



Institute
and Faculty
of Actuaries

Public consultation on the operations of the European Supervisory Authorities

IFoA response to European Supervisory
Authorities

16 May 2017

About the Institute and Faculty of Actuaries

The Institute and Faculty of Actuaries is the chartered professional body for actuaries in the United Kingdom. A rigorous examination system is supported by a programme of continuous professional development and a professional code of conduct supports high standards, reflecting the significant role of the Profession in society.

Actuaries' training is founded on mathematical and statistical techniques used in insurance, pension fund management and investment and then builds the management skills associated with the application of these techniques. The training includes the derivation and application of 'mortality tables' used to assess probabilities of death or survival. It also includes the financial mathematics of interest and risk associated with different investment vehicles – from simple deposits through to complex stock market derivatives.

Actuaries provide commercial, financial and prudential advice on the management of a business' assets and liabilities, especially where long term management and planning are critical to the success of any business venture. A majority of actuaries work for insurance companies or pension funds – either as their direct employees or in firms which undertake work on a consultancy basis – but they also advise individuals and offer comment on social and public interest issues. Members of the profession have a statutory role in the supervision of pension funds and life insurance companies as well as a statutory role to provide actuarial opinions for managing agents at Lloyd's.



European Supervisory Authorities
Directorate-General for Financial Stability,
Financial Services and Capital Markets Union
European Commission
1049 Bruxelles/Brussels
Belgium

16 May 2017

Dear Sirs,

European Supervisory Authorities Consultation Paper: Operations of the European Supervisory Authorities

1. The Institute and Faculty of Actuaries (IFoA) welcomes the opportunity to respond to the European Supervisory Authorities' Consultation Paper on its operations. We have limited our response to one question within the Consultation Paper, where we have a specific concern to raise: EIOPA's the approval of internal models under Solvency II (SII).
2. The IFoA's Life Standards and Consultations sub-Committee, Life Insurance and General Insurance Practice Boards have been involved in the drafting of this response. Members of the Committee and Practice Boards have been actively engaged with the implementation of SII, including the approval process for internal models in the UK and elsewhere across the EU.

Q16: What would be the advantages and disadvantages of granting EIOPA powers to approve and monitor internal models of cross-border groups? Please elaborate on your views, with evidence if possible.

3. As noted in the Consultation Paper, the development of an internal model is a complex task, not only for the underlying insurance entity/ group, but also for the relevant supervisors.
4. Despite SII's aim to achieve a level playing field in terms of insurance regulation across the EU, there are differences in the approach taken by supervisors to internal models. These include inconsistencies over what supervisors are willing to approve, what evidence they accept, their approach to expert judgments and the speed at which they progress through the approval process.
5. The internal model approval process can also be cumbersome where a lead supervisor is supported by a college of supervisors in the case of an internal model application from a cross-border insurance group. The lead supervisor may have limited ability to influence other members of the college, who may wish to impede internal model approval for their own particular jurisdiction. This can lead to insurance groups having different components of their internal model approval moving at different speeds.
6. Given these inconsistencies, we welcome a review of EIOPA's potential role in the internal model approval process. There is clearly an important role for EIOPA in ensuring that college

approval (or otherwise) of a group model is undertaken properly in the light of the Directive, Regulations and EIOPA's own guidance, to ensure each application is treated equitably. However, we believe that EIOPA's main focus should be on how its members collaborate together in a college, how they negotiate with each other and how they ensure that communication with the relevant insurance group is consistent. We note that EIOPA already has powers in ensuring convergence of regulatory standards across the EU. It is therefore unclear what further powers EIOPA would need to ensure regulatory consistency of internal models.

7. The IFoA believes that the power to approve and monitor internal models of cross-border insurance groups should remain with the lead supervisor/ college of supervisors; we do not think it is appropriate for EIOPA to have such powers. Giving EIOPA the power to approve internal models effectively removes the approval process from the lead supervisor/ members of the college, which would then break the necessary linkage between the insurer and its supervisor(s). This linkage is important for a range of related approvals and matters of oversight, which should not be disconnected from the internal model approval process.
8. The inevitable complexity of internal model approval also brings into question the further resources EIOPA would need to deal with the complex and extensive issues and documentation around a group model application.
9. However, there may be a role for EIOPA to provide arbitration across a college of supervisors, if the college were unable to agree a particular part of an internal model. This could arise where there were differing views between supervisors on the appropriateness of a model component. If EIOPA were to play such an arbitration role, then we suggest that it should be an option for the insurer to choose to exercise, rather than a mandatory requirement.

Should you wish to discuss any of the points raised in further detail please contact Steven Graham, Technical Policy Manager (steven.graham@actuaries.org.uk / 0207 632 2146) in the first instance.

Yours sincerely



Colin Wilson
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