EU-U.S. Insurance Project

The Way Forward

July 2014 Update

Objectives and Initiatives for the Future

The EU-U.S. Insurance Project began in January 2012 with the objective of enhancing understanding and cooperation for the benefit of insurance consumers, business opportunity and effective supervision. In December 2012, following a year of collaboration, the Project published the *EU-U.S. Dialogue Project Technical Committee Reports Comparing Certain Aspects of the Insurance Supervisory and Regulatory Regimes in the European Union and the United States*. The Report was accompanied by an initial Way Forward document which outlined a set of objectives and initiatives to be pursued through 2017.

In light of recent developments in the EU and the United States, and of progress to date on the Project, the Steering Committee has revisited and updated the Way Forward and hereby reaffirms its commitment to the Project.

1. Professional secrecy/confidentiality

Objective: Promote the free flow of information between EU and U.S. supervisors under conditions of professional secrecy by removing the barriers to the exchanges of information.

a. Encourage all constituents to join the International Association of Insurance Supervisors (IAIS) Multilateral Memorandum of Understanding and support IAIS efforts to expedite the process, recognizing that the necessary validation process may mean considerable delay before the majority of U.S. states and EU Member States can become signatories.

b. Assess the effectiveness of existing bilateral Memorandums of Understanding (and other substantively equivalent agreements regardless of title) on exchanges of information between U.S. states and federal agencies and EU Member States for purposes of identifying critical elements and best practices related to sharing of confidential information.

c. Identify by end 2014 the merits of an additional trans-Atlantic bilateral agreement, including the optimal structure(s) of such an agreement to further facilitate the exchange of confidential information through a covered agreement or other mechanisms identified by the Steering Committee.

2. Group supervision

Objective: Establish a robust regime for group supervision, under which there is:

1) a clear designation of tasks, responsibilities and authority[1] amongst supervisors, including a single group/lead supervisor;

2) a holistic approach to determining the solvency and financial condition of the group that is consistent with the way companies manage their business, that avoids double counting of regulatory capital and that monitors risk concentrations, considers all entities belonging to the group and is complementary to solo/legal entity supervision;

3) greater cooperation and coordination amongst supervisory authorities within colleges; and

4) efficient enforcement measures at the group and/or solo level that allow for effective supervision of groups.

a. The U.S. side to report on the integrated effect of the total system of insurance supervision in the U.S. that reflects the state and federal levels. Inasmuch as both sides are primarily concerned with the application of group-wide supervision to those larger insurers/groups that write on a cross-border basis in each other's jurisdiction, the analysis will focus, where appropriate, on those states/Member States that are group-wide supervisors for such firms.

b. Share best practices/experiences of cooperation and coordination amongst supervisors from key colleges (*e.g.*, in the form of a regular forum or a workshop), including the clear designation of tasks and responsibilities which should foster harmonization of group supervision over time.

c. Promote harmonization of Own Risk and Solvency Assessment (ORSA) reports and establish common ORSA reporting elements which could be used by EU and U.S. groups.

d. Promote effective college procedures to maximize the benefit to participating supervisors (*e.g.*, responsibilities / decision-making, data needs and exchange/reporting, group capital discussions).

e. Discuss supervisory expectations with regard to governance (both corporate and internal governance) and achieve a common list of indispensable governance elements to be part of Enterprise Risk Management.

f. Work towards achieving greater comparability between groups in relation to an overall group solvency assessment.

g. By end 2014, evaluate the use of a covered agreement to achieve the group supervision objectives stated above.

3. Solvency and capital requirements

Objective: Further develop an approach to valuation which more accurately reflects the risk profile of companies, is sufficiently sensitive to changes in that risk profile and which has capital requirements that are fully risk-based, based on a clear and transparent calibration and that cover similar categories and subcategories of risks to which companies are exposed.

a. Provide a forum for the periodic bi-lateral exchange of views among experts from U.S. state and federal agencies and the EU with regard to the ongoing efforts of the IAIS to develop basic capital requirements, a high-loss absorbency requirement, and an insurance capital standard.

