

# Insurance Group Supervision in the EU

Conference on Global Insurance Supervision  
trends and development  
6-7 September 2012

Fausto Parente  
Chair of the Insurance Group Supervision Committee of EIOPA

---

# Agenda

eiopa



Background on Group supervision,  
developments in the EU

Colleges history (Helsinki list)

Role and power of Group  
supervisor under different  
supervisory regimes

An example: Internal Model  
approval

Specificities of an insurance undertaking which is  
part of a group

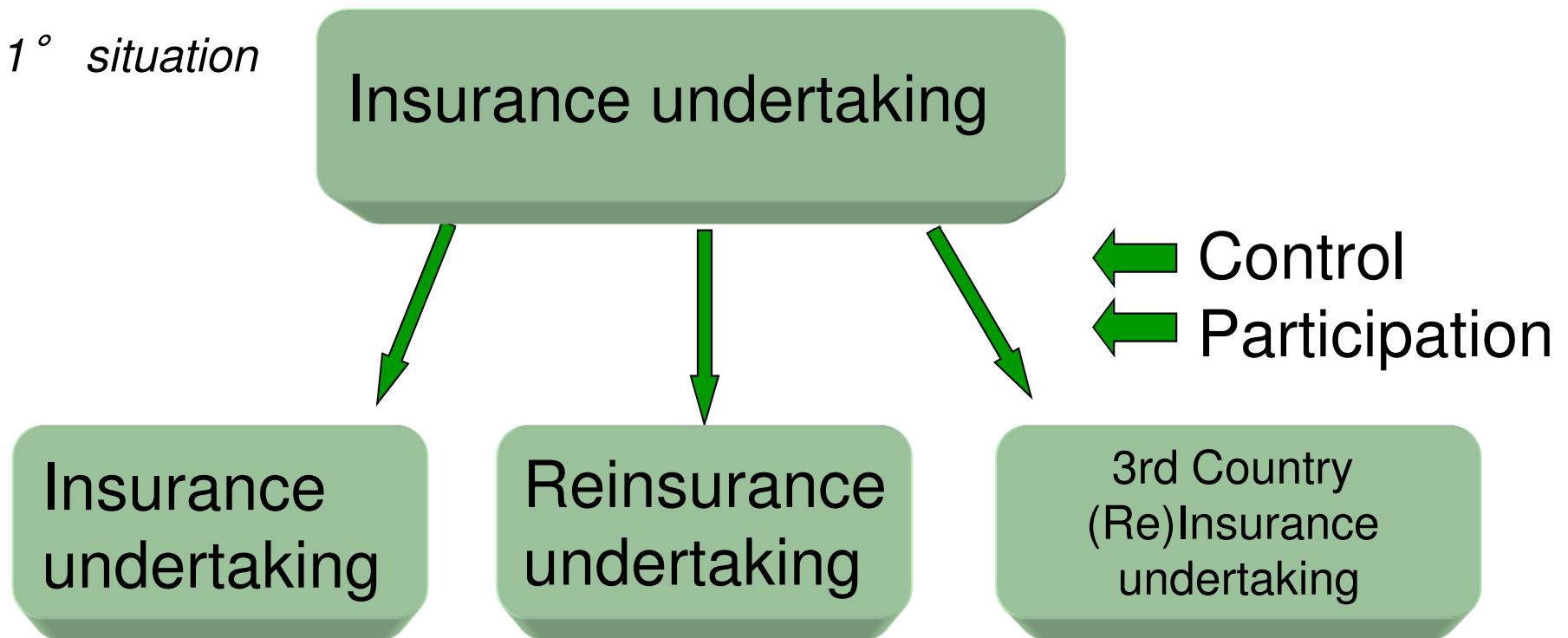
- Positive aspects: Opportunities for development, potential savings and synergies
- Negative aspects: contagion risk (IGTs, risk concentration), duplication of capital, potential conflicts of interest

