GDV German Insurance Association

INSURANCE SUPERVISION

Questions & Answers on the Supervisory Architecture for Insurers & Reinsurers

➔ Would more centralised supervision of the insurance sector contribute to advancing the Savings and Investments Union?

Insurers already operate across borders, and they have not flagged national supervision as a significant obstacle to cross-border business. The main barriers to cross-border activity do not stem from differing supervision regimes, but from differences in national markets, legal systems, and taxation—rather than from supervisory fragmentation. A single supervisor would not resolve these market differences, so centralizing supervision would not boost cross-border insurance activity.

Insurance supervision requires deep expertise in local markets. National supervisory authorities (NSAs) usually have a better grasp of local legal, economic, and market nuances and have deep knowledge of the insurers active their respective national markets. Insurance products are extremely diverse across the EU market, much more so than in the banking sector. Therefore, the day-to-day supervision of undertakings should remain with national supervisory authorities. A shift to EIOPA would contradict the established allocation of roles, add complexity, and undermine the specialized local expertise needed for effective oversight.

Last but not least, centralizing supervision should not be conflated with broader political goals (e.g., ESMA reforms, SIU/CMU) when there is no clear link to actual supervisory challenges in the insurance sector.

➔ Are consumers left unprotected because cross-border business is not supervised at EU level?

First, the extent of cross-border business operated by insurers licensed in Germany is comparatively low. Life insurers do not conduct business via the freedom of

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establishment/freedom of services-privilege. The premiums grossed cross-border by German non-life insurers amount to approximately 13% of their total premium volume (based on figures for 2023).

Apart from that, EIOPA already holds substantial (but rarely used) tools to address cross-border issues. The Solvency II Review has further expanded EIOPA's toolkit. These changes should be tested in practice before considering any further centralization of powers. If EIOPA's powers are proven insufficient after a period of practical application, a fact-based review of the EIOPA Regulation could follow.

In any case, we consider strengthening cooperation between NSAs as well as between EIOPA and NSAs a much better option, e.g. in areas such as reporting, interpretation of EU law, and enforcement.

Furthermore, there is no strong evidence that consumers suffer due to the lack of an EU-level day-to-day supervisor. National supervisors can and do ensure consumer protection locally; EIOPA already has the power to intervene if national authorities fail to apply EU law properly.

➔ **The biggest players in the European insurance industry are active in several Member States. Would it be more efficient to have their internal models approved by a European supervisor?**

Internal models to calculate capital requirements under Solvency II for large insurance groups have shown great success since the introduction of the framework. They allow their users to measure risks tailored to their specific undertakings and use capital efficiently. Their recognition in the International Capital Standard shows that they are accepted risk measurement tools beyond the EU. This demonstrates the effectiveness of the current framework for the approval and supervision of these internal models.

This is why the industry opposes the additional approval of internal models by a European supervisor. Currently, the introduction of joint supervisory teams with the relevant European national supervisors and EIOPA for the supervision of large insurance groups is discussed. The aim of these teams is to increase the coherence for approving internal models. However, they are also likely to lead to longer and more complicated coordination processes. This would make the already demanding, but also necessary, regular model change process significantly more difficult, as well as the application for new internal models.

Under the current framework, undertakings already waive the application of internal models for some of their subsidiaries because of the cost and effort. It is unclear how the involvement of EIOPA would improve this situation. On the contrary, the complications introduced by joint supervisory teams are more likely to amplify this trend.

➔ **Reinsurers are frequently active across borders. Would centralised supervision at the European level make more sense for them?**

No. The arguments against centralising insurance supervision in general also apply to reinsurers. Splitting reinsurance from primary insurance supervision—one EU-level, one national—would fragment oversight. Since reinsurers already have unrestricted access to markets within the EU, a single supervisor would not bring any additional benefits.

Centralised supervision only for reinsurers would also be impractical since reinsurers are frequently part of larger groups that include primary insurance business. It would be a challenge to determine which groups would be covered by a potential EU supervisor and which would not.

Furthermore, unlike with banking after 2008, no systemic flaws or crises in reinsurance have highlighted an urgent need for radically new supervisory structures.

➔ **Would more centralised supervision lighten the regulatory burden and red tape for insurers by replacing numerous national supervisors with one European authority?**

This would not be the case, quite the opposite. In practice, a central supervisor would not replace national authorities entirely. Firms would still deal with both EIOPA and NSAs.This would increase rather than decrease complexity: Responsibilities would need to be clearly divided between EIOPA, national supervisors and the group supervisor, requiring additional legislation. Nonetheless, there would still be a high risk of inefficient and redundant communication between the various players as well as conflicts over responsibilities.

The experience with the Single Supervisory Mechanism (SSM) in banking has demonstrated that such a structure can, at times, add layers of coordination and compliance requirements instead of removing them.