www.bestweek.com

BestWeek Europe

Weekly Insurance Newsletter

14 February, 2011 • Issue 7

An Ambitious Regulatory Overhaul

With EIOPA and Solvency II, Europe Embarks on a Regulatory Journey

By David Pilla

With the beginning of the year, a new insurance supervisory program was launched within the European Union, born in part from the shock of the global financial crisis of the past three years and the regulatory rethinking it sparked.

The new financial services regulatory structure is not complete and its impact on the EU's insurance market is yet to be seen. But EU officials are optimistic the structure will at least bring some cross-border consistency to insurance regulation. And with the advent of the EU's Solvency II capital adequacy standard in 2013, the next two years will likely see profound changes in Europe's insurance landscape.

Peter Skinner, member of the European Parliament representing Southeast England, said the mission of EIOPA is part of the EU's internal market approach, which is to see to it that the markets of the 27-member EU function "in a consistent and effective manner."

Insurance regulation across the EU needs consistency, Skinner said. With 27 regulatory authorities in the EU, like the more than 50 in the United States, he said "we'd like to see that that standard is appropriately imposed and applied."

European Parliament member Peter Skinner is confident the EU's new insurance supervisory structure will improve the market.

Source: MEP Peter Skinner

"That will require transparency of the markets," said Skinner. "It will require and ensure at the same time the stability of the financial system, which we believe is just as essential in the insurance world as it is in the banking world.

"And perhaps most important of all, we would want to see that EIOPA is functioning as a protector of consumer interests as well," he said.

EIOPA is one of three new supervisory agencies at the EU level. Its sister agencies – the European Banking Authority and the European Securities and Markets Authority – and EIOPA all fall under the supervision of the European Systemic Risk Board.

In January, EIOPA's board of supervisors selected Gabriel Bernardino as its first chairman. He is director general of the directorate for Development and Institutional Relations at the Instituto de Seguros de Portugal

■ See EIOPA, Page 3

A Closer Look

UK Insurers Wary of Regulatory Retooling

By Robert O'Connor

The U.K. insurance sector is watching warily as the country's new financial services regulatory structure takes shape.

Andrew Horton, chief executive of Beazley plc, has warned against the creation of regulatory confusion. Other insurance executives have praised the U.K. Financial Services Authority for its effectiveness at home and in Europe. Beazley is still awaiting the details of the new system, Horton said in an interview at the release of the group's 2010 results.

"Our hope is the regulation doesn't change dramatically when there are two parts to the FSA as opposed to the one FSA currently," Horton said. "And I suppose our concern is we end up with some duplication going forward."

Under changes planned by the Conservative-Liberal Democrat coalition government that came into office in 2010, the FSA will be abolished. A new Prudential Regulatory Authority will regulate insurers

■ See FSA, Page 2

■ FSA

From page 1

and other financial service providers, under supervision of the Bank of England. Brokers will be regulated by the Consumer Protection and Markets Authority. The Serious Fraud Office will be replaced by a new body that will have the power to investigate and prosecute financial crime (*BestWire, 21 Dec., 2010*).

The effect of the breakup of the FSA is "not fully understood within the FSA yet and is therefore not understood by us yet," Horton said.

Vasilis Katsipis, general manager of analytics at A.M. Best Europe Rating Services Ltd., discerns continuing uncertainty within the FSA and the Bank of England as to how regulatory duties will be allocated.

"The high-level split of responsibilities has been decided," Katsipis said. "But the people who work within the FSA do not know where they fit."

Insurer RSA Group wants a regulatory system that promotes both financial stability and consumer protection, while enhancing London's leading role as an international financial hub, said Derek Walsh, group general counsel.

RSA works closely with the U.K. Treasury and through such trade groups as the Association of British Insurers to get its message across, said Walsh. "And we will continue to dialogue with them as those plans are developed and refined," he said.

Michael Tripp, CEO of Ecclesiastical Insurance Group plc, also praised the performance of the FSA, despite what he said are some doubts within the industry about the regulator's depth of knowledge.

"I've always been a great supporter of regulation and where we are with the FSA in this country," he said.

