

# European Insurance News

## Special Edition

for the Public Hearing on the Solvency II project

on 21<sup>st</sup> June 2006

### Capital Requirements Directive

Political agreement on the CRD was reached in October 2005. The formal adoption is expected later in 2006 after the lawyer/linguists have reviewed the text. Member States must transpose and banks should apply the CRD from the start of 2007. The most sophisticated approaches (Advanced IRB approach for credit risk and AMA approach for operational risk) will be available from 2008.

Discussions are ongoing between EU and US supervisors and the banking industry about the consequences of the "gap year" caused by the delay in US implementation (delayed by one year to 2009). With goodwill from all parties, sensible and pragmatic solutions will be found to the issues that arise.

The Commission services have established a "CRD Transposition Group" with the Member States to work on consistent interpretation, transposition and implementation of the CRD. A website has been created to capture questions from stakeholders, and answers are also published.

### Equitable Life

The European Parliament has set up a Committee of Enquiry to investigate the background to the crisis which struck the Equitable Life Assurance Society, a long-established UK mutual life insurance undertaking, leading to its closure to new business in 2000 and serious financial losses for policyholders and annuitants.

Full details of the work of this Committee of Enquiry, including its terms of reference and verbatim records of its meetings, can be found on the special website at the following address:

[http://www.europarl.europa.eu/compar/tempcom/equi/default\\_en.htm](http://www.europarl.europa.eu/compar/tempcom/equi/default_en.htm)

## Motor insurance

On 19 December 2005, the Commission has issued a report addressed to the European Parliament and the Council on two motor insurance issues - compensation bodies and third-party liability cover for trailers. Based upon various consultations carried out in 2005 with Member States, industry and the public, the report suggests possible solutions for improving compensation for victims of accidents with a trailer, which could be examined when there is a recasting of the Motor Insurance Directives in 2007-2008. The report also concludes that compensation bodies are operating smoothly in the EU and that no major revision of the Motor Insurance Directives is required at this stage.

The Commission carried out a public on-line consultation from 6 April 2006 to 5 June 2006 on two issues related to motor insurance - the effectiveness of claims representatives in settling claims, and insurance cover for legal expenses. The Commission has also consulted Member States and the insurance industry on these matters. Replies will be taken into account in the forthcoming Commission report to the European Parliament and Council.

## Solvency II

### *Introduction to Solvency II*

The solvency margin is the amount of regulatory capital an insurance undertaking is obliged to hold against unforeseen events. Solvency margin requirements have been in place since the 1970s and have been amended by the Solvency I Directives in 2002. Whereas the Solvency I Directives aimed at revising and updating the current EU solvency regime, the Solvency II project has a much wider scope.

Solvency II is a fundamental and wide-ranging review of the current insurance Directives. It includes a review of the overall financial position of an insurance undertaking - not just limited to the solvency margin requirement. Its aim is to ensure adequate policyholder protection in all EU Member States. It will take into account current developments in insurance, risk management, finance techniques, international financial reporting and prudential standards, etc. One key objective is that the requirements better reflect the true risks of an insurance undertaking. There is widespread recognition that this is not the case in the current system. Another important feature of the new system will be the increased focus on the supervisory review process. The aim is to increase the level of harmonisation in general, including that of supervisory methods, tools and powers.

### *Basic architecture and legal approach*

The basic architecture for the new Solvency II regime has been endorsed by the Insurance Committee (now European Insurance and Occupational Pensions Committee). As in the banking sector (Basle 2), it is based on a three pillar approach adapted for insurance (i.e. quantitative requirements; supervisory activities; and reporting and disclosure).

The Solvency II Directive will contain elements of the current acquis as well as newly drafted Solvency II Articles. Approximately three-fourths of the Directive will consist of a codification of 14 existing Insurance Directives (namely the Life, Non-life, Reinsurance, Insurance Groups and Winding-up Directives), into one Directive (it shall be noted that this recasting exercise does not concern the Motor Insurance Directives). The text of the existing Directives will be adapted and restructured, but the substance will remain unchanged. The remaining one-fourth of the Solvency II Directive will consist of new provisions, i.e. substantial changes introduced in order to reflect the new Solvency II system.

