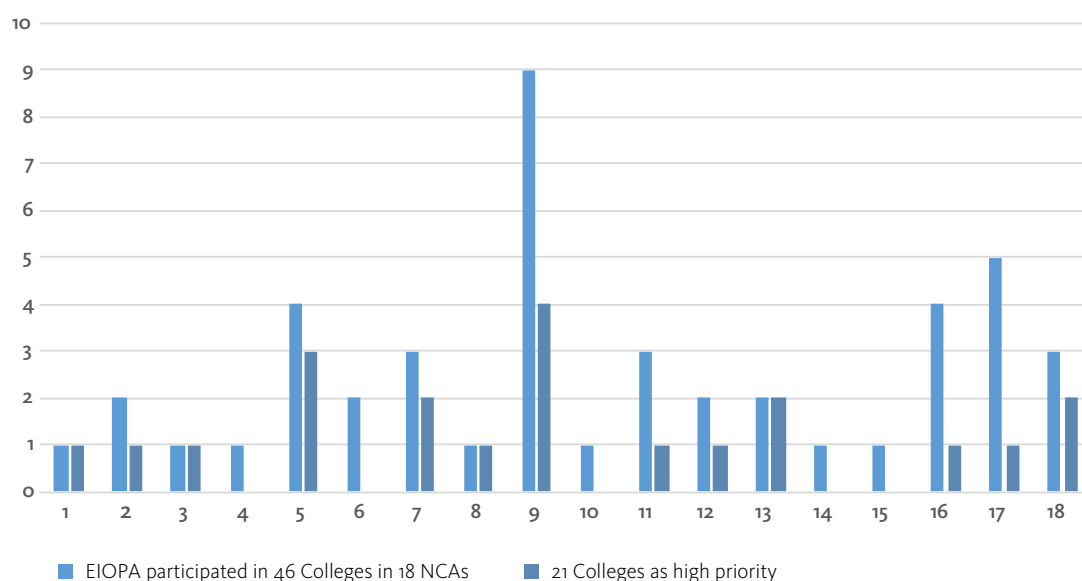
Following the EIOPAs Colleges Strategy and the risk based approach used, EIOPA actively engaged with 46 Colleges in 2018. Out of 46 high priority was given to 21 Colleges represented with the Group supervisor in the following NCAs: Austria, Belgium, Bulgaria, Germany, Spain, Finland, France, Italy, Malta, Netherlands, Sweden, United Kingdom and Switzerland as full equivalent third country. The engagement represents more than 50% of the registered cross-border groups. ⁽¹⁶⁾

EIOPA uses a number of EU-wide and cross-border tools such as analysis of quantitative reporting templates (QRTs) or assessment of risk profiles to detect and mitigate risk and provide recommendations to group supervisors to improve supervision of cross-border groups (see Figure 4).

In 2018, EIOPA provided recommendations related to a number of areas.

- Group strategy and ambitious growing business plans in high competitive markets;
- Own risk assessment (ORSA) areas related to risk mapping with clear specification on impact and importance of different risks as well as group risk appe-

Figure 4 – EIOPA's engagement in Colleges



⁽¹⁶⁾ <https://esas-joint-committee.europa.eu/Pages/ESAs-publish-the-list-of-financial-conglomerates2018.aspx>

tites and risk tolerances. Further recommendations were provided to stress scenarios;

- Supervisory joint risk assessment framework and the key elements used in a colleges risk assessment;
- Internal Model changes;
- Brexit, its impact, mitigating actions and contingency measures.

3.3.3 COOPERATION PLATFORMS

A cooperation platform is set up when EIOPA and relevant national supervisory authorities see the merit in strengthening cooperation in case of material cross border business in order to enable a sound internal market in the EU. Cooperation platforms provide direct benefit for both home and host supervisors in sharing information and acting on commonly agreed measures where appropriate. The attention and appetite from members towards the new and important tool ⁽⁷⁾ to tackle issues relating to cross-border business activities provided by groups and solo undertakings through the freedom to provide service (FoS) regime intensified significantly during 2018.