### The EU supervision responses

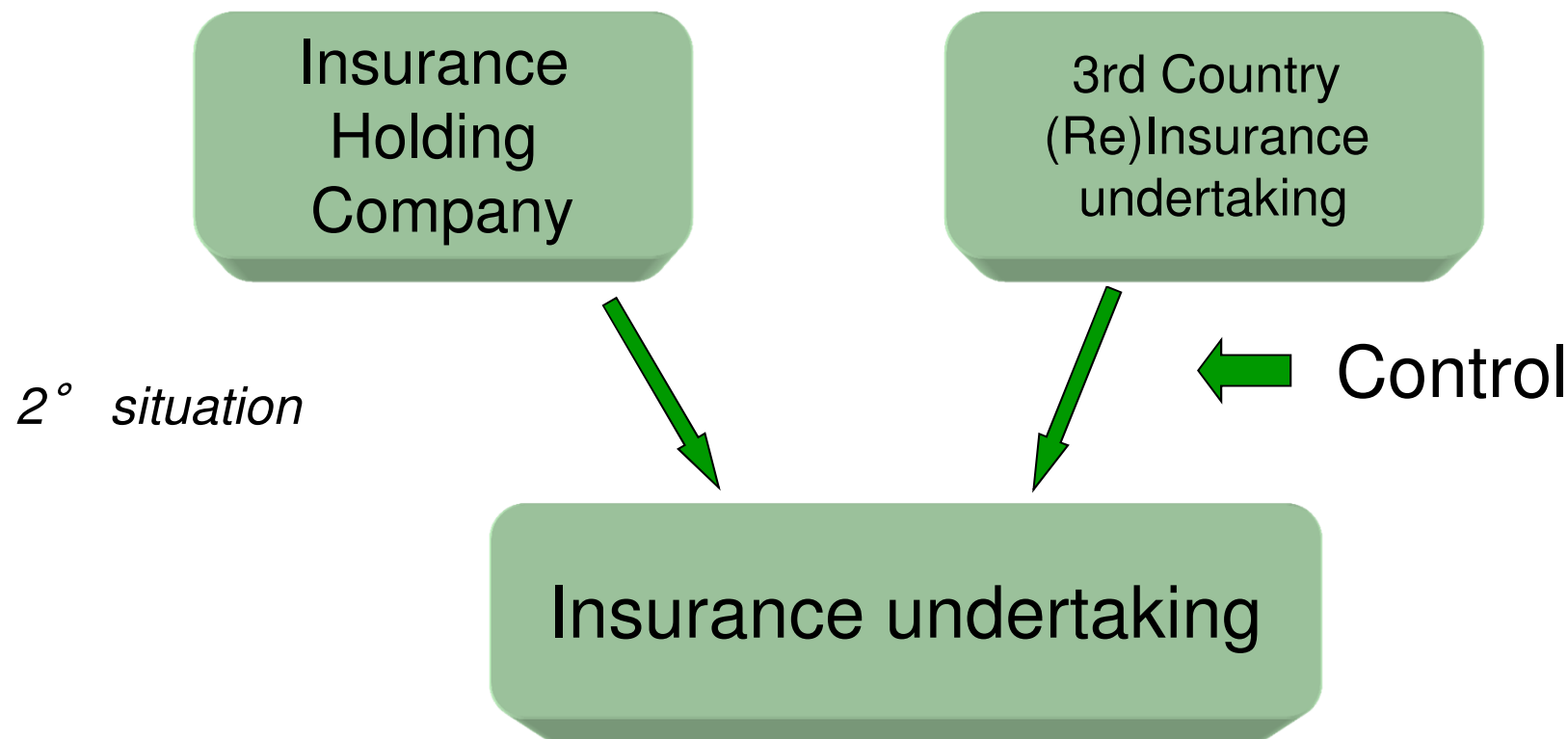
- Solo supervision
  - o Quality of shareholders
  - o Authorization of relevant participating entities as well as controlling ones
  - o Monitoring of the variations in the group structure
  - o Monitoring of the risks stemming from the participations held by the insurance undertakings
- Supplementary supervision in Directive 98/78/EC
- Insurance group viewed as an economic entity in itself in Directive 2009/138/EC (Solvency II)