The new provisions will be adopted following the Lamfalussy model, with the "Level 1" Directive setting out the key principles of the new system. At a later stage, detailed rules will be adopted by a comitology process ("Level 2 implementing measures"). However, it has to be stressed that the Solvency II Directive cannot be considered as a pure Framework Directive in the usual sense of the word as new elements will be included in already existing Directives. Comitology procedures will not be introduced in the Articles originating from the existing Insurance Directives. These Articles will remain unchanged in substance and will be Level 1 provisions in the Solvency II Directive. Implementing measures will only be introduced in relation to the new Solvency II Articles.

Currently, the Commission services are working on the preparation of the Solvency II Directive in cooperation with Finance Ministries/CEIOPS/industry/stakeholders, etc. CEIOPS (the Committee of European Insurance and Occupational Pensions Supervisors) has been requested to provide preliminary technical advice on specific issues. Three waves of Calls for advice have been sent to CEIOPS, to which CEIOPS has answered.

After the European Parliament and the Council have approved the Solvency II Directive, CEIOPS will be asked through mandates to advise on draft implementing measures.

#### ***Recent developments***

The Services have been working on the codification and recasting of the existing Insurance Directives, on drafting new texts and on the Impact Assessment that must accompany the proposal for a Directive.

1. A draft text codifying the 14 existing Insurance Directives was presented to EIOPC. The structure of the current Directives is kept, but certain provisions will change substantially once the Solvency II related elements have been introduced. A first discussion on some of those new elements took place in February 2006.

## Guarantee schemes

2. For the new texts, the Commission Services have presented to the Solvency Working Group, whose members are mostly regulators, drafting of new texts for the Solvency II Directive on issues related to the first two waves of calls for advice. These new texts are drafted taking into account CEIOPS' answers and on-going work (the Commission Services are following actively the Solvency II work of the CEIOPS' working groups). CEIOPS itself is working within the framework of a document, called "Framework for Consultation", which sets out the policy guidelines and principles within which CEIOPS should develop its advice. This document, in its latest version, is available on the Commission's website at [http://ec.europa.eu/internal\\_market/insurance/solvency2/consultation\\_en.htm](http://ec.europa.eu/internal_market/insurance/solvency2/consultation_en.htm), after having been consulted with EIOPC, the European Insurance and Occupational Pensions Committee, at its meeting on 5 April 2006.

3. The Solvency II Directive will be accompanied by an impact assessment report. The purpose of this report is to explain the critical choices made in the new provisions of the future Solvency II Directive. In the case of a Lamfalussy directive, there will be additional complexities to perform an impact assessment as all details needed for the analysis may not be finally decided upon at the time of the presentation of the Commission Level 1 proposal for a Directive. An impact assessment contains quantitative as well as qualitative parts.

The Quantitative Impact Studies that CEIOPS is conducting will allow the Commission Services to have a good picture of the quantitative impact.

For the qualitative assessment, the Commission Services will work with stakeholders, and it is in this context that a Public Hearing is held on 21 June 2006 in Brussels to discuss and gather the opinions of stakeholders on the overall picture of Solvency II.

At the 9<sup>th</sup> meeting of the Commission Experts Group on 12 December 2005 the Working Paper on Insurance Guarantee Schemes, MARKT/2534/05, was discussed.

The meeting had been scheduled to discuss some outstanding issues. The focus was on issues such as the powers of the insurance guarantee scheme to exclude an insurance undertaking, the time-frame for compensation, compulsory insurance and third party liability, the exclusion from coverage, the inclusion of small businesses in the cover of an insurance guarantee scheme and the treatment of third country branches.

