Solvency and Financial Condition Report 2020

If P&C Insurance Ltd (publ)

Content

Summary

Business and Performance

If P&C Insurance Ltd (publ) (If) is a wholly owned subsidiary to If P&C Insurance Holding Ltd (publ) (If Holding), whose registered office is in Stockholm, Sweden. If Holding is in turn is a wholly owned subsidiary of Sampo plc (Sampo), a Finnish listed company, whose registered office is in Helsinki.

If is the largest property and casualty (P&C) insurer in the Nordics with markets shares in Sweden, Norway, Finland and Denmark of approximately 18%, 21%, 21% and 6% respectively. For Nordic industrial customers operating on a global level If has European branch offices and international partners.

The insurance business within If is organisationally divided by customer segments into the cross-Nordic business areas Private, Commercial (small and medium sized companies) and Industrial (large corporates). Private accounts for more than half of the total premium income.

The technical result amounted to 7,970 MSEK (6,775 MSEK) and the combined ratio was 82.5% (84.9%). The gross written premium income increased by 4.7% excluding currency effects. All business areas contributed to the positive premium development, with particularly strong growth in business area Industrial.

At full market value, profit from asset management increased to 2,577 MSEK (5,632 MSEK), corresponding to a total return of 2.5% (5.3%).

System of Governance

To ensure a well working capital and risk management, If's Board of Directors and CEO have established a System of Governance consisting of several layers. The organisational set-up, including the legal and operational structures, forms the outermost layer in which the business is run. The Board of Directors and the CEO have decided on a framework of steering documents and other internal rules and procedures, which must be followed by the employees to which they apply.

Within this framework, processes and controls are implemented to ensure that the strategic and business objectives are met, that financial and non-financial information is reliable, and that If complies with applicable internal and external rules. The System of Governance also includes the strategy process, the financial planning and monitoring processes as well as an Internal Control System where the Risk Management System is included.

To ensure efficient risk management and internal control as well as a clear division of roles and responsibilities within the organisation, the three lines of defence model is applied.

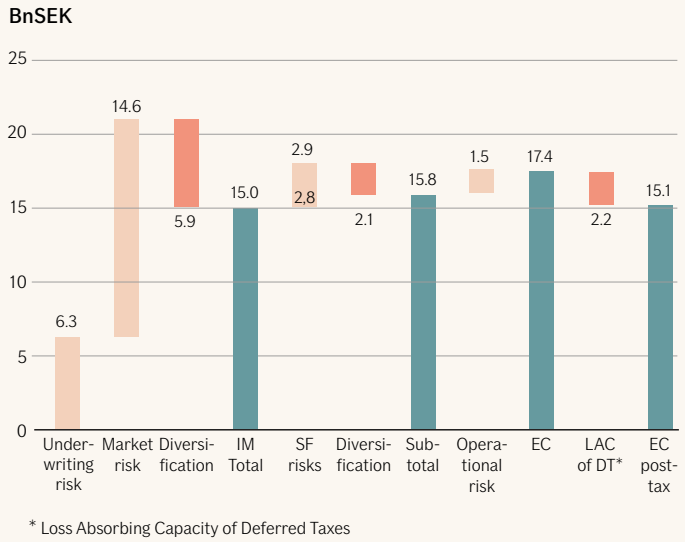
Risk Profile

For internal quantitative risk measurement and reporting, as well as for decision-making, the measure economic capital (EC) is used. The economic capital is based on If's internal model (IM) for underwriting risk and market risk. Operational risk and less material risks are quantified using the standard formula (SF).

In addition to the quantitative measures, qualitative assessments are conducted for all risks. Risks that are not possible to quantify are only qualitatively assessed. These risks are liquidity risk, legal risk, strategic risk, compliance risk, reputational risk and emerging risk.

As shown in Figure 1, the risk categories that contribute the most to economic capital pre-tax, are underwriting risk and market risk.

