



POZNAŃ UNIVERSITY
OF ECONOMICS
AND BUSINESS



INSURANCE
SUPERVISION
AGENCY

Republic of Macedonia



Future supervision and challenges

21st APRIA 2017 Annual Conference:
***” Challenges in the Insurance Market: Transparency and
Consumer Protection”***

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Insurance market developments in Republic of Macedonia



- non - EU member country, but has candidate status to join the EU
- in terms of regulation and supervision follows international standards and full harmonization and transposition of EU insurance directives
- less develop market in Europe: penetration rate = 1.5 ; density rate = EUR 69 per capita
- strong market competition; presence of EU insurance groups
- In the last 10 years strongest growth among CEESEE countries
- Insurance Supervision Agency – supervisory authority
- Insurance education - University “St. Kliment Ohridski”, insurance department

Overview

- The role of insurance supervision
 - *objectives*
 - *governance*
 - *framework for insurance supervision*
- Supervision under Solvency II regime – European perspective
- Future developments and challenges for European insurance regulation and supervision
- Summary



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The role of insurance supervision - mission statement -

- The insurance business model
- Primary objectives of insurance supervision:
 - *Financial stability*
 - *Consumer protection*
- Governance of insurance supervisors
- The framework for insurance supervision



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The role of insurance supervision

➤ Primary objectives of insurance supervision:

- *IAIS definition (ICP 1) - a sound regulatory and supervisory system is necessary for maintaining a fair, safe and stable insurance sector for the benefit and protection of the interests of policyholders, beneficiaries and claimants as well as contributing to the stability of the financial system.*
- *Financial stability*
- *Consumer protection*
 - IAIS survey as a part of CIF exercise (**Key findings from the stock-take on specificities of CEET Region, 2016**)



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Governance of insurance supervisors

➤ Different financial supervision structure:

- *Integrated institution*
 - within the Central bank
 - full integrated financial supervisory authorities
- *Partially integrated institution*
 - within the ministries
 - separate partially financial supervisory authorities
- *Non – integrated institutions*
- *Twin peaks model*