By the close of 2018, 9 cooperation platforms were operational with the involvement of 19 national supervisory authorities. The home supervisors of the operational platforms are Bulgaria, Denmark, Ireland, Romania, Slovakia and United Kingdom overseas territories (Gibraltar). The cooperation platform is active as long as the risks identified raise concerns about the appropriate level of protection of policyholders. In many cases the outcome of the cooperation resulted in successful implementation of agreed recovery measures and in 2 cases led to the liquidation of undertakings.

In a platform EIOPA can provide concrete supervisory recommendations to the home supervisor. In some instances, these recommendations were aimed to strongly encourage the home supervisory authority to initiate intrusive interventions towards the undertaking, such as prohibition of writing new business, in order to limit the risk to prospective policyholders. Supervisory actions discussed via the platform can also be oriented towards the business conduct of the undertaking, for instance via the host authorities involved.

⁽⁷⁾ The use of cooperation platforms is based on the Decision on the collaboration of the insurance supervisory authorities. <https://eiopa.europa.eu/Publications/Protocols/EIOPA-BoS-17-013%20Decision%20of%20the%20Board%20of%20Supervisors%20on%20the%20collaboration%20of%20insurance%20supervisory%20authorities.pdf>

CASE 1: ALPHA INSURANCE

Alpha Insurance A/S (Alpha) was a Danish-based insurer that operated in the following Member States of the European Economic Area: France, Germany, Greece, Ireland, Italy, Norway, Spain and United Kingdom mostly selling non-life products like motor, workers compensation, construction, legal expenses, general liability policies to approximately 1.4 million policyholders.

A cooperation platform on Alpha had been set-up due to the links this insurer had with brokers active in the French construction defects (CD) insurance market that had led to supervisory intervention measures by the Gibraltar Financial Services Commission towards Elite Insurance and the Central Bank of Ireland towards CBL IE, both also subject of an EIOPA cooperation platform.

These interventions (orders to cease writing new business up till declarations of bankruptcy) was a direct trigger for EIOPA's work on the "Opinion on non-life cross border insurance business of a long-term nature and its supervision" of December 2018.

The business models of the companies subject to a cooperation platform differ significantly, from motor insurance, French construction business, medical malpractice insurance to complex unit-linked products. Another trigger to look more closely to some undertakings has been their specific use of reinsurance. In general, the focus of the companies is on growth outside the home market and on long-tail business where the risk will only materialise on the medium to long-term. Usually, there are deficiencies in the data available, insufficiencies in technical provisions and complex intermediation structures. The impact of failure of such companies can cause significant waves in the host markets and severely disrupt public trust in the functioning of the internal market.

Through cooperation platforms, EIOPA continues to identify lessons learnt and future actions. For example, Joint-onsite inspections are organised with home and host supervisors and EIOPA. The lessons learnt are shared with the Board of Supervisors on a more aggregated level to improve home and host supervision in general throughout Europe

CASE 2: QUDOS INSURANCE

Qudos Insurance A/S (Qudos) was a Danish-based insurance group operating mainly in Denmark, France, Germany, Greece, Ireland, Italy, Norway and the United Kingdom providing mostly motor, property, general liability, income protection policies to approximately 400.000 policyholders.

In 2018 the law on the Danish Guarantee Fund for non-life insurance companies was amended and as of 2019 the scope of the fund has changed to cover only the business of insurance companies (Danish and foreign) in Denmark for risks in Denmark.⁽¹⁸⁾

EIOPA has worked closely together with the Danish Finanstilsynet to trigger a timely intervention, to protect as many policyholders as possible. The bankruptcy of Qudos has led to significant losses of policyholders throughout the European Union, however the Danish Guarantee Fund for non-life insurance undertakings has covered claims for individual policy holders (excluding professional ones)⁽¹⁹⁾ outside of Denmark⁽²⁰⁾ as the intervention was initiated under the old guarantee fund regime.