Figure 1 – Overview of If's economic capital, 31 December 2020



* Loss Absorbing Capacity of Deferred Taxes

Valuation for Solvency Purposes

The valuation of assets and liabilities in the Solvency II balance sheet is based on fair value principles. Items in the Solvency II balance sheet are based on corresponding items in the Annual Report and adjusted in accordance with the Solvency II regulation. The Annual Report is prepared according to Swedish accounting regulation referred to as IFRS restricted by law. Figures in the Annual Report are referred to as statutory accounts value in this report.

The accounting policies used in the statutory accounts have not been subject to any significant amendments in 2020. Balance sheet items in foreign currency are translated to SEK using the closing date exchange rate, both in the statutory accounts and in Solvency II.

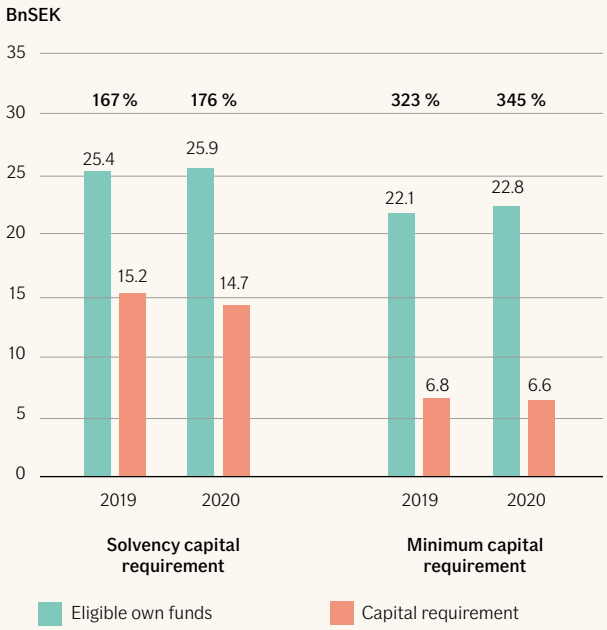
Overall, as an effect of the Solvency II adjustments at year-end, the excess of assets over liabilities is 779 MSEK higher in the Solvency II balance sheet compared to the statutory accounts. Solvency II adjustments are mainly related to technical provisions.

Capital Management

If focuses on capital efficiency and sound risk management by keeping its capital resources at an appropriate level in relation to the risks taken over the business planning period. This means ensuring that the available capital exceeds the internal and regulatory capital requirements.

At 31 December 2020, according to the partial internal model, the solvency capital requirement ratio amounted to 176% (167%) and the minimum capital ratio to 345% (323%).

Figure 2 – If's capital and solvency overview



As shown in the figure above the solvency capital requirement has decreased and eligible own funds have increased compared to previous year, which explains the higher solvency ratio. The capital requirement has decreased as a result of lower market risk which is mainly due to decreased interest rate risk and lower spread risk.

Based on the financial plan If is considered to have a strong capital structure and solvency position, a high level of profitability, and stable results. If is considered to be in a good position to generate capital and to maintain a capital level needed to support risks and business objectives going forward.

1 Business and Performance

1.1 Business

1.1.1 Legal structure and the group

If P&C Insurance Ltd (publ) (If) is a wholly owned subsidiary to If P&C Insurance Holding Ltd (publ) (If Holding), whose registered office is in Stockholm, Sweden. If Holding is in turn is a wholly owned subsidiary of Sampo plc (Sampo), a Finnish listed company, whose registered office is in Helsinki.

The number of employees amounted to 6,184 at year-end. The average number of employees in 2020 was 6,237.