Tripp hopes the coming regulatory changes will encourage organizations to enter the market. Maintaining an attractive trading environment would "be good for the British economy," he said.

The consistent argument from the U.K. insurance industry since the start of the international financial crisis has been, "It wasn't us, mate." If there is to be tougher regulation of financial services, this reasoning goes, it should be directed at banks, not insurers.

Katsipis said the insurance industry's denial of responsibility for the financial crisis is "pretty fair." But U.K. life companies did suffer from the downturn through their heavy dependence on equities, he added.

Audio: Roll over icon for content

Listen to the entire interview with Derek Walsh.

■ EIOPA

From page 1

(*BestWire, 17 Jan., 2011*).

Sybille A. Reitz, EIOPA's communications director, said much needs to be done to get the new agency up to full strength, including numerous hirings.

"That said, at least we didn't start from scratch," she added, pointing out that EIOPA's is a new incarnation of its predecessor CEIOPS [Committee of European Insurance and Occupational Pensions Supervisors]. The biggest change as CEIOPS morphed into EIOPA is that the agency has gone from an advisory to a supervisory role.

Sants

It is now an entity with legal standing to enforce rules in the insurance market, she said.

As chairman of the European Parliamentary Insurance Caucus and vice chairman of the European Parliamentary Financial Services Forum, Skinner has had deep involvement with legislative and regulatory issues related to insurance in the EU. For instance, he was rappateur, or sponsor, of a reinsurance directive designed to harmonize the reinsurance market across the EU (*BestWire, 7 June, 2005*).

According to Skinner, EIOPA has been given specific rules and delegated powers, but it must operate through national regulators. While EIOPA can set the standards, local authorities will have to implement them and do the policing required to enforce the rules.

Regarding insurers that operate across borders, supervisory authorities will have to work together to monitor their activities and ensure that regulations are being met, or are effective, said Skinner.

For national regulators, the new EU system will likely require greater effort to work with EU-level agencies. In a recent speech at Lloyd's, Hector Sants, chief executive of the U.K. Financial Services Authority, said EIOPA's mandate is "wide-ranging" and that "going forward, the FSA and successor authorities will thus essentially be a supervisory arm of an EU policy-setting body."

"It is thus vitally important that the U.K. organizes itself to effectively influence decision-making, not just in EIOPA, but also in the wider European framework," Sants said.

The FSA is represented as a member of both the Board of Supervisors and the Management Board of EIOPA.

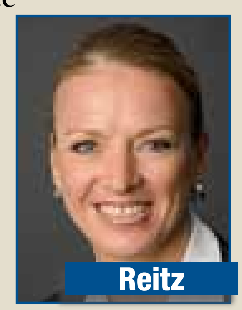
Audio: Roll over icon for content

Listen to the entire interview with Peter Skinner.

New Insurance Supervisory Agency Expects Growing Pains

In its headquarters in Frankfurt, Germany, the staff of the new pan-EU insurance supervisory agency, the European Insurance and Occupational Pensions Agency, is scrambling to get office space ready for the dozens of new personnel to be hired.

Sybille A. Reitz, EIOPA's communications director, said with the EU's approving the creation of EIOPA just last fall, the new agency expects a quick expansion of its staff, which has already grown to 35 from 28 in December. By year-end there should be about 50 staffers, she added.



Reitz

Although EIOPA's responsibilities are greater than those of its previous incarnation as CEIOPS, Reitz said there is "a certain continuity" to the agency's functions that carries over from the former entity, including the Frankfurt offices CEIOPS has occupied since 2004.

Among the new duties for EIOPA is the implementation of technical standards, said Reitz. An example is issuing reporting tools that insurers across Europe would have to use in the future.

EIOPA can also now issue guidelines and recommendations. And the agency is tasked with ensuring that EU-level laws are upheld in member states, said Reitz.

Another power the agency now has is the ability to direct national supervisors to take specific actions in emergency situations. EIOPA also has the power to settle disagreements that may arise among national supervisors in the regulation of cross-border insurers, said Reitz

She added that "it will take a couple of years" for EIOPA to be fully functional. She estimated the agency will be at full capacity around 2014. The main task at present is to work on harmonizing the supervisory structures across the EU.

—David Pilla