



Press Release

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EU insurance supervision taking shape, but significant challenges remain, say Auditors

The European Insurance and Occupational Pensions Authority (EIOPA) has made an important contribution to a common supervisory culture and financial stability in the insurance sector, according to a new report from the European Court of Auditors. But a number of significant challenges still need to be addressed by the Authority itself, by national supervisors and by legislators, say the auditors. These include more robust oversight of cross-border insurance businesses, supervision of the internal models used by insurance companies and EIOPA's own governance.

EIOPA was established in 2011 as part of the reform of supervision of financial markets after the crisis of 2007-2008. Its core responsibilities are to ensure high-quality, effective and consistent supervision of the pensions and insurance sector across the EU. This is carried out together with national supervisors (National Competent Authorities) in order to ensure a uniform level of protection for insurance policyholders and taxpayers. Along with other European Supervisory Authorities (ESAs), its institutional framework and mandate are currently subject to a comprehensive review by the European Commission, the European Parliament and the Council.

The auditors assessed EIOPA's actions to ensure convergence between national insurance supervisory systems in the EU between 2015 and 2017, the adequacy of its resources, and its governance. They also analysed the 2016 Europe-wide Insurance Stress Test, given its importance for identifying potential risks to financial stability in the insurance sector.

"European Supervisory Authorities are key to avoiding any failure in financial markets that could negatively affect the real economy and consumers' well-being", said Rimantas Šadžius, the Member of the European Court of Auditors responsible for the report. "It is therefore essential that the on-going review of legislation takes into account the lessons learnt from our scrutiny of EIOPA, in particular concerning the adequacy of its resources and its governance, and its co-operation with national authorities to ensure proper supervision of cross-border business".

The auditors found that EIOPA's actions to ensure consistent supervision among national authorities were based on sound analysis. EIOPA did identify significant flaws in the quality and performance of supervisory practices across Member States. However, the Authority was not systematic in following-up on its recommendations.

The purpose of this press release is to convey the main messages of the European Court of Auditors' special report. The full report is available at www.eca.europa.eu.

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In its supervision of cross-border insurance business, EIOPA is encountering systemic weaknesses, point out the auditors. The current legislation and practice do not ensure the same level of supervision, transparency and protection for all EU consumers. Likewise, the auditors note significant differences in how strictly national authorities supervise the internal models used by insurance companies to calculate their risks. EIOPA did respond to these issues, but in many cases limited access to information considerably hampered its efforts to improve consistency.

The 2016 EU-wide Insurance Stress Test was well organised, say the auditors. Its data validation and aggregation process was appropriate and accurate. Scenarios were effective in addressing the main risks identified for the sector. However, the auditors found shortcomings in the way the scenarios were calibrated and justified. Moreover, the recommendations EIOPA issued after the stress test were too general.

Finally, the report underlines problems in EIOPA's governance and resources. Its actions rely to a significant extent on national authorities conducting insurance supervision in the Member States, which do not always provide sufficient support. Moreover, the national authorities play a decisive role in EIOPA's main governing body, which may compromise EIOPA's independence in reviewing the effectiveness of their work. Ultimately, given all the complexity of EIOPA's tasks, the number of supervisory staff appears too limited.

To improve EIOPA's effectiveness, also making use of the ongoing ESAs review, the auditors recommend that EIOPA should:

- better focus its supervisory tools and follow them up;
- address, in co-operation with the European Commission and the co-legislators, systemic weaknesses in supervision of cross-border companies and address the limitations on access to information concerning supervision of internal models;
- improve the design of the stress test scenarios, increase the transparency of their methodology, issue more relevant recommendations and promote publication of individual results;
- increase the number of staff assigned to supervisory tasks.

Notes to Editors

The European System of Financial Supervision comprises three European Supervisory Authorities: the European Banking Authority (EBA), the European Securities and Markets Authority (ESMA) and the European Insurance and Occupational Pensions Authority (EIOPA), as well as the European Systemic Risk Board (ESRB). The rationale for setting up these authorities was to ensure closer cooperation and exchanges of information between national supervisors (also called National Competent Authorities), to facilitate the adoption of EU solutions to cross-border problems, and to advance the consistent application and interpretation of rules.

EIOPA acts as an independent advisory body to the European Commission, the Parliament and the Council. Its responsibilities within the European insurance market come under four broad categories: regulation, supervision and supervisory convergence, financial stability, and consumer protection.

The ECA presents its special reports to the European Parliament and Council of the EU, as well as to other interested parties such as national parliaments, industry stakeholders and representatives of civil society. The vast majority of the recommendations we make in our reports are put into practice. This high level of take-up underlines the benefit of our work to EU citizens.

Special report 29/2018 "EIOPA made an important contribution to supervision and stability in the insurance sector, but significant challenges remain" is available on the ECA website (eca.europa.eu) in 23 EU languages.