1.1.2 If's financial supervisory authority

Finansinspektionen
Box 7821
103 97 Stockholm, Sweden

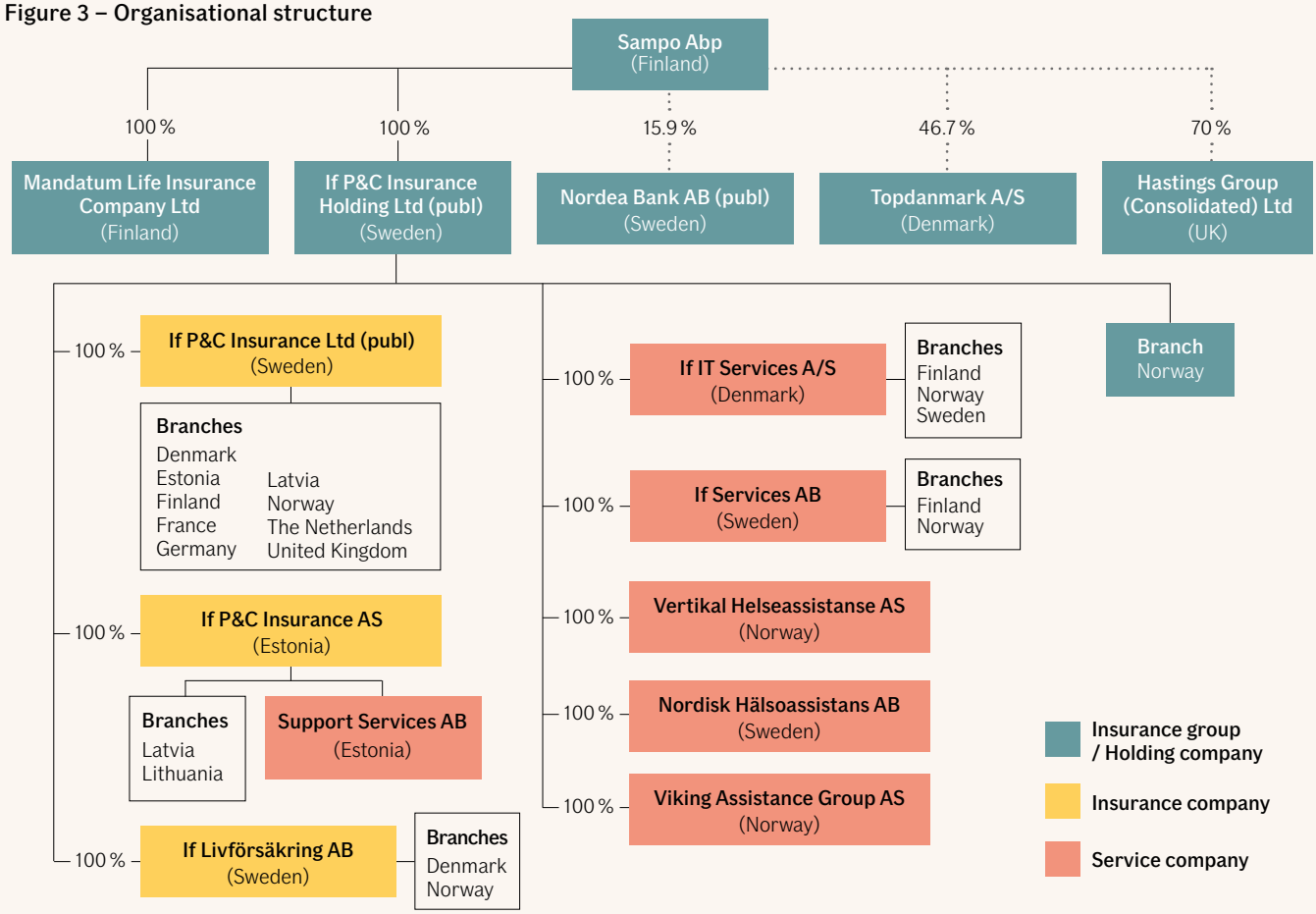
1.1.3 Sampo's financial supervisory authority

Financial Supervisory Authority
P.O Box 103
00101 Helsinki, Finland

1.1.4 External auditors

KPMG AB
Box 382
101 27 Stockholm, Sweden

Figure 3 – Organisational structure



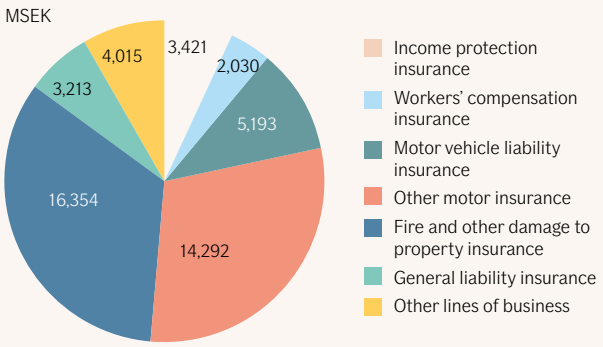
1.1.5 Branches and geographical areas

If is the largest property and casualty (P&C) insurer in the Nordics with markets shares in Sweden, Norway, Finland and Denmark of approximately 18%[1], 21%[2], 21%[3] and 6%[4] respectively. For Nordic industrial customers operating on a global level If has European branch offices and international partners.