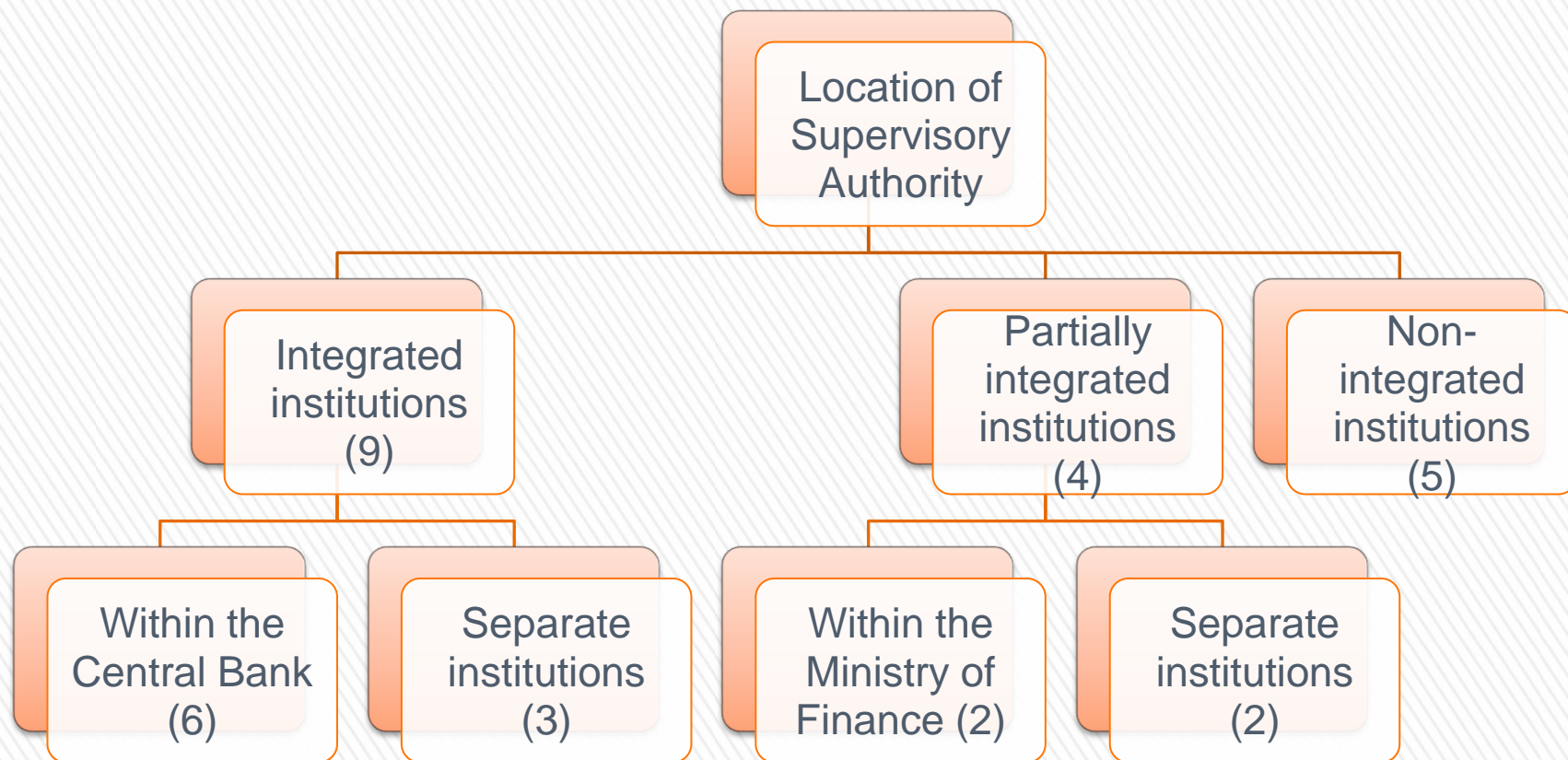
➤ Driving factors:

- *Financial system's size, development and structure*
- *Presence of financial groups and strong industry lobby*
- *Political economy factors*
- *Quality and governance of public institutions*
- *Experience of past financial crises.*

Melecky, Podpiera 2013; Kwon 2013; Masciandaro at al. 2016, 2009, 2008.



The Governance of Insurance Supervisors in CEET Region



“Key findings from the stock-take on specificities of CEET Region, 2016”

The Governance of Insurance Supervisors in EU

Integrated institutions

Within the Central Bank (9)

- [Netherland*](#)
- [United Kingdom*](#)
- [Slovakia](#)
- [Greece](#)
- [Lithuania](#)
- [Belgium*](#)
- [Hungary](#)
- [Czech Republic](#)
- [Republic of Ireland](#)

Separate institutions (10)

- [France](#)
- [Denmark](#)
- [Estonia](#)
- [Latvia](#)
- [Malta](#)
- [Poland](#)
- [Sweden](#)
- [Austria](#)
- [Finland](#)
- [Germany](#)

Partially integrated institutions

Within the Ministry of Finance/Economy (2)

- [Spain](#)
(Insurance and Pensions Directorate)
- [Cyprus](#)
(insurance directorate)

Separate institutions (3)

- [Bulgaria](#)
- [Romania](#)
- [Croatia](#)

Non-integrated institutions (4)

- [Slovenia](#)
- [Italy](#)
- [Portugal](#)
- [Luxembourg](#)

* "Twin Peaks" models

- [Netherland](#)
- [United Kingdom](#)
- [Belgium](#)