Member States were asked to send further written comments by the end of January 2006. In their comments they should focus on the current draft Articles laid down in Markt/2534/12-EN and on the question whether with a view to the level of coverage there should be a differentiation between policyholders, beneficiaries and insured persons. Besides, Member States were asked to point out issues which need to be dealt with in a future directive on insurance guarantee schemes but which have not been addressed yet.

At the end of the meeting Member States were asked to express their opinion based on the questions raised in the Working Paper on Insurance Guarantee Schemes, MARKT/2534/05.

- Do you support the idea of harmonizing the rules for insurance guarantee schemes in a European Directive?

The majority of Member States was in favour of harmonizing the rules for insurance guarantee schemes in a European Directive. AT was opposed to a system for non-life. DE was not in favour but would not block the process (similar to AT DE was more opposed to a system for non-life). SE was very sceptical but the final position would depend on the exact text of any future proposal. SE wants a flexible regime to avoid problems such as the ones who appeared in the case of NORDEA. LU, NL, BE, EL and LT were opposed.

- Do you agree that the Directive should aim for minimum harmonization?

All Member States agreed that the Directive should aim for minimum harmonization. However, some pointed out that minimum harmonisation should not lead to a distortion of competition.

- Do you agree that the financing and organisation of the insurance guarantee scheme should be left to Member States?

Only LT was opposed and asked for some general rules on financing and organisation of insurance guarantee schemes.

- Do you support the idea of differentiating between life and non-life?

All Member States were in favour or did not oppose differentiating between life and non-life. However, DE and AT pointed out that there would be no need for an insurance guarantee scheme regarding non-life. DK asked for more specific rules regarding the transfer of portfolio, and the competition issues raised by this. IE and FR proposed to differentiate between policyholders and beneficiaries.

- Do you agree that only partial coverage should be provided and that a self retention should be foreseen?

All Member States were in favour. IT and UK proposed to introduce an absolute ceiling or a cap per claim.

- Do you think small businesses should be protected by the Directive?

FI, SK and EE stressed that it should be up to Member States to decide whether or not to cover small businesses. Member States should have the option to exclude them from coverage.

The majority of Member States asked for a more precise definition of "small businesses". The definition proposed by FI ("small business" business which in terms of the nature, the scope of its operations or other circumstances can be compared to a consumer) was not supported.

## Reinsurance

- Do you agree that compulsory motor insurance should be covered by a future Directive on Insurance Guarantee Schemes?

Most Member States were in favour of a flexible system in which they would be free to decide whether the Motor Guarantee Fund or the insurance guarantee scheme should cover those claims.

IT, (NL), FI, DE, NO, LI, DK, CZ were opposed to the proposal, stressing that the current Motor Guarantee Fund system is functioning well and that it should not be changed.

IT supports an amendment of the Motor Insurance Directives.

Before deciding whether or not to come forward with a formal Commission proposal, a feasibility study will be outsourced to an external consultant who will particularly examine the internal market aspects.

### Reinsurance Directive

The ECOFIN Council adopted the proposal in October 2005. Due to excellent cooperation between the European institutions and the insurance industry, the Directive could be therefore adopted at first reading. It was published in the Official Journal of 19 December 2005. Member States will have till 10 December 2007 to transpose it. The Commission Services intend to hold a meeting with Member States by the end of 2006 in order to ensure a consistent transposition of the Directive.

## Insurance Mediation

The deadline for the transposition of the Insurance Mediation Directive 2002/92/EC expired on 15<sup>th</sup> January 2005. To date six Member States have not fully transposed it (Germany, France, Portugal, Spain, Malta and Greece). Reasoned opinions, the second step in the infringement proceedings, were sent in October 2005. In April 2006, it was decided to refer these Member States to the European Court of Justice.