The insurance business within If is organisationally divided by customer segments into the cross-Nordic business areas Private, Commercial (small and medium sized companies) and Industrial (large corporates). Private accounts for more than half of the total premium income, where motor, property and personal insurances constitute the main lines of business. The insurances are provided through the own brand, through other brands, in co-branding and partnerships, to offer the customers a full range of competitive insurance solutions.

[1] SE: Insurance Sweden (Q3 2020).
[2] NO: Finance Norway (Q4 2020).
[3] FI: Finance Finland (Q4 2019).
[4] DK: Insurance & Pension Denmark (Q4 2019).

Figure 4 – Premiums written (gross) by Solvency II lines of business, 31 December 2020



1.1.6 Significant events over the reporting period

Except for the Covid-19 pandemic no significant events have occurred during the reporting period. See 1.5 Any other information.

1.2 Underwriting Performance[5]

The technical result amounted to 7,970 MSEK (6,775 MSEK)[6] and the combined ratio was 82.5% (84.9%).

The gross written premium income increased by 4.7% excluding currency effects. All business areas contributed to the positive premium development, with particularly strong growth in business area Industrial.

The restrictions from the governments in the Nordic countries to handle the Covid-19 pandemic as well as generally lower activity levels in society, contributed to fewer frequency claims compared to the preceding year, especially within motor insurance. At the same time, the large claims outcome in 2020 was higher than the outcome in 2019 and the total risk ratio amounted to 61.2% (63.2%).

The cost ratio decreased compared to the preceding year to 21.3% (21.8%).

In the tables below, gross premiums earned and underwriting performance, per line of business and geographical area are presented. Revenues per geographical area presented in the table are distributed among the countries in which If has branches, corresponding largely with the customers' geographic domicile.

Table 1 – Gross premiums earned and underwriting performance by lines of business

MSEK	Premiums earned (gross)		Underwriting performance (net)	
Line of Business	**2020**	**2019**	**2020**	**2019**
Income protection insurance	3,342	3,377	656	429
Workers' compensation insurance	2,017	2,019	960	1,009
Motor vehicle liability insurance	5,182	5,394	3,358	2,798
Other motor insurance	14,136	13,759	2,211	1,092
Fire and other damage to property insurance	15,694	15,107	1,096	1,911
General liability insurance	3,041	2,938	424	610
Other lines of business	3,925	3,916	-844	-1,143
Sum	**47,336**	**46,510**	**7,861**	**6,705**
Allocated investment return as part of the technical account			171	165
Other technical income and expenses			-62	-96
Technical result from property and casualty insurance, GAAP			**7,970**	**6,775**

Table 2 – Gross premiums earned and underwriting performance by geographical area

MSEK	Premiums earned (gross)		Underwriting performance (net)	
Country	**2020**	**2019**	**2020**	**2019**
Denmark	4,763	4,522	312	228
Finland	10,298	10,140	1,203	1,243
Norway	14,527	14,903	1,773	1,571
Sweden	17,272	16,528	4,554	3,611
Other	476	417	19	53
Sum	**47,336**	**46,510**	**7,861**	**6,705**

Adjusted for exchange effects, gross premiums earned increased in most lines of business. The strongest premium development was recorded in Fire and other damage to property insurance. From a geographical perspective, the currency adjusted premium growth was positive in all countries.

The underwriting performance increased and amounted to 7,861 MSEK (6,705 MSEK). The improvement for motor lines of businesses was mainly driven by lower frequency claims cost due to less traffic during the pandemic. For Fire and other damage to property the underwriting performance deteriorated due to the large claims outcome. Broken down by geography, the underwriting performance improved in all countries, except for Finland where the underwriting performance was negatively affected by lowered discounting rate in the third quarter.