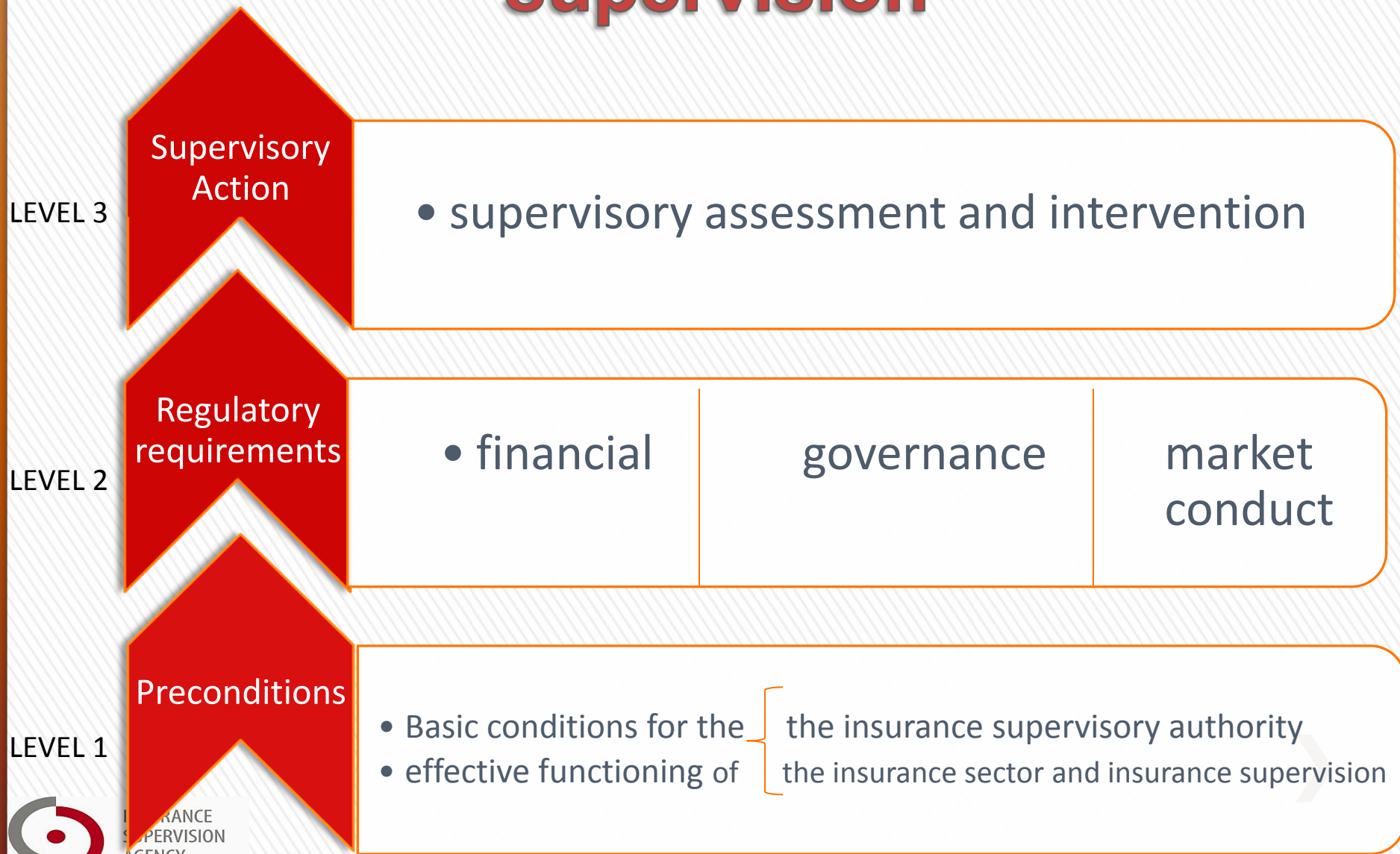


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Framework for insurance supervision