## Enlargement

- *Bulgaria & Romania*

On 16 May 2006, the Commission has adopted the Spring Monitoring Report on the progress achieved by Bulgaria and Romania in view of their accession to the EU (see [http://ec.europa.eu/comm/enlargement/report\\_2006/index.htm](http://ec.europa.eu/comm/enlargement/report_2006/index.htm)). Enforcement of the compulsory motor insurance against third party liability remains an issue where the Commission has urged both countries to make increased efforts since there is a risk that they will not be able to sign the multilateral agreement in time to allow the Commission to take its decision concerning the removal of border checks for insurance certificates by December 2006.

The main achievement by Bulgaria and Romania in that field has been the adoption of an action plan to fight against uninsured driving which is currently being implemented and which has been updated following the Peer Review on motor insurance in February 2006. However, the impact of these measures requires time to be materialized.

For Bulgaria, it has been mainly assessed that although good progress was made in sector, the financial capacity of the Bulgarian Guarantee Fund needs still to be strengthened.

Concerning Romania, it has been considered that even though achievements were reached in the field of motor insurance, additional efforts are urgently needed since the administrative structures required by the Motor Insurance Directives are not yet fully operational and need to be strengthened. Special attention is required from the Romanian authorities to ensure the financial independence of the Green Card Bureau and the full functioning of the Street Victims Fund as Guarantee Fund, Compensation Body and Information Centre. A follow-up Peer Review will take place in Romania at the end of August 2006 to see on the ground how these matters are progressing.

The Commission will consider on the occasion of its October report whether to propose that the accession date for either Bulgaria or Romania (or both) should be postponed or not until 1 January 2008. This report is also likely to specify whether safeguard clauses or other remedial measures are needed upon accession in any areas of the *acquis communautaire*.

- *Croatia*

EU Member States decided in Luxemburg on 3 October 2005 to launch accession negotiations with Croatia. The opening of the accession negotiations was made possible by the assessment of the Council of Ministers that Croatia was fully cooperating with the International War Crimes Tribunal for the former Yugoslavia (ICTY). The "screening exercise" has started with the explanatory screening meeting held on 29-30 March 2006 in Brussels. The Commission will further examine with the Croatian authorities the EU *acquis* so as to see where the Croatian legal framework and administrative capacity need to be adapted so that Croatia can apply EU law as a Member State. A bilateral meeting took place on 2 and 3 May 2006. On the basis of the information obtained during the bilateral meeting, the Commission is currently preparing a screening report. This new exercise will allow the Commission, if necessary, to determine 'benchmarks' to open and to close a negotiation chapter.

- *Turkey*

## European Financial Conglomerates Committee

EU Member States decided also on 3 October 2005 to launch accession negotiations with Turkey. As in the case of Croatia the screening exercise on Chapter 6 - financial services- has started where the Commission during the explanatory screening meeting held on 29-30 March 2006 explained the acquis to Turkey. On 4 and 5 May 2006 a bilateral meeting took place in which Turkey explained its legal and administrative framework to the Commission. On the basis of the information obtained during the bilateral meeting, the Commission is currently preparing a screening report as in the case of Croatia. Equally, if necessary, the Commission will determine 'benchmarks' to open and to close a negotiation chapter.

The first meeting in 2006 of the EFCC was held on 27 March in Brussels and discussed a number of important issues.

1. Arrangements for supervisory work (level 3) relating to conglomerates : the Commission referred to the initiative taken by CEBS, CEIOPS and CESR to set up an informal structure, provisionally called the Interim Working Committee on Financial Conglomerates, with a view to delivering level 3 work expected to be necessary in the implementation of the Financial Conglomerates Directive. The Commission explained that it is currently exploring with its Legal Service the best way of creating an appropriate structure for supervisory work, most probably by amendments to the Decisions creating the three level 3 Committees.

2. Review of the Financial Conglomerates Directive: the Commission reported on the fact-finding exercise it had carried out with Member States with a view to identifying any changes that would need to be brought to the FCD in the short term (i.e. in advance of the full review of the FCD scheduled for 2007). The EFCC supported the Commission's proposal to modify the FCD where necessary to reflect the recent adoption of the Reinsurance Directive and agreed that further analysis was necessary as to whether this could be done through comitology.