[5] The figures in the underwriting performance section are in accordance with the Financial Statement while the lines of business are based on Solvency II.
[6] Figures in brackets throughout the report refer to figures from previous corresponding period.

Despite a challenging and different time marked by the pandemic, 2020 was in many ways another good year for If. The business model with strong customer orientation in all parts of the organisation, a consistent focus on underwriting and leading digital services that simplifies for the customer, was crucial for the solid performance during the year. The organisation's ability to quickly move to home offices and with undiminished strength continue to help customers all over the Nordic countries, has also been of great importance. Customer related key performance indicators, such as customer satisfaction, customer loyalty and the number of new customers, confirm that If succeeded in delivering the best possible service to its customers during the year.

1.3 Investment Performance

At full market value, profit from asset management amounted to 2,577 MSEK (5,632 MSEK), corresponding to a total return of 2.5% (5.3%). Net investment return amounted to 1,583 MSEK (2,696 MSEK) in the income statement and 994 MSEK (2,936 MSEK) in other comprehensive income.

To a large extent, 2020 was marked by the Covid-19 pandemic, which resulted in one of the biggest stock market crashes in history between February and March. The Stockholm Stock Exchange recorded a significant recovery during the summer and closed the year in positive territory.

In summary, the asset management generated a positive result in 2020, despite a continued low interest environment. Interest bearing assets returned 1.6% (2.3%). Subordinated debt and real-estate bonds were among the strongest performers, yielding 3.8% and 3.4% respectively.

The total return on equities for 2020 was 11.0% (34.1%), where the bulk of the positive result was generated in the Scandinavian and North American markets. Among the equity positions, the Latin America position noted the weakest performance, largely due to the Latin American currencies faring poorly.

Table 3 – Investment performance, 31 December 2020

	Fair value		Return 2020				
	31 Dec 2020		Interest, dividends etc.	Changes in value, Income statement	Total, Income statement	Changes in equity	Total return
	MSEK	%	MSEK	MSEK	MSEK	MSEK	MSEK
Interest-bearing securities	91,159	88	1,564	-802	763	768	1,530
Equities	13,240	13	302	686	989	226	1,214
Currency (active positions)	10	0	-	42	42	-	42
Currency (other)	-316	0	-	78	78	-	78
Properties	35	0	0	1	1	-	1
Other	-	-	-291	3	-288	-	-288
Total investment assets	**104,127**	**100**	**1,575**	**8**	**1,583**	**994**	**2,577**

Table 4 – Investment performance, 31 December 2019

	Fair value		Return 2019				
	31 Dec 2019		Interest, dividends etc.	Changes in value, Income statement	Total, Income statement	Changes in equity	Total return
	MSEK	%	MSEK	MSEK	MSEK	MSEK	MSEK
Interest-bearing securities	94,024	87	1,675	127	1,802	447	2,249
Equities	13,572	13	426	766	1,193	2,489	3,681
Currency (active positions)	16	0	-	24	24	-	24
Currency (other)	-132	0	-	55	55	-	55
Properties	35	0	-2	77	75	-	75
Other	-	-	-491	39	-453	-	-453
Total investment assets	**107,515**	**100**	**1,609**	**1,088**	**2,696**	**2,936**	**5,632**

Among other investments, which only account for a minor portion of the total portfolio, private equity had a positive impact on the total returns while interest-rate derivates had a negative impact.

If has no investments in securitisations.

Costs for hedging investment assets and other administrative costs are reported under Other in table 3 and table 4.

1.4 Performance of other activities

Costs not included in the underwriting performance or in the investment performance mainly relate to amortisation of goodwill. Amortisation amounted to 2 MSEK (48 MSEK).

For information regarding leasing agreements, see section 4.5.1 Lease arrangements.

1.5 Any other information

If's Board of Directors decided in March 2021 to propose a dividend payment of 5.5 BnSEK to If Holding. The proposed dividend was deducted from eligible own funds at 31 December 2020.