Supplementary supervision in Directive 98/78/EC:  
when is applied

*1° situation*

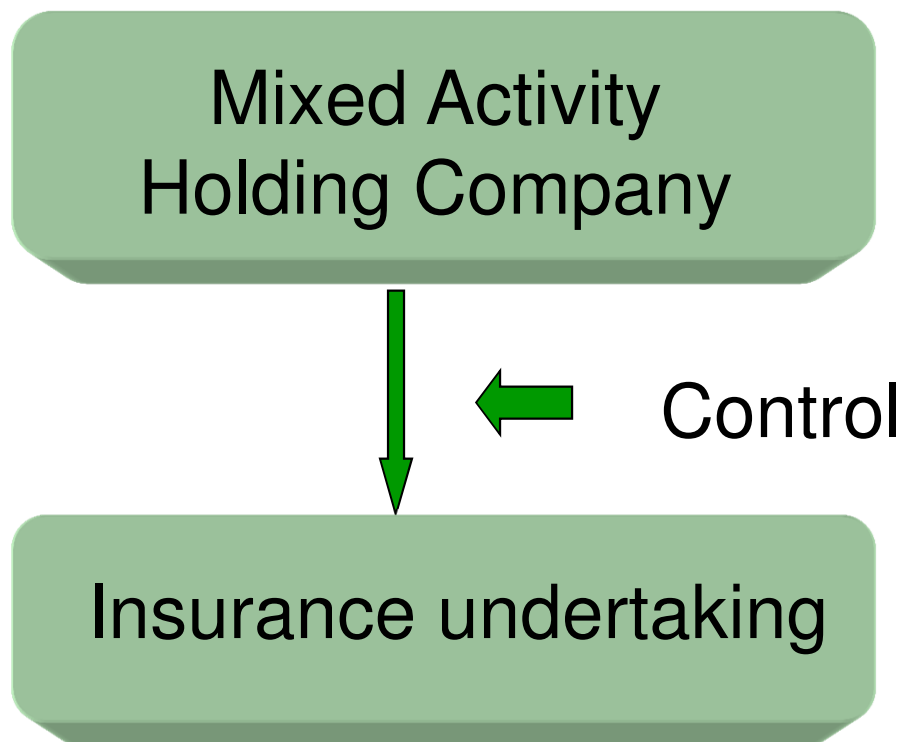


Supplementary supervision in Directive 98/78/EC:  
when is applied



Supplementary supervision in Directive 98/78/EC:  
when is applied

*3<sup>o</sup> situation*



## Supplementary supervision in Directive 98/78/EC: the supervisory tool to be applied

- ✓ Capital adequacy
  - ✓ Intra-Group transaction Monitoring
  - ✓ Internal control Procedure
  - ✓ Access to information and Information sharing
  - ✓ On-Site inspection
- The application of the supervisory tools varies depending on the three situations described above



## Supplementary supervision in Directive 98/78/EC: the supervisory tool to be applied

- |                 |   |
|-----------------|---|
| ✓ 1° situation  | - Internal Control Procedure                    |
|                 | - Capital adequacy                              |
|                 | - Intra-Group transaction Monitoring            |
|                 | - Access to information and Information sharing |
| ✓ 2a Situazione | - Access to information and Information sharing |
|                 | - Intra-Group transaction Monitoring            |
|                 | - Capital adequacy                              |
| ✓ 3a Situazione | - Access to information and Information sharing |
|                 | - Intra-Group transaction Monitoring            |

## Insurance group viewed as an economic entity in Solvency II

- A definition of Group is given:  
*a group of undertakings that consist of a participating undertaking, its subsidiaries and the entities in which the participating undertaking or its subsidiaries hold a participation, as well as undertaking linked by “common control”*
- In case of cross-border groups, the supervision is in principle applied at the level of the ultimate parent undertaking at the European level, but national supervisors, by explaining their decision, may impose group supervision to the ultimate parent undertaking at the *national level* (sub-group supervision). This could also be applied to multinational sub-groups

Group supervision applies in the following cases:

- a) European insurance undertaking 1) which is a participating undertaking to another European or third country (re)insurance undertaking (*full application*)
- b) European insurance undertaking, the parent undertaking of which is a European insurance holding company (*full application*) or a third country Insurance holding company or a third country (re)insurance undertaking (*based on "equivalence" provisions*)
- c) European insurance undertaking, the parent undertaking of which is a mixed activity insurance holding company (*only control of intra-group transactions*)

The *group supervisor* may decide to exclude an undertaking (e.g. legal impediment to transfer information, negligible interest or inclusion inappropriate)

## Insurance group viewed as an economic entity in Solvency II: Quantitative requirements

Solvency is assessed by comparing total available own funds at group level to a "consolidated" capital requirement

There exists 3 consolidation methods:

- Method 1: Accounting consolidation used by default recognizes diversification effects
- Method 2: Deduction and aggregation when limited access to info or the default method is too burdensome
- Method 3: Combination of methods

## Insurance group viewed as an economic entity in Solvency II: Quantitative requirements

- Calculation methods: Standard formula or Internal models
- Regardless of the method, the capital requirement of the group is the sum of a capital requirement calculated on the consolidated insurance subsidiaries (with diversification effect) and solo capital requirements of other regulated entities
- Recognition of individual entities own funds at group level depends on their availability and transferability between entities