This specific example stresses the need for a minimum harmonisation of insurance guarantee schemes, which would in EIOPA's view benefit policyholders, the insurance market and more broadly the financial stability in the EU. A harmonised approach should however consider the national schemes already in place and should be carefully designed. A discussion paper on this topic was launched in the summer of 2018.⁽²¹⁾

⁽¹⁸⁾ <https://www.skadesgarantifonden.dk/en/news/mandatory-membership-of-the-danish-guarantee-fund-for-non-life-insurers/> as/

⁽¹⁹⁾ For more information please see coverage area under: <http://www.qudosinsurance.dk/the-danish-guarantee-fund/>

⁽²⁰⁾ <https://eiopa.europa.eu/Pages/News/Bankruptcy-of-Qudos-Insurance-AS-%E2%80%93-Equal-treatment-of-European-policyholders.aspx>
<https://eiopa.europa.eu/Pages/News/EIOPA%E2%80%99s-Cross-Border-Platform-on-Collaboration-on-Alpha-Insurance-AS.aspx>

⁽²¹⁾ https://eiopa.europa.eu/Publications/Consultations/EIOPA-CP-18-003_Discussion_paper_on_resolution_funding%20and.pdf

3.3.4 STRUCTURED BILATERAL ENGAGEMENTS WITH NATIONAL SUPERVISORS

To ensure a common European understanding of effective supervision, EIOPA regularly engages bilaterally with NCAs to assess national practices. The independent assessment of supervisory practices across Europe provide EIOPA with an overall picture of Solvency II implementation and define areas where actions are required to further improve the supervisory framework and supervisory practices.

In 2018, EIOPA carried out 11 bilateral engagements with national supervisory authorities including follow-up to engagements from previous years.

Given national specificities, cross-border issues and political developments, the focus of bilateral engagements in 2018 was put on the following themes:

Monitoring of Brexit and of the EIOPA Opinion on establishment

EIOPA monitored the application of the Brexit opinion on establishment by bilaterally assessing national authorities in the jurisdiction that have most new establishments in EU-27 and for which the insurance sector is impacted by the new landscape of the EU after United Kingdom's withdrawal. During 2018, EIOPA assessed four national authorities in Belgium, Luxembourg, Ireland and Malta.

Equivalence and third country supervisory authorities

EIOPA is in regular exchange on supervisory and regulatory issues with the full equivalent third countries. In 2018, EIOPA had bilateral engagements with FINMA in Switzerland and in particular assessed the application of the supervision of Bermuda Monetary Authority in Bermuda.

Other bilateral assessments

Ireland: EIOPA visited the Central Bank of Ireland and analysed the supervision of the on-going appropriateness of approved internal models and their implementation.

Finland: EIOPA visited in 2018 the competent authority in Finland with a view to improving existing supervisory processes for the entire Solvency II framework with the focus on the local insurance market. Following this, special attention was given to cross-border supervision with regards to groups and solo undertakings.

Germany: EIOPA exchanged on good practices observed among peers with BAFIN the competent authority in Germany. The practices touched upon the organisation, the supervisory review process and Group supervision.

Hungary: In order to assess the implementation of Solvency II, the risk of the market and the national supervisory practices EIOPA visited in 2018 MNB the NCA in Hungary.

Croatia, Bulgaria: During the bilateral engagement with competent authorities in Croatia and Bulgaria (HANFA and FSC), the emphasis was put on the follow-up from previous years activities and recommendations.

During the bilateral visits to NCAs, EIOPA challenged the NCAs concerned on the assessments performed for authorisation and the onward supervision of the undertakings. Specific issues were further discussed in the closed session of the BoS, consequently NCA's could receive feedback from peers.

EIOPA engages with competent authorities on a continuous basis. Some authorities were visited more than once during 2018 in order to follow up on a thematic subjects and support the national supervisory process on.

3.3.5 JOINT ON-SITE INSPECTIONS

EIOPA participates in joint on-site inspections that are carried out jointly by two or more supervisory authorities, in particular in the context of colleges of supervisors and cooperation platforms.

These inspections are an important tool to build a better awareness of risks. EIOPA's participation fosters convergence of supervisory practices while strengthening cooperation among supervisory practices. On-site visits are particularly useful in strengthening cooperation as they enhance communication between home and host supervisors. They also enable home and host supervisors access to all relevant data of insurance or reinsurance undertakings and accelerate support to implement tailored solutions.

In 2018, EIOPA in joint effort with competent authorities participated in joint-onsite inspections (JOI) led by authorities in Austria ⁽²²⁾ and Ireland.