---

[1] The term "authority" incorporates the powers and ability of supervisory authorities to enforce laws.

b. Establish a transparent calibration including a time horizon on a risk-by-risk basis.

i. Establish separate technical workstreams on catastrophe, market and operational risks and discuss the calibration approach including the type and granularity of data to be used in the calibration process with a view to achieving further convergence on these quantifiable risks.

c. Work towards a consistent approach to solvency, i.e. capital requirements, valuation and technical provisions, viewed on an overall basis.

i. Analyse how technical provisions are calculated in both regimes.

d. Examine the interaction of solvency and capital requirements with other supervisory tools such as financial analysis when looking at b and c above.

4. Reinsurance and collateral requirements
Objective: Work to achieve a consistent approach within each jurisdiction and examine the further reduction and possible removal of collateral requirements in both jurisdictions in order to ensure a risk-based determination for all reinsurers in relation to credit for reinsurance.

a. The U.S. side to outline what possibilities exist for revising the current Model laws on credit for reinsurance, including for foreign and domestic reinsurers, and for reviewing the relationship with the accreditation program to the extent that the National Association of Insurance Commissioners (NAIC) public statements commit to periodically re-examine the issues of uniformity and collateral levels.

b. The U.S. side to outline in relation to the states that have passed the NAIC Model laws, what the status of these laws are (*i.e*., whether they are currently in operation) and how they differ including in implementation.

c. The EU, and Treasury/FIO with the consultation of state insurance regulators, to take initial steps toward a covered agreement by end 2014 that for the U.S. would be based on the NAIC Credit for Reinsurance Model Law and Regulation.

5. Supervisory reporting, data collection and analysis
Objective: Pursue greater coordination in relation to the monitoring of the solvency and financial condition of solo entities and groups through the analysis of supervisory reporting. The exchange of information is facilitated by the joint exchange of best practices for analysis and an evolution towards a greater consistency of reporting.

a. The EU to further examine and learn from NAIC experience in terms of centralized database and analysis.

b. The U.S. side to examine and learn from EU experience in terms of group reporting and analysis.

c. Mutually explore greater consistency and compatibility in group reporting and analysis both in terms of substance and frequency of reporting.

d. Explore possibilities to exchange data, *e.g.*, regarding investments or reinsurance, to identify common and interlinked risk exposures.

e. In order to facilitate the aforementioned items, explore platforms for data sharing, common data standards/taxonomies *e.g.*, extended business reporting language (XBRL), data elements and global standards such as common issuer coding (legal entity identifier).

6. Peer reviews
Objective: Ensure the consistent application of prudential requirements and commitment to supervisory best practices through different peer review processes that ensure an independent view of the jurisdiction being examined.

a. The EU to elaborate and implement a sound process to oversee the tasks carried out by the competent national authorities with regard to supervisory activities (e.g. on- and off-site examinations, supervisory plans), including quality and timeliness of actions taken, to promote effective and efficient supervision.

b. The U.S. side to consider whether to include effective and efficient supervision of colleges in the accreditation program.

c. The EU and the U.S. side to coordinate the evolution of operational processes and best practices in colleges to promote consistency of group supervision across jurisdictions and avoid duplication.

7. Independent third party review and supervisory on-site examinations
Objective: Ensure consistency and effectiveness in the supervision of solo entities and groups.

a. The EU to examine and learn from U.S. side experience regarding tools used in the supervisory process (such as the NAIC Examiners Handbook) and both to continue mutual exchanges going forward in the development of the supervisory process.

b. On-going EU-U.S. dialogue to enhance understanding and consistency, in particular once the EU's Supervisory Review Process document is available with respect to the frequency, methodology and specific requirements for an on-site monitoring and examination.

c. Promote enhanced cooperation through:

> i. Greater collaboration in the development of supervisory plans, including coordination of on-site examinations and information sharing
>
> ii. Streamlining the supervisory processes to avoid duplication

d. The EU to consider the need for more consistent professional standards surrounding the credentials of actuaries, and requirements for actuarial opinions to be made public.