3. Capital requirements for conglomerates: the EFCC supported the Commission's proposal to issue to the soon-to-be established supervisory group a Call for Advice requesting an analysis of the sectoral differences observed in current directives on eligible elements of capital and an identification of their consequences on supplementary supervision of financial conglomerates.

4. Equivalence of third-country supervision: the EFCC supported the Commission's proposal to issue to the soon-to-be established supervisory group a Call for Advice requesting technical advice on the extent to which supplementary supervision arrangements in Switzerland and in the US are likely to achieve the objectives of supplementary supervision as defined in the FCD, with a view to updating the guidance issued in 2004 by the EFCC in this respect.

## EU-US insurance regulatory dialogue

A high-level regulatory dialogue on financial services took place in February in Washington D.C., involving Commissioner McCreevy. Specifically on insurance, representatives of the Commission and CEIOPS met with the NAIC on 3 March in Orlando, at the occasion of the Spring Meeting of the NAIC. Several issues were discussed at the EU-US dialogue meeting in Orlando: reinsurance collateral, Solvency II, Memorandum of Understanding on Information Exchange, the future of the IAIS, legislative update on terrorism risk insurance, national catastrophes and asbestos. Following the dialogue meeting, the NAIC approved at their Spring Meeting a Memorandum of Understanding on exchange of information, which can serve as a template for a bilateral agreement between supervisors. This Memorandum had already been approved by CEIOPS at the members' meeting in Kronberg in February. The NAIC also adopted unanimously the U.S. Reinsurance Collateral White Paper and the Executive Committee of NAIC directed its Reinsurance Task Force to develop alternatives to the current reinsurance regulatory framework, including the use of collateral. A proposal should be presented to the membership of the NAIC by the December 2006 national meeting and consultations should take place with international regulators. The next EU-US regulatory dialogue meeting on insurance is scheduled for 25 September in London.

## EU-CHINA regulatory dialogue

The next EU-China regulatory dialogue on financial services took place in Beijing on 15 May and was chaired by Commissioner McCreevy. The dialogue also addresses insurance issues. Solvency II is of particular interest to China. It is the intention to set up a similar dialogue to that with the US involving also CEIOPS and the CIRC (Chinese Insurance Regulatory Commission). The first such meeting could take place in Beijing in October at the occasion of the IAIS Annual Meeting in Beijing.

## Infringements

As usual, the Services note with regret that the number of pending infringements proceedings regarding recently adopted Directives remains high.

As far as the Insurance Mediation Directive 2002/92/EC is concerned, the deadline for implementation expired on 15 January 2005. 6 Member States (DE, EL, FR, MT, ES, PT) have not yet adopted and communicated all necessary national legislation. As far as those States are concerned, infringement proceedings continue.

With regard to the IORP-Directive 2003/41/EC, the implementation deadline expired on 23 September 2005. Infringement proceedings were initiated in December 2005. In April 2006, it was decided to send reasoned opinions to BE, CZ, CY, FI, FR, IT, LT, SI, SK and the UK which have not yet adopted and communicated all necessary legislation. Spain has since communicated national legislation.

Currently, infringement proceedings not relating to non-communication are pending against Finland, Germany, Luxembourg, Ireland, Italy, Spain and

## Financial Services Policy

Sweden. In December, a supplementary reasoned opinion was sent to Ireland. The case concerns Irish rules excluding compensation to drivers and passengers in uninsured cars. In the supplementary reasoned opinion, the Commission added its concerns relating to Irish rules excluding compensation to passengers traveling in a vehicle which they knew was uninsured. The Second Motor Insurance Directive 84/5/EEC only allows the exclusion of compensation to passengers in the vehicle that caused the injury. On 4<sup>th</sup> April 2006, the Commission decided to send a supplementary reasoned opinion to Italy regarding the Italian obligation to contract in the field of third party motor liability insurance and the linked rules related to the control of tariffs. In the Commission's view, these rules are contrary to the principles of tariff freedom and home state control and Articles 43 and 49 EC. At the same time, it was decided to send a reasoned opinion to Finland relating to rules on transfer stickers and transfer insurance when a person resident in Finland imports a vehicle to Finland or transfers it through Finland to a third country.