3.3.6 TECHNICAL ASSISTANCE

EIOPA provided ongoing technical assistance to national supervisory authorities to support and strengthen their supervisory capacity especially where weaknesses have been identified during bilateral visits or to strengthen the Capital Markets Union.

In 2018, at the request of the European Commission ⁽²³⁾, EIOPA finalised the 1-year technical assistance to the Romanian national supervisory authority to strengthen its supervisory capacity in support of the development of the Capital Markets Union. Under this project, EIOPA developed a comprehensive handbook with detailed guidance on the supervisory review process under Solvency II and a risk assessment's framework, supervisory processes and tools.

⁽²²⁾ The JOI in Austria was done in a coordinated process led by FMA as a College activity in close cooperation between group and solo supervisors.

⁽²³⁾ Under the umbrella of the European Commission's Structural Reform Support Service (SRSS) Capital Markets Union (CMU) programme https://ec.europa.eu/info/departments/structural-reform-support-service_en

4. PRIORITIES FOR 2019

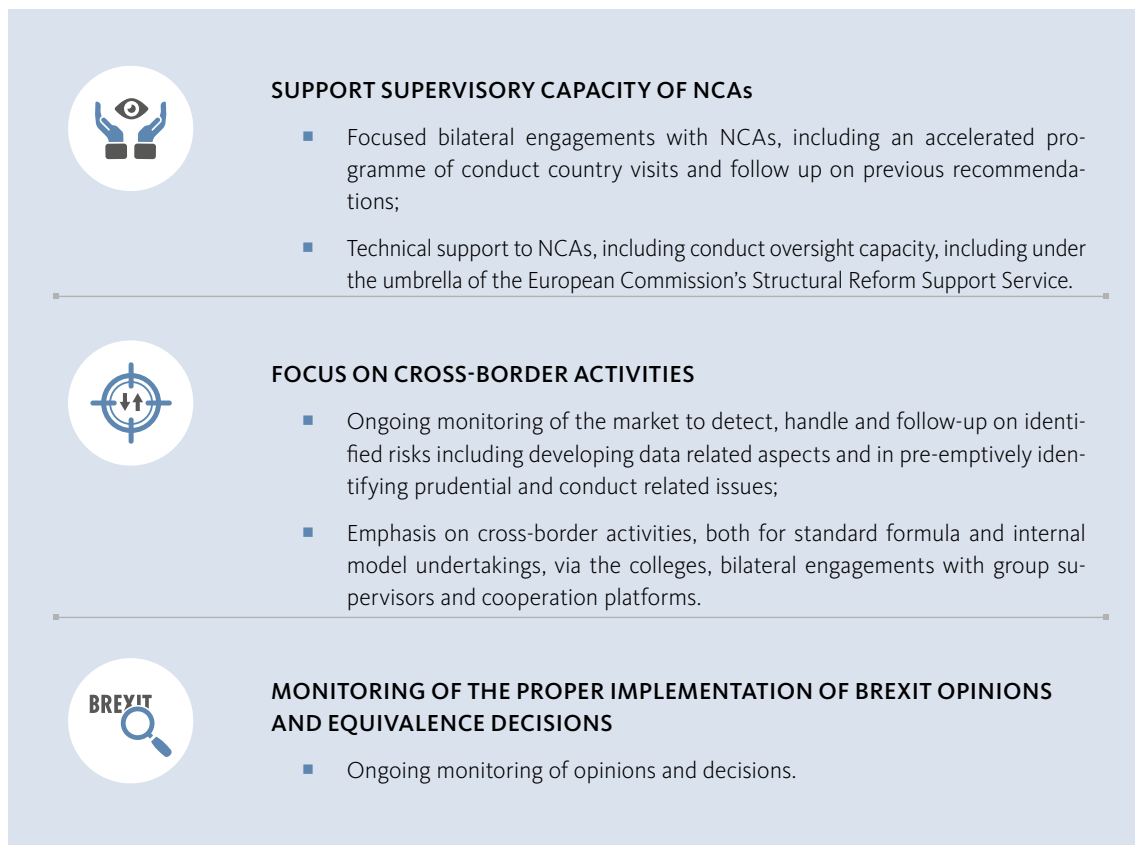
In the field of supervisory convergence it is important to remain flexible and alert to respond to emerging and future challenges. EIOPA took the opportunity to review its priorities in the field of supervisory convergence and publish a revised Supervisory Convergence Plan for 2019 covering the priorities for the three building blocks of supervisory convergence: building common benchmarks for supervisory practices, their review and EIOPA's own independent assessment.

