

# Taking-up and pursuit of the business of insurance and reinsurance - Solvency II. Recast

2007/0143(COD) - 05/04/2018 - Follow-up document

In accordance with Directive 2009/138/EC of the European Parliament and of the Council (Solvency II), the Commission has presented a report on the application of Title III as regards the supervision of insurance and reinsurance undertakings, and the assessment of the transitional period for the occupational retirement provision business of life insurance undertakings (IORPs).

Solvency II provides that the Commission's report on the application of Title III (group supervision) may be accompanied with legislative proposal

The report takes into account much of the contribution made by the European Insurance and Occupational Pensions Authority (EIOPA).

**(1) Application of Title III of Solvency II on the supervision of insurance and reinsurance undertakings in a group:** Title III of Solvency II concerns the supervision of insurance and reinsurance undertakings in a group. The Directive uses an innovative supervisory model which assigns a key role to a group supervisor, while recognising and maintaining an important role for the solo supervisor.

- **General issues regarding group supervision:** the central issues concern the definition of a group and the scope of group supervision. EIOPA reported certain concerns on the **definition of a group** and on the emergence in the EU of several non-EEA structures with related investment funds that invest in insurance undertakings across the EEA.

Another potential issue is the **lack of consistency** between the undertakings in the group and the scope of group supervision in relation to third-country insurance undertakings, the insurance holding company, the mixed financial holding company or the mixed-activity insurance holding company.

- **Cooperation of supervisory authorities within, and functionality of, colleges of supervisors:** Solvency II strengthens cooperation among supervisory authorities and establishes the rights and duties of the group supervisor and the other supervisors in a college of supervisors. According to EIOPA data, there were 92 colleges in 2016, allowing national supervisors to exchange information regularly and discuss and address divergences in members' approaches. The overall assessment is that colleges **function well**.

- **Sub-group supervision:** under the Directive, Member States may allow their supervisory authorities to decide, after consulting the group supervisor and the ultimate parent undertaking at Union level, to subject the ultimate parent insurance or reinsurance undertaking, insurance holding company or mixed financial holding company at national level to group supervision. This is known as sub-group supervision.

According to EIOPA's data, three EU supervisors conduct sub-group supervision on eight cross-border groups. These additional complications need to be balanced against the fact that sub-group supervision is of great importance to those Member States that practise it.

- **Group internal models:** in line with the risk-oriented approach to the solvency capital requirement (SCR), Solvency II allows individual insurance and reinsurance undertakings and groups to use internal models for the SCR calculation, rather than the standard formula, subject to supervisory approval.

EIOPA reports that 11 NSAs have approved (cross border and domestic) group internal models and solo internal models are used in 17 Member States. EIOPA concludes that its **limited role** in the assessment and approval of cross-border internal models has sometimes hampered its work in assessing and promoting convergence.

**Legislative changes:** as Solvency II is due for **general evaluation in 2020** and given the importance of a stable regulatory framework, the Commission considers that only one of the areas identified above requires legislative amendment at this stage: the area of **group internal models**, where divergences among Member States have been identified and EIOPA needs enhanced powers to bring about convergence.

However, given the urgency of the matter and the opportunity provided by the Commission's package of proposals to review the functioning and financing of European supervisory authorities (as adopted on 20 September 2017), **action has already been taken on this**.

The package included a [legislative proposal](#) to amend Solvency II so as to mitigate and prevent divergences in the supervision and approval of group internal models. The proposal includes amendments to Solvency II to:

- give EIOPA a greater role in ensuring supervisory convergence in the area of internal model applications (at solo and group level) and with respect to information-sharing on such applications;
- allow EIOPA to issue opinions in this regard and assist in the settlement of disputes between supervisory authorities, at their request, on its own initiative or, in certain circumstances, at the request of concerned undertakings.

The amendments also provide that EIOPA should prepare annual reports on this matter. This will allow close monitoring of the situation on internal model applications.

**(2) Transitional period for the occupational retirement provision business of life insurance undertakings:** the occupational retirement provision business of life insurance undertakings are, subject to certain conditions, exempted during a transitional period from the full application of the Solvency Capital Requirement (Solvency II) by the Solvency II Directive. This period has been **extended until the end of 2022**.

The Commission may take a decision nearer the end of that period (end 2022) concerning its possible extension. If a decision is taken to extend the period, a **legislative proposal could be introduced** in good time before the end of 2022.