On the positive side, it shall be noted that the case against Sweden due to non-compliance with the judgment in Case C-116/04 has been closed, since Sweden has communicated legislation transposing Directive 2001/17/EC. Similarly, the case against Greece concerning the mandatory membership in the Greek Association of Insurance Undertakings has been closed, following the adoption of Greek legislation abolishing this requirement.

On 5 December 2005 the European Commission presented its new financial services strategy for the next five years. Although progress has been made through the successful completion of the Financial Services Action Plan (FSAP), the Commission concludes that the EU financial services industry (banking, insurance, securities, asset management) still has strong untapped economic and employment growth potential. The Commission's new strategy explores the best ways to effectively deliver further benefits of financial integration to industry and consumers alike. Priority N° 1 is to dynamically consolidate progress and ensure sound implementation and enforcement of existing rules. N° 2 is to drive through the better regulation principles into all policy making. N° 3 is to enhance supervisory convergence. N° 4 is to create more competition between service providers, especially those active in retail markets. N° 5 is to expand the EU's external influence in globalizing capital markets.

Studies show that the more integrated financial markets are, the more efficient the allocation of economic resources and long-run economic performance will be. Completing the single market in financial services is more and more recognized as one of the key areas for the EU's future growth and jobs, essential for the EU's global competitiveness and thus a crucial part of the Lisbon economic reform process.

Efforts need to continue in the next five years. Only when rules are implemented on time and enforced effectively can companies and citizens benefit from access to pan-European markets. National regulators need to speed up on implementation. The current regulatory framework must be free

## Money laundering

of inconsistencies and legal ambiguities. Supervisory practices and standards need to converge across Europe. Cross-border investments need to be encouraged.

Unfinished business must be completed in a practical way. The new strategy has not identified and straitjacketed - ex ante - many new regulatory initiatives. However, if regulation is needed, each initiative will have to follow the better regulation principle, should be evidence based and comply with the subsidiarity principle.

Furthermore, while the FSAP focused mainly on the wholesale market, retail integration will become more important over the next period. Barriers associated with the use of bank accounts will be examined, with a view to enabling consumers to shop around all over Europe for the best savings plans, mortgages, insurance and pensions, with clear information so that products can be compared.

A consultative Green Paper was published 3 May 2005. Responses have shown broad support for these political priorities.

The full text of the Commission's new strategy is at:

[http://europa.eu.int/comm/internal\\_market/finances/policy/index\\_en.htm](http://europa.eu.int/comm/internal_market/finances/policy/index_en.htm)

### Third EU Anti-Money Laundering Directive

The Directive 2005/60/EC of the European Parliament and of the Council on the prevention of the use of the financial system for the purpose of money laundering and terrorist financing, more commonly known as the "third EU Anti-Money Laundering Directive", was published in the EU Official Journal of 25 November (OJ L 309, P15) and entered into force on 15 December 2005. The Member States of the European Union have until 15 December 2007, to implement the Directive into national law. Implementing measures need to be taken 6 months after the entry into force. Public consultation as to these measures has been sought at the beginning of 2006.

Under the Directive, life insurance companies and intermediaries, banks, investment firms and investment funds, amongst others, are required (1) to carry out customer due diligence (i.e. the identification/verification of the customer/beneficial owner and the monitoring of the customers' transactions); (2) to report suspicions on money laundering and terrorist financing to the national financial intelligence unit; and (3) to take supporting measures, such as to keep records of transactions and business relationships, to regularly train their personnel and to establish appropriate internal policies and procedures in relation to (1) and (2).