The priorities for 2019 remain the same as in 2018 while new areas have been identified in each priority area. Moving forward, EIOPA will also include supervisory convergence of the pensions sector.

PRIORITIES FOR 2019

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.

Figure 5 – Oversight priorities 2019



EIOPA needs to remain ready to handle a dynamic environment and deal with issues on supervisory convergence that are not covered by the work plan.

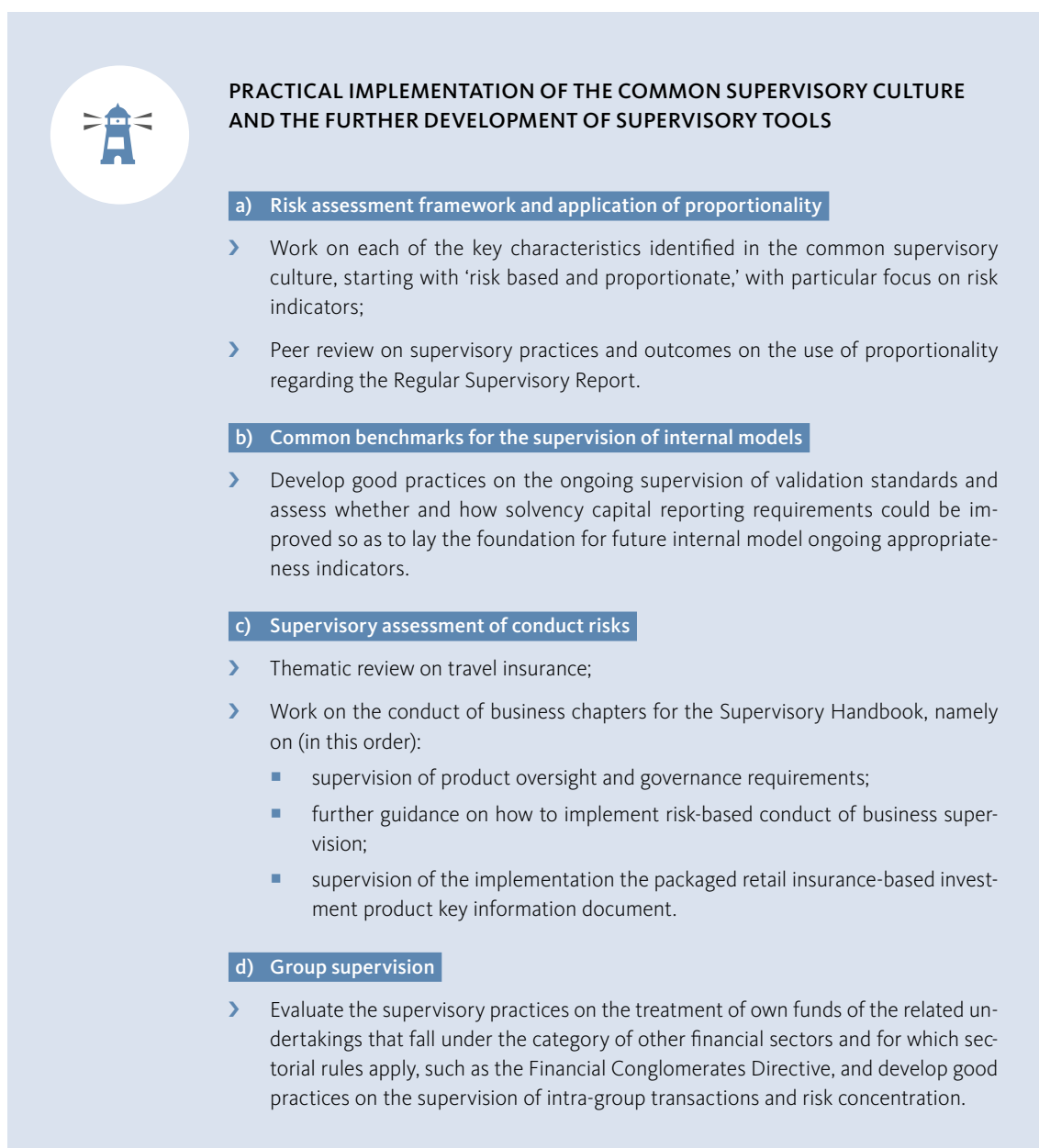
EIOPA will also address the recommendations received from the European Court of Auditors (ECA). In particular,

