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Insurance Supervision in Europe

The future of the insurance industry in Cyprus, IHM

Nicosia, 9 March 2011

Consequences of the financial and economic crisis

- Need to build a sound system
- Need to work on right calibrations
- Need for sound Internal Controls
- Relevance of quality of capital



- Insurance is NOT Banking
- Need for preemptive risk-based supervision
- Need for *ad hoc* sectoral responses
- Need for strong links between the Macro and Micro levels
- Who does what? Need to allocate tasks and responsibilities
- Need to set a framework that avoids Arbitrage



The new landscape of European insurance supervision



Recital 7 EIOPA regulation:

- **EU has reached the limits of what can be done** with Committees (CEIOPS)
- EU **cannot remain in a situation** where:
 - **No mechanism** to ensure **best cross-border supervisory decisions**;
 - **Insufficient cooperation** and **information exchange**
 - **Joint action** requires **complicated arrangements**
 - **National solutions** are **only feasible option**
 - **Different interpretations** of the same legal text
- **European System of Financial Supervision (ESFS) should:**
 - **Overcome deficiencies**; and
 - **Provide** system linking national supervisors within a **strong EU network**

Genesis of the European System of Financial Supervisors



- From “De Larosière” (February 2009) to ECOFIN approval (17 November 2010)
- **European System of Financial Supervision (ESFS)**
 - National supervisors in Member States,
plus three new European Supervisory Authorities (ESAs):
 - European Banking Authority (EBA);
 - **European Insurance and Occupational Pensions Authority (EIOPA);**
 - European Securities and Markets Authority (ESMA).
- **European Systemic Risk Board (ESRB):**
 - Monitor and assess risks to the stability of the financial system
 - Risk warnings, cooperation with the ESA
 - Link between macro and micro levels of supervision

- **Union body with legal personality** as well as administrative/financial autonomy
- Can be a **party to legal proceedings**
- **Represented by its Chairperson**
- **Autonomous budget** - revenues from national authorities and EU Budget
- **Accountable to EU institutions**

- o EIOPA and national supervisors = **independent from one another**
- o **But closely co-operating!**
- o EIOPA governed by Board of Supervisors, integrating national supervisors
- o National supervisors = key source of expertise/information
- o **National supervisors carry out day-to-day supervision**
- o National supervisors keep direct link to industry (e.g. QIS5, stress tests)

- Stable/effective **financial system**
- Sound **regulation/supervision**
- Transparent, efficient and orderly **markets**
- **International** supervisory co-ordination
- No **regulatory arbitrage**
- **Equal conditions of competition**
- Appropriate **regulation/supervision of risks**
- Enhanced **customer protection**

- High-quality **regulatory standards/practices**
- Consistent application of **legally binding acts**
- **Co-operate closely with ESRB**
- **Peer review** analyses
- Monitor and assess **market developments**
- Undertake **economic analyses of markets**
- Foster **protection of policyholders**

- Develop **draft technical standards**
- Issue **guidelines and recommendations**
- In certain cases, **remedy emergency situations**
- **Settle disagreements** in cross-border situations
- Monitor correct **application of EU law**
- Methodologies for **products and distribution**

- Colleges
- Expert Groups/Committees
- Stakeholder Groups
- Impact Assessment/Consultation
- Peer Reviews
- Stress Tests
- Committee on Financial Innovation
- Sectoral/Cross-Sectoral Training



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EIOPA and Solvency II

Reminding ourselves of the objectives and opportunities of Solvency II

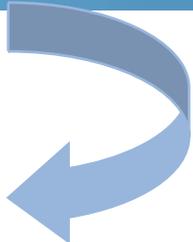


- Objectives:
 - Deepen the integration of the internal market (Single Market)
 - Enhance protection of policyholders
 - Improve international competitiveness of EU insurers
 - Achieve “better regulation”
 - Opportunities:
 - Better match between supervisory framework and internal risk management
 - Harmonised supervision and reporting requirements within the EEA
 - Improved group supervision
 - Convergence of supervision in the EEA
-

Which steps are needed to get there?

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- Directive (**Level 1** text):
 - 25 November 2009, O.J. 335
- Delegated acts / Implementing measures (**Level 2**):
 - Discussions in Commission Solvency Expert Group, Council and Parliament (proposals expected end 2011)
- Binding technical standards (**Level 3**)
- Non-binding guidelines
- Implementation: 31 December 2012



*Experience the
Lamfalussy
process*



*add the new regulatory
Framework (de Larosière,
Lisbon treaty)*

*Not so far
away!*

EIOPA Solvency II Medium Term Work Plan: From Regulation to Supervision!