In most, if not all Member States, supervisors of life insurance companies and intermediaries have been tasked with the duty to ensure compliance of life insurance companies and intermediaries with the anti-money laundering and counter-terrorist financing requirements, be they born from a national, European or international obligation. The implementation of the risk-based approach in the area of customer due diligence, and in particular, with

## Work of CEIOPS

regard to the verification of beneficial owners is considered by many as a difficult task, but also as a top priority. Life insurance companies and intermediaries and others entities covered by the Directive need to demonstrate this approach to their supervisors.

In this context, it is important that CEIOPS and its members take coordination actions to ensure a consistent application by European life insurance companies and intermediaries of the requirements of the Directive in order to avoid possible competitive distortions within the EU financial market.

Furthermore, close cooperation between CEIOPS, CESR and CEBS and the Committee on the Prevention of Money laundering and Terrorist Financing established by the Directive is valuable.

In the framework of the Solvency II project, following the public consultation (Consultation Paper 9) the final Answers to the European Commission on the **Third Wave of Calls for Advice** were approved at the last Members' Meeting on 25/26 April 2006.

Also CEIOPS' Recommendation on **Independence and Accountability**, a recommendation to the Commission on CEIOPS' own initiative, as well as its advice on the **Treatment of Deeply Subordinated Debt** were approved at the Members' Meeting in April.

Following its answers on the three waves of Calls for Advice, CEIOPS will continue to work at integrating and developing the advice already given, also in light of the QIS results. A number of Consultation Papers are planned in 2006, covering Pillar I, Pillar II and Group issues. Part of them will be released for public consultation in summer. The Consultation Papers depending on the outcome of QIS2 (mainly Pillar I issues) will be published in October this year.

The results of the QIS1 were sent to the European Commission and published on CEIOPS' website in form of a summary report. The exercise was conducted in autumn and winter last year and mainly focussed on technical provisions. QIS2 which started in May 2006 includes solvency requirements, based on further refinements of the Minimum Capital Requirement and Solvency Capital Requirement formulas as well as some group related aspects. The results are expected to be available in October this year and will provide essential input for the Commission's work on the Level 1 Directive for Solvency II.

The Protocol for the cooperation of supervisory authorities in the context of IORPs operating cross-border, known as the Occupational Pensions or **Budapest Protocol**) was published after approval at the Members' Meeting in February this year. Competent Authorities according to the Directive, that are not CEIOPS Members, will be invited to join the agreement. Another Protocol on the cooperation of supervisory authorities regarding the implementation of the **Insurance Mediation Directive** (the so called "Luxemburg Protocol") was approved at the last Members' Meeting in April this year.

A meeting in the framework of the **EU-US Dialogue** has taken place on 3 March in Orlando, Florida, between the NAIC, the Commission and CEIOPS. The most important issues discussed were the cooperation in the supervision of trans-Atlantic insurance groups, the abolition of the collateral requirements for EU reinsurers doing business in the US and the cooperation in the IAIS. As an important result of the Dialogue a **model MoU** regarding the cooperation and exchange of information in the supervision of trans-Atlantic insurance groups was approved by CEIOPS and the NAIC. The respective working groups will work in the following months to make the MoU operational.

Regarding the cooperation with the Swiss Insurance Supervisory Authority FOPI great progress has been made. Most of the CEIOPS Members have already signed the “collective bilateral” **MoU with FOPI**, which paves the way for cooperation and exchange of information on insurance groups and financial conglomerates, including the participation of the Swiss Authority’s representative in CEIOPS’ Coordination Committees.

As to the **3 Level 3** initiatives stated in the 3L3 Work Programme 2006, progress has been made especially in the coordination in the field of supervision of financial conglomerates by means of the establishment of a 3L3 joint working committee (Interim Working Committee on Financial Conglomerates, IWCF). Other issues which have been worked on are outsourcing, internal governance, reporting requirements and supervisory cooperation. Also, cooperation has been enhanced to ensure consistent approaches between Solvency II and the CRD. To further enhance supervisory convergence, CEIOPS has approved a work plan on **supervisory convergence** at its Members’ Meeting in February. This sets out specific projects regarding mainly insurance group supervision, but also other fields of CEIOPS’ activity. E.g. a Task Force has been mandated to analyse the creation of a Pan-EU system for common training and exchange of staff between Supervisors.