EIOPA aims to improve the focus and follow up of EIOPA recommendations to NCAs.

EIOPA will continue to assess supervisory practises in general and on a thematic basis to foster convergence and consistent, high quality supervisory practices among NCAs.

4.1 PRACTICAL IMPLEMENTATION OF THE COMMON SUPERVISORY CULTURE AND THE FURTHER DEVELOPMENT OF SUPERVISORY TOOLS

Figure 6 – Supervisory convergence priorities 2019





e) Remuneration policies

- › Ensure convergent supervisory practices on Solvency II remuneration requirements.

f) Supervisory assessment of captives (new)

- › Ensure convergent and proportionate supervisory practices towards captive undertakings while acknowledging different types of captives and consequently different types of risks.

g) Follow-up on recommendation to EIOPA from the peer review on propriety (new)

- › Define common questionnaires to collect information from companies to exchange information between supervisors. The development of such tools can foster convergence effectively among the practices adopted by NCAs.

4.2 RISK TO THE INTERNAL MARKET AND THE LEVEL PLAYING FIELD WHICH MAY LEAD TO SUPERVISORY ARBITRAGE



RISK TO THE INTERNAL MARKET AND THE LEVEL PLAYING FIELD WHICH MAY LEAD TO SUPERVISORY ARBITRAGE

a) Calculation of provisions

- › Analysis of the consistency of technical provision 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

- › Peer review of provisions of exchange of information regarding the authorisation, notification and supervision on a continuous basis, included in the EIOPA Decision on collaboration of the insurance supervisory authorities.

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

- › Set-up of a network of authorisation officers to bring more convergence among supervisory authorities concerning authorisation practices.



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.

f) Use of risk-mitigation techniques and new financial engineering products for capital relief (new)

- Analysis of the consistency of the treatment of risk mitigation techniques and of other financial instruments that may be used to reduce Solvency Capital Requirements.

4.3 SUPERVISION OF EMERGING RISKS



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 governance;
- Promote awareness and perform first steps towards the implementation of a cyber resilience framework;
- Develop guidelines on ICT security and governance. Promote pilot discussions regarding cyber resilience testing for large insurers.

b) InsurTech

- Thematic review on big data analytics;
- ESAs to set out options, to be considered in the context of future EU-level work on innovation facilitators, to promote coordination and cooperation between innovation facilitators which would support the scaling-up of FinTech across the single market.

c) Brexit

- EIOPA to continue its work ensuring a high-level of supervisory standards with the EU27, whilst establishing a new relationship with the UK under revised terms;
- EIOPA to monitor any stability issues in the run up to and following the UK's exit from the EU, including during any transitional period.



d) Run off undertakings (new)

- › EIOPA will assess the specificities of run-off undertakings, e.g. specific business model, governance arrangements, role of private equity, outsourcing and main risks of run-off undertakings aiming to exchange supervisory challenges and concerns, identify potential differences in the treatment and interpretation, as well as identify good practices for their supervision in order to achieve a more convergent approach by the NCAs concerned.

e) Interbank offer rate (IBOR) transition (new)

- › Assess the impact of IBOR transition in insurance and reinsurance undertakings from different perspectives, including impact on the Risk Free Rate (RFR) methodology (DLT (deep, liquid and transparent), CRA (credit risk adjustment), etc.) and also in undertakings' business models and products, among others.

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Westhafenplatz 1,
60327 Frankfurt am Main, Germany



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