Insurance supervision under Solvency II regime – European perspective–

- European insurance industry (Sigma 03/2017)
 - \$ 1.47 trillion in premiums, 31 % world market share
 - 6.7% penetration rate (7.5 Western Europe; 1.9 CEE countries)
 - \$ 1.620 density rate (\$2.541 Western Europe; \$169 CEE countries)
 - \$ 11.56 trillion of assets under management
 - \$ 9.15 trillion in technical provisions
- EIOPA role
- Transition from Solvency I to Solvency II
- Where do we stand? Where do we go?
- Supervisory challenges and future developments ➤

Transition from Solvency I to Solvency II

Benefits/Differences	Solvency I	Solvency II
EU insurance market	Several different supervisory regimes (14 EU Directives)	Single supervisory regime for the whole EU
Risk management of EU insurers	No need to closely look at several types of risks	Better understanding and thus more efficient forward looking mitigation of risks
Consumers Policyholders	Protection based on mechanic, non-risk related formula	Robust risk management and governance means better protection of company & policyholders
Supervisors	No full picture about companies' risk profiles, different approaches	Enhanced reporting allows identification of upcoming problems and timely reactions

Pillars of Solvency II

Single supervisory regime for the whole EU

Pillar I Quantitative requirements	Pillar II Qualitative requirements and supervision	Pillar III Reporting and disclosure
Market consistent valuation of assets and liabilities	Management system based on 4 key functions: <ul style="list-style-type: none">➤ Risk management function➤ Actuarial function➤ Compliance function➤ Internal audit function	Reporting to the national supervisor (RSR, QRT, ORSA)
Capital requirements (SCR, MCR)		Public disclosure (SFCR)
Own funds	Conducting own risk and solvency assessment (ORSA)	
	Supervisory review process (SRP)	

First results of the implementation of the new regime - industry perspective -

- Relatively stable picture of the European insurance market
- Majority of solo insurance undertakings reported a Solvency Capital Requirement (SCR) ratio above 100%
- The SCR ratio for the median insurance company is 209% in Q4
- Reinsurance demand is still subdued, whereas the reinsurance capacity continues to increase
- Life insurers rely heavily on fixed income assets which make them more vulnerable to low interest rates than non-life insurers
- Insurers are extensively exposed towards the banking

