



STATEMENT

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THIRD-COUNTRY EQUIVALENCE: exchange of views with the European Commission and the European Supervisory Authorities (ESAs)



**Committee on Economic and Monetary Affairs (ECON), European Parliament
Brussels, 9 March 2017**

Dear Members of the European Parliament,
Ladies and gentlemen,

I would like to thank the Members of the ECON committee for the opportunity to participate in this exchange of views on Third-country equivalence.

Recognising the international nature of the insurance industry, the European Commission has the power to decide about the equivalence of third countries' solvency and prudential regimes under the Solvency II Directive. The aim is not only to ensure that policy holders are adequately protected, but also to avoid unnecessary duplication of regulation.

EIOPA's role on equivalence is specified in the respective Solvency II articles and Article 33 (2) of the EIOPA regulation. In insurance, we cannot talk about a single equivalent assessment, as Solvency II foresees three different equivalence decisions:

- **Group solvency**
- **Group supervision**
- **Reinsurance**

The criteria as well as the consequences of an equivalence determination are different for each of these areas.

Duration of Equivalence Decisions

The equivalence decisions can be valid for an **unlimited period** (full equivalence) if the third country is fully equivalent, or for a **limited period** (temporary and provisional equivalence). For the latter, **temporary** is the term used for reinsurance and group supervision equivalence (until 31 December 2020 with the possibility to extend by 1 year) and **provisional** (with an initial period of 10 years, subject to renewals for further periods of 10 years) is the term used for group solvency equivalence.

Equivalence Criteria

In order for a positive (full) equivalence decision to be made, a third country's solvency and prudential regime needs to meet a number of criteria as laid down in the Solvency II Directive and the specifying implementing measures. The aim is to assess whether, from a policyholder protection perspective, the outcome achieved by the third country solvency and prudential regime is similar to that achieved under Solvency II.

The criteria are based on the overarching principles of the Solvency II framework and include requirements relating to governance, supervisory powers, effective risk management, public disclosure, market consistent valuation and risk-based capital requirements, and importantly, professional secrecy. The assessments are outcome-based, and take into account the principle of proportionality.

EIOPA's Assessment Process

In order to assess equivalence, EIOPA has **significant contacts** with the third country. The active collaboration of the third country supervisory authority is absolutely essential and needs to be preserved. Primarily the assessments are based on the replies and the feedback received by the third country supervisor. For the full equivalence assessments, EIOPA also performed **on-site visits** to the third country to have a better understanding of the supervisory approach and the concrete implementation of the regulation. Equivalence assessments, involving as they do qualitative judgements, have proven very resource intensive for EIOPA and the third country supervisors concerned. The work performed was hugely beneficial for a common understanding among global supervisors which is the basis for the building up of sound international standards.

EIOPA's Equivalence Assessments

EIOPA has carried out three **full equivalence assessments**, on the regimes in Switzerland, Bermuda and Japan. Furthermore, on request of the Commission, also 12 so-called '**gap-analysis**' **assessments** have been undertaken. These reports were done in preparation for the transitional regimes in the Omnibus II Directive, i.e. 5-years temporary equivalence for Articles 172 and 260, and 10-years provisional equivalence for Article 227.

In addition to the professional secrecy assessments we performed as part of the 15 assessments mentioned before, another 11 assessments with a focus on only professional secrecy and the exchange of confidential information. Such assessments are essential when European supervisors share confidential information with third country supervisors, for example in the context of Supervisory Colleges.

Let me turn to another point, the importance of regular reviews of the assessments reports. In this respect EIOPA provided the Commission in 2015 with updates of the 2011 full equivalence assessments on Switzerland, Bermuda and Japan. Also a number of the gap-analysis reports have been updated over the last years. Clear review clauses are laid down in both the Directive, as well as in the European Commission's Delegated Decision on Equivalence.

Going forward, and in line with EIOPA's shift from regulation to supervision, it is key to not only monitor the regulatory developments in a third country but also to monitor the factual implementation and the supervisory approach. **In order to fulfil this role, it has to be ensured that within this process EIOPA has access to all relevant information from the third country concerned.** EIOPA stands ready to provide the technical analysis of these updates and to closely monitor the regulatory and supervisory regimes of the third countries in question.

In terms of future resource decisions for the European Supervisory Authorities, I hope that staff implications stemming from these exercises will be taken into account.

Many thanks for your attention.