When the Covid-19 pandemic reached the Nordic countries in March 2020 priority was given to continuity and maintaining excellent service to the customers despite the changed working conditions. The operations quickly normalised to the changed working conditions and most of the employees have been working from home offices for the rest of 2020. During the year If has been able to offer a normal service level and customer satisfaction has remained on a high level.

If is continuously monitoring the development of Covid-19 and the effects on the business.

2 System of Governance

2.1 General information on System of Governance

To ensure a well working capital and risk management, If's Board of Directors and CEO have established a System of Governance consisting of several layers. The organisational set-up includes the legal and operational structures in which the business is run. The Board of Directors and the CEO have decided on a framework of steering documents and other internal rules and procedures, which must be followed by the employees to which they apply. Within this framework, processes and controls are implemented to ensure that the strategic and business objectives are met, that financial and non-financial information is reliable, and that If complies with applicable internal and external rules. The System of Governance also includes the strategy process, the financial planning and monitoring processes as well as an Internal Control System where the Risk Management System is included.

To ensure efficient risk management and internal control as well as a clear division of roles and responsibilities within the organisation, the three lines of defence model is applied.

Efficient communication and reporting structures shall ensure that decisions made by the Board of Directors and the CEO are based on the best possible information available, and that the business is followed up in an appropriate manner.

2.1.1 Legal and Operational Structure

The overall principles and division of responsibilities are defined on Sampo Group level. If organises its operations in accordance with these principles while taking into account the specific characteristics of the respective countries and business areas.

The insurance operation is organised in accordance with customer segments into the business areas Private, Commercial and Industrial. The operational structure spans across several legal entities within the If Group. Corporate functions such as Finance, Legal, Human Resources, Communication and IT support the business areas.

2.1.2 Decision-making Bodies

2.1.2.1 General Meeting

The General Meeting is the highest decision-making body, where the shareholders exercises their rights to participate in company decisions. The General Meeting decides, inter alia, on the Articles of Association and appoints members to the Board of Directors.

2.1.2.2 Board of Directors

The Board of Directors is responsible for ensuring that the business is organised in an appropriate manner. The Board of Directors is also the corporate body with overall responsibility for the risk management and internal control, as well as for making sure that the company has appropriate risk management systems and efficient processes. Further, the Board of Directors decides on the policy framework and approves material and strategic decisions. The steering documents are revised annually.

The Board of Directors reviews and decides annually the Rules of Procedure for its work. Furthermore, the Board of Directors has adopted an instruction for the CEO specifying the CEO's responsibilities. The Board of Directors has not appointed any formal committees within the Board's responsibilities.

2.1.2.3 CEO

The CEO holds the overall responsibility for the daily business activities, including aligning strategies, processes and reporting in order to reach the goals. The CEO has the possibility to delegate the decision authority concerning the daily business activities but retains the ultimate responsibility for such decisions.

The CEO is the deciding body for several instructions within the policy framework. The CEO monitors that the internal control within the organisation is effective and efficient.

2.1.3 Key Functions

2.1.3.1 Risk Management function

The Risk Management function is headed by the Chief Risk Officer (CRO). The function consists of the Risk Control unit and the Capital Management unit. The function facilitates the implementation and development of the Risk Management System. The Risk Management function reports to the Board of Directors and to the CEO.

2.1.3.2 Compliance function

The Compliance function is headed by the Chief Compliance Officer (CCO) and is responsible for reporting to the Board of Directors and the CEO on compliance with the rules relevant for If's license to conduct insurance business.

2.1.3.3 Internal Audit function

The Internal Audit function is headed by the Group Chief Audit Executive (CAE). The Internal Audit function evaluates the effectiveness of the Internal Control System and reports directly to the Board of Directors.

2.1.3.4 Actuarial function

The Actuarial function is headed by the Chief Actuary who advises on actuarial matters and fulfils tasks according to the instruction of the Actuarial function. The Actuarial function reports to the Board of Directors and to the CEO.

2.1.4 The Remuneration System

The Remuneration Policy, together with the Sampo Group Remuneration Principles, sets the principles for the remuneration system. The Remuneration Policy is part of the Risk Management System.