## Insurance group viewed as an economic entity in Solvency II: Qualitative requirements

- The provisions on governance at solo level apply *mutatis mutandis* at group level
- ORSA refers to the processes and procedures used to identify, assess, monitor, manage, and report the short and long term risks a (re)insurance undertaking faces or may face and to determine the own funds necessary to ensure that its overall solvency needs are met at all times
- A group ORSA should capture all specificities which are material from a group perspective like group specific risks

## Insurance group viewed as an economic entity in Solvency II: disclosure and supervisory reporting

- As in solo, groups must submit a public report on the solvency and financial condition (Solvency and Financial Conditions Report - SFCR)
- In addition, for supervisory purposes, groups must send to the group supervisor a confidential report (Report to supervisors - RTS)
- In addition, prudential statements specific to the group activity are included either in the SFCR, or in the RTS

## Insurance group viewed as an economic entity in Solvency II: other requirements

- As in current regime, IGTs need to be reported to the supervisors (the scope include operations between two unregulated entities as well as physical persons)
- In addition, Risk concentration (RC) which are significant (>10% of the Group Capital Requirements) need to be reported since they are deemed to have the potential to produce losses that could threaten the solvency and financial position of the group



In case the parent undertaking (insurance holding company or insurance undertaking) of European insurance undertakings is located in a third country:

- If the third country includes the European insurance undertakings in a group supervisory regime which is assessed as "*equivalent*" to SII, the concerned European supervisors shall rely on the equivalent group supervision exercised by the third country supervisor
- If the third country supervisory regime is not "*equivalent*", either:
  - ✓ the SII group supervisory tools are applied to the European insurance undertakings by applying the general principles and methods at the level of the third country parent undertaking
  - ✓ or European supervisors apply other methods (e.g. require establishment of a European insurance holding company) which ensure appropriate supervision of these European undertakings in a group

# Agenda

eiopa



Background on Group supervision, developments in the EU

Colleges history (Helsinki list)

Role and power of Group supervisor under different supervisory regimes

An example: Internal Model approval

In 2000, the Helsinki Protocol created Coordination Committees (CoCos) chaired by a "lead supervisor"

- The objective is to ensure an effective supervision on cross-border groups by minimizing any overlap and supervisory gaps
- Exchange of information, cooperation and coordination are the instruments to establish an efficient and effective supervision
- The signatories authorities oblige themselves to make any effort to cooperate even beyond the provisions in the Protocol
- Set up of a Coordination Committee for each cross-border group
- List of cross-border groups (the Helsinki list) managed by CEIOPS
- Establishment of a dedicated Committee within CEIOPS (IGSC) for monitoring the CoCo
- Information to be exchanged when supervisory actions are taken

In 2000, the Helsinki Protocol created Coordination Committees (CoCos) chaired by a "lead supervisor"

- Major areas for cooperation within CoCos :
  - ✓ IGT monitoring
  - ✓ Capital adequacy measurement
  - ✓ ... any relevant information on :
    - fitness and propriety
    - new authorization and liquidation
    - Measures taken against any undertaking of the group
    - financial difficulties within the group

### Solvency II gives a legal basis to the establishment of colleges

- There is a legal duty to cooperate and exchange information between authorities concerned. All supervisors involved are requested to exchange information automatically or on demand, and to consult before any important decision.
- A single supervisor, responsible for coordination and exercise of group supervision, shall be designated from among the authorities concerned (group supervisor).
- Criteria are set to help identification of the group supervisor, but they can be derogated by consensus.
- Access to and on-site verification of information is contemplated with regard to all entities of the group.

### Solvency II gives a legal basis to the establishment of colleges

- The Colleges have a role in facilitating the decision to be taken by the *group supervisor* and by each supervisor when relevant. Although the group supervisor has the final decision, an internal decision making process is established in each college.
- Coordination agreements need to be signed by the members in order to define in details the functioning of the colleges, including a “work program” and a “contingency plan” to deal with crisis
- Dedicated team of supervisors can be envisaged for specific tasks
- Cooperation with supervisors of the other financial sectors is encouraged