The Charter of the **Consultative Panel** was amended to improve the efficiency of the Panel and its capability to support and steer CEIOPS’ work. It now specifies that at least 3 meetings per year should take place, that ad hoc task forces on specific issues could be established and that the chairmanship of the Panel should be exercised by a CP member. Mr. Gérard de la Martinière was nominated as a chair during the last Consultative Panel Meeting of 11 May 2006. The next meeting of the Panel will take place on 07 September.

## IAIS latest developments

CEIOPS is organising its **second Conference** that will take place in Frankfurt am Main on 14 November 2006. The prime purposes of CEIOPS Conference 2006 are to increase the transparency of CEIOPS' work and progress and to strengthen communications with the industry and all interested parties in order to help us react better to stakeholders' demands. The Conference will again host high-level speakers, offering the benefit of their expertise. The main topics for discussion will be covered in four Panel sessions and will relate to the progress of the Solvency II Project, the implementation of Pension Funds' supervisory regime, the management and supervision of operational risk, and the enhancement of consumer protection. The details of the programme are being worked on. In the meantime, available information can be found on: <http://www.ceiops-conference.com>.

The IAIS held its first quarterly meeting on 13-14 February in Basel. The *Roadmap for a common structure and common standards for the assessment of insurer solvency* was approved. The *final report of the IAIS Insurance Core Principles Self assessment exercise 2004/ 2005* was also presented. Earlier in December 2005 the second edition of the *Global Reinsurance Market Report* had also been issued. All these documents are available on the IAIS website [www.iaisweb.org](http://www.iaisweb.org).

A draft report on the impact upon supervisors of the implementation by insurers of IFRS, in particular IFRS 4, following a survey which the Accounting Subcommittee had conducted upon IAIS members was discussed. Separately the potential comments to the International Actuarial Association on its third set of Preliminary Exposure Drafts for Practice Guidance in respect of IFRS were also discussed.

The working group on a potential multilateral Memorandum of Understanding (MMoU) is currently examining various issues to promote cooperation and information exchange among members and presented a progress report. Work is underway to develop a *Standard on disclosures concerning technical performance and risks for life insurers*, a *Guidance paper on fraud on insurers*, a *revised draft Supervisory Standard on Asset Liability Management*, an issues paper designed to provide educational background on ALM; and a first working draft of *The Common Structure for the Assessment of insurer Solvency*. Also being discussed is the second IAIS comment paper to the IASB on accounting for insurance liabilities as input into its Phase II project, including draft papers on Risk Margins and on Renewal Rights and Long Term Premium Flows.

The next IAIS triannual meetings in 2006 are on 29 May to 1 June in Ottawa and 16-18 October in Beijing, which will be held back to back with the Annual Conference 18-21 October under the general theme: “Fostering Development and Managing Risk - Challenges for Insurance Supervision”; the following are the broad topics to be addressed in panel sessions:

- Assessment of insurers’ solvency
- Cross border supervision, regulatory framework and industry practice
- Cross sector supervision and financial conglomerates
- Enhanced disclosure for insurers and reinsurers
- Corporate governance
- Accounting, reserves and technical provisions
- Private pensions and insurance
- Reinsurance supervision
- Natural or man-made catastrophes
- Training and implementation of IAIS standards
- New threats to insurance
- Supervision of microinsurance

The China Insurance Regulatory Commission has opened a website for the conference ([www.iais2006.com](http://www.iais2006.com)). Registration details will be available soon, as well as the draft programme with more precise definitions of the above mentioned topics and names of panel chairs.

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