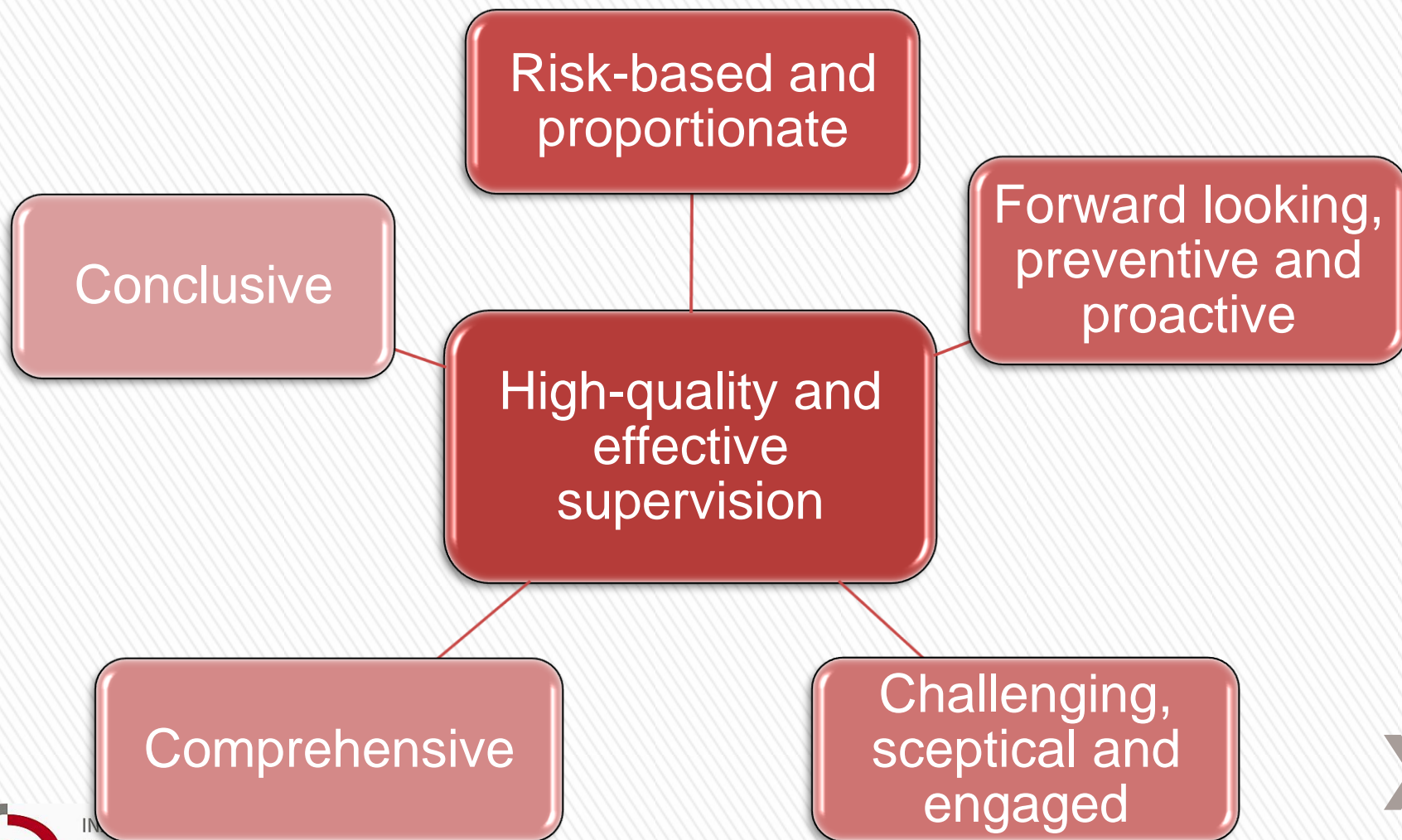


Where to we stand? Where do we go?

- supervisory perspective -

- Solvency II Directive, (Article 27), “Members States shall ensure that the Supervisory Authorities are provided with the necessary means, and have the relevant expertise, capacity and mandate to achieve the main objective of supervision, namely the protection of policyholders and beneficiaries”
- Supervisors need to move towards “risk-based supervision”, going beyond a “tick the box” approach
- National legislators to reinforce the framework of independence and accountability of national supervisors
- Ensuring consistency and convergence of supervisory practices – common European supervisory culture

Common European Supervisory Culture



Common European Supervisory Culture – tools and instruments -

- Comprehensive information system
- Supervisory handbook
- Publishing a monthly risk free interest rate term structure
- On – going monitoring of internal models
- Bilateral on – site activity with the NCAs
 - *Conduct of Balance sheet reviews*
- EIOPA's peer review
- Stress tests



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Conduct of business supervision

- Importance of conduct of business supervision
- Creating a consumer – centric culture
- EIOPA strategy to strengthen COB
 - *thematic reviews*
 - *using of retail risks indicators*
 - *attention on commission rates, lapse rates, claims ratios and consumer complaints*
 - *consumer trend reports*
- New regulatory actions
 - *Insurance Distribution Directive*
 - *Product oversight and governance*
 - *Conflict of interests, inducements and assessments of suitability and appropriateness*
 - *Insurance product information document*



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Future developments and challenges for European insurance regulation and supervision

- Review of Solvency II
 - *by 2018 review of SCR*
 - *by 2021 overall review of the regime*
- Macro – prudential framework
- Recovery and resolution mechanisms
- Insurance guarantee scheme
- Digitalization and cyber risks
- International standards



Concluding remarks

- Building up an European supervisory culture
- Intensive and open dialogue among all stakeholders
- Enhancement of conduct of business supervision
- Dedication to develop principles that provide a sound basis for strong protection for consumers without hindering innovation in a digital environment



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Thank you!



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