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2010

2011

2012

2013

QIS5

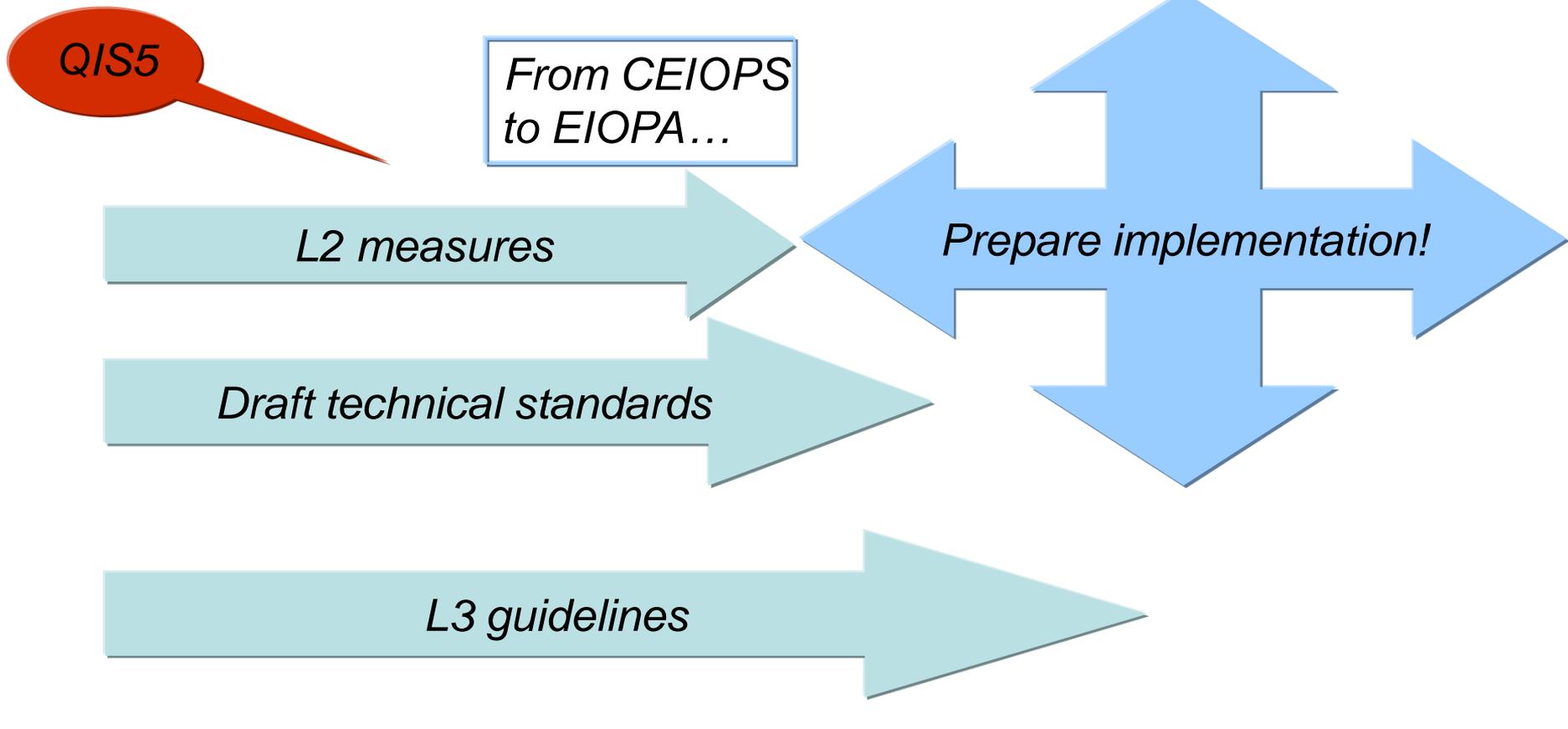
*From CEIOPS
to EIOPA...*

L2 measures

Draft technical standards

L3 guidelines

Prepare implementation!



Regulation: Key areas of interest from EIOPA



L2 measures, Binding technical standards and Level 3 guidelines

- Development of technical standards (Omnibus 2)
- Provide guidelines that are essential to ensure a convergent implementation of Solvency II
- Ensure consistency in the framework
- For example:
 - o Reporting templates
 - o Simplifications
 - o Consistency of solo and group provisions in specific areas
 - o Risk free rate for discounting

Supervision: preparing the implementation

- Ensure a smooth transition through timely preparation, no postponement
 - **Stabilise measures as soon as possible**
- Prepare convergent supervisory review process
 - Pre-application of internal models
 - Approval process for group internal models
 - Transitional measures for equivalence
- Initiatives to prepare implementation
 - EIOPA training
 - Exchange of information



- QIS5 participation rate as indicator for efforts
Industry is committed to put Solvency II in practice!
 - Some key issues for discussion in light of QIS5 results
 - **Complexity of the standard formula**
 - **Calibration**
 - **Expected profits in future premiums**
 - **Technical provisions:** boundaries of insurance contracts, application of the illiquidity premium
 - **Transitional measures** (own funds, technical provisions, equivalence)
-

EIOPA and Solvency II: a match made in heaven...

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Thank you