### EIOPA Regulation further emphasizes the importance of the college

- EIOPA is expected to contribute to an effective functioning of colleges by monitoring their functioning as well as by disseminating best practices
- While EIOPA is a member of colleges, day-to-day supervision of undertakings is the responsibility of national supervisory authorities
- EIOPA would only take direct action towards supervised entities in the circumstances outlined in Regulation
- EIOPA has been given a role in settlement of disagreements in cross-border cases. In order to ensure its independence, EIOPA will not take part in a formal vote in the College

# Agenda

eiopa



Background on Group supervision, developments in the EU

Colleges history (Helsinki list)

Role and power of Group supervisor under different supervisory regimes

An example: Internal Model approval



## Role and power of Group supervisor under different supervisory regimes



Under Solvency I,  
the main tasks of the Lead Supervisors are:

- Organizing and chairing the Co-Co
- Defining the *work programme* on an annual basis and monitoring its application
- Coordinating and gathering information within the Co-Co
- Assess the capital adequacy and IGT at group level

- ❖ *Statement on the Role of Lead Supervisor, CEIOPS 2006*
- ❖ *Guidelines on Information Exchange between Lead supervisors and other Competent Authorities, CEIOPS 2007*

## Role and power of Group supervisor under different supervisory regimes



Under Solvency II,

in addition to the previous tasks, the Group Supervisor becomes the contact point of the group, and in practice his head, for all matters relating to prudential supervision at group level

- The Group supervisor has a number of responsibilities related to group supervision, including enforcement in the case of insurance holding company at the head of the group (to be exercised in collaboration with other authorities)
- The Group supervisor has the final word in a number of decision
- It exercises its responsibility in coordination with other supervisory authorities within the college

# Agenda

eiopa



Background on Group supervision,  
developments in the EU

Colleges history (Helsinki list)

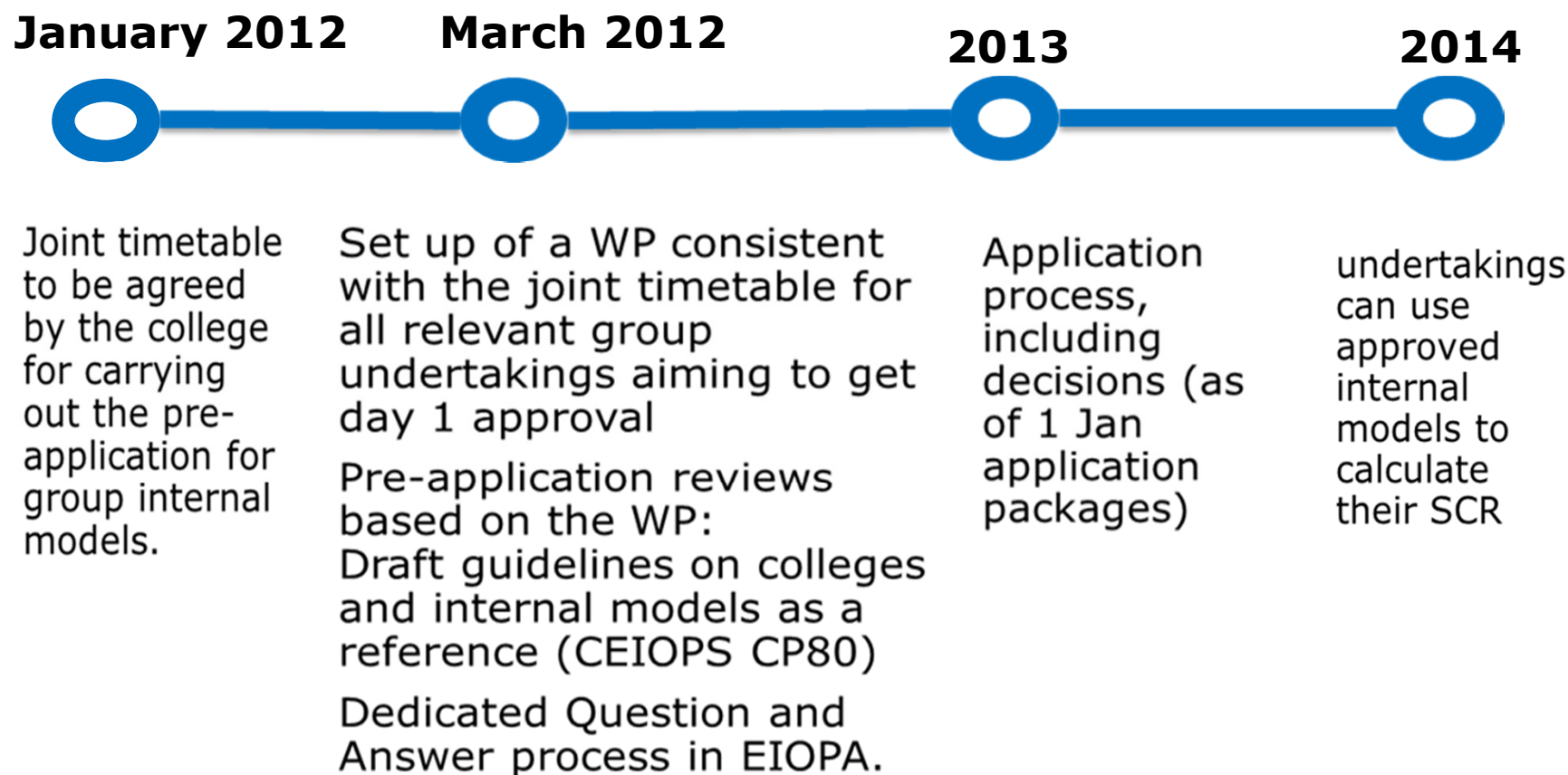
Role and power of Group  
supervisor under different  
supervisory regimes

