



EIOPA Presentation on Insurance Group Supervision

Insurance and Reinsurance Stakeholder Group meeting
24 May 2012

1. What makes an insurance group specific?

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

2. How does supervision encompass risks at group level?

- Solo supervision
- Supplementary supervision in Directive 98/78/EC
- Insurance group viewed as an economic entity in itself in Directive 2009/138/EC

3. What is the scope of group supervision under Solvency II?

- Supervision is normally exercised at the highest level in the EEA
- Member states can choose to control the subgroup at the highest level in their member states or at the level of a set of states

4. What are Solvency II requirements for groups?

- Quantitative and qualitative requirements
- Group disclosure and supervisory reporting

5. What are the quantitative requirements at group level?

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 recognises diversification effects
- Method 2: Deduction and aggregation when limited access to info or lack of fungibility or transferability of capital or in the context of equivalence
- Method 3: Combination of methods

6. How is the Group SCR calculated?

- Calculation methods:
 - Standard formula
 - 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.

7. What are the qualitative requirements at group level?

- 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.

8. What are the disclosure and reporting requirements at group level?

- 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.

9. How are Intra-Group Transactions (IGTs) being reported : Scope and definitions

- Scope of IGTs to be reported include transactions between two unregulated entities
- Definitions of significant and very significant IGTs through thresholds : 5% or 10% of the lowest SCR of the (re)insurance undertakings involved either directly or indirectly in the IGT reflecting a material effect for significant IGT (5%) and a material and adverse effect for very significant IGT (10%).
- Flexibility is given to the Group Supervisor to adapt the thresholds.

10. How are IGTs being reported: Types of IGTs to be reported at all times and procedural aspects

- EIOPA guidelines also provide a type of IGT to be reported in all circumstances (when reported as such internally by management) as well as types of IGT that should be subject to the assessment of their significance for reporting purposes and types of very important IGT to be reported at all times.
- EIOPA Guidelines offer guidance on procedural aspects: the coordination arrangements should set the procedures of consultation between the group supervisor and other College members.

11. How is Risk Concentration being reported:

- Risk concentration (RC) should be considered significant when the concentration has the potential to produce losses that could threaten the solvency and financial position of the group. Exposures equal to or in excess of 10% of the group's SCR should be considered as having this loss potential.
- The group supervisor may adapt the standard threshold and involve the college of supervisors in this decision.
- Certain types of RC should be considered for the assessment of their significance for reporting purposes.

12. What is the origin of colleges?

- In 2000, the Helsinki Protocol created Coordination Committees (Cocos) chaired by a "lead supervisor".
- Solvency II establishes "colleges of supervisors" under the chairmanship of a "group supervisor".
- The framework was based on the directive on financial conglomerates.

13. How do colleges function?

- Modalities of colleges are specified in coordination arrangements which include a "work program", and a "contingency plan" to deal with crisis.
- Although the group supervisor has the final decision, an internal decision making process is established in each college.

14. What is the role of the Group Supervisor?

- Solvency II requests all supervisors involved to exchange information automatically or on demand, and to consult before any important decision.
- The group supervisor is the contact point of the group, and in practice his head, for all matters relating to prudential supervision at group level, and coordinates the collection and dissemination of info.
- It exercises its responsibility in coordination with other supervisory authorities within the college.
- Although the group supervisor has the final decision, an internal decision making process is established in each college.

13. What is the role of EIOPA in the College?

- While EIOPA is a member of colleges, day-to-day supervision of undertakings is the responsibility of national supervisory authorities. It is expected to contribute to an effective functioning of colleges by disseminating best practices in colleges.
- EIOPA would only take direct action towards supervised entities in the circumstances outlined in Regulation (EU No. 1094/2010).
- EIOPA has been given a role in settlement of disagreements in cross-border cases (EU no 1094/2010 art. 19 and art. 31(c)). In order to ensure its independence, EIOPA will not take part in a formal vote in the College.