An example: Internal Model  
approval

## An example: Internal Model approval



### Working Assumptions (for the case of day 1 approval)



## An example: Internal Model approval

### Decision

on the use of an internal model for group solvency and for solo solvency purposes

Joint decision by concerned Supervisory Authorities

by the Group Supervisor in the absence of a joint decision in the period set out in Directive.

### EIOPA

Possible consultation of EIOPA (para 3 and 4 for Art 231 in SII by Omnibus II).

In case any of the Supervisory Authorities concerned has referred the matter to EIOPA at the end of the periods referred to in the Directive in terms of new para 6 Art 231 by Omnibus II.

## An example: Internal Model approval



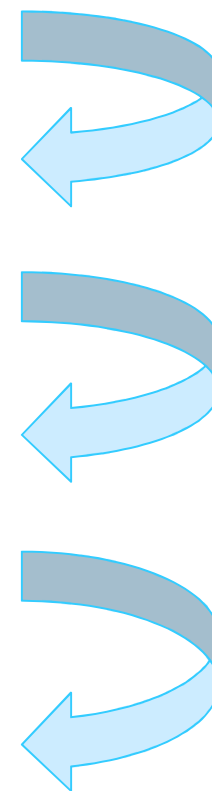
### Tasks of Group Supervisor

Coordination of the procedure

Find compromises with other Supervisory Authorities concerned for the decision

Decision in the absence of a joint decision in the period set out in Directive (see proposal for new para 5 for Art 231 in SII by Omnibus II)

In case of binding mediation by EIOPA, take the decision in conformity with EIOPA's decision



## An example: Internal Model approval



### Tasks of Solo Supervisor

#### In the case of concerned

- Possibility of requesting EIOPA mediation (see proposal for Art 231 in SII by Omnibus II).
- Possibility of imposing a capital add-on for an undertaking under its supervision in the terms of Directive.

#### In the case of consulted

- Provide a view for instance on adequacy to exclude the solo entity from the internal model.

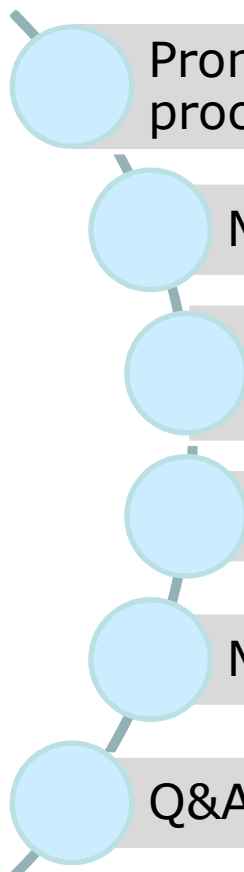


NB: In case of Art. 230 solo supervisors are only to be consulted

## An example: Internal Model approval



### Role of EIOPA

- 
- Promote fulfilling EIOPA Action Plan on Colleges regarding IM processes
  - Monitoring the IM processes in Colleges
  - Consistency amongst colleges of the IM processes- advise to GS, link between policy and oversight (Q&A)
  - EIOPA will not step into the role of the Group Supervisor
  - Mediation – last resort
  - Q&A section for IM on the internal website of EIOPA