The Remuneration Policy is based, inter alia, on the principles that the remuneration structure should not encourage excessive risk taking and that the remuneration of individual employees should not be in conflict with If's long-term interests. In accordance with the Insurance Distribution Directive (IDD), individual employees shall not be remunerated, and their performance shall not be assessed, in a way that conflicts with the duty to act in the best interests of the customers. The long-term financial stability and value creation of Sampo Group guide the remuneration design.

2.1.4.1 Principles for the remuneration

The forms of remuneration in If are fixed compensation, pension, other benefits and variable compensation.

Fixed salaries shall be fair and competitive but not leading in the market. Variable compensation programs shall always include triggers and caps on the payment and the total variable compensation may not be of a size that threatens If's ability to maintain an adequate capital base.

If an employee's remuneration includes a variable component, there shall be an appropriate balance between the fixed and variable components so that the fixed compensation represents a sufficiently high proportion. Employees in key functions are not entitled to variable compensation.

Both measurable quantitative as well as qualitative criteria shall be used for assessing individual performance. Specific rules and guidelines apply when setting individual goals and assessing individual performance for employees who are subject to IDD.

The Remuneration Policy contains specific arrangements applicable to identified staff[7]. Based on the Remuneration Policy, part of the payment of the variable compensation to identified staff shall be deferred for a defined period. After the deferral period, a retrospective risk adjustment review shall be carried out and the Board of Directors decides whether the deferred variable compensation shall be paid/released in full, partly or cancelled in whole.

2.1.4.2 Individual and collective performance criteria related to variable compensation

In general, variable compensation increases in relation to increased responsibility and is based on a combination of individual performance, business area and/or business unit results and the overall result of the If Group.

The purpose of the variable compensation programs is to support the fulfilment of If's overall goals; hence, the majority of the employees participate in some form of variable compensation program. If offers annual short-term incentive programs, sales incentives, discretionary rewards and long-term incentive schemes. The outcome of the long-term incentive schemes is based on the development of Sampo's share price, on the Sampo Group's return on capital at risk, and/or on the insurance margin of the If Group.

2.1.4.3 Supplementary pension or early retirement schemes for members of the Board, CEO or key function holders

Members of the Board, CEO or key function holders[8] employed in Sweden are entitled to pension according to FTP17[9] or individually agreed defined contribution pension. Of these, employees in Norway are covered by a defined contribution or a defined benefit pension depending on the year of birth. Employees in Finland are not covered by any supplementary pension or early retirement schemes[10].

2.1.5 Material transactions with shareholders, with persons who exercise a significant influence on the undertaking and with members of the Board

The following material transactions have taken place during the reporting period:

- If Holding is the primary account holder in a Group account structure that covers all transaction accounts in If's insurance operations. In such a structure, material transactions have, on a regular basis, taken place during the year;
- If and Sampo have an asset management agreement according to which all investment decisions, within the framework of the Investment Policy, have been outsourced to Sampo. Compensation for these services is based on a fixed commission calculated in accordance with market value of the managed investment asset; and
- If has paid a dividend of 6.9 BnSEK to If Holding.

2.1.6 Material changes in the System of Governance during the reporting period

No material changes in the System of Governance have taken place during the reporting period.

2.2 Fit and Proper Assessments

2.2.1 Fit and Proper Policy

If has adopted the Sampo Group Guidelines for Selecting and Assessing Company Management and Other Key Personnel. The purpose of the guidelines is to ensure that the companies in the Sampo Group are managed with professional competence and integrity. If has issued a Fit and Proper Policy to supplement the Sampo Group Guidelines. The policy describes the fit and proper process and defines the positions that are subject to the fit and proper assessments.

2.2.2 Fit and Proper Requirements

2.2.2.1 Fitness requirements

The assessment of whether a person who is subject to a fit and proper assessment is fit, includes an assessment of the person's professional and formal qualifications, knowledge and relevant experience within the insurance sector, other financial sectors or other business and takes into account the respective duties allocated to that person.

In order to ensure that the company is managed and overseen in a professional manner, the fitness assessment in relation to the members of the Board of Directors takes into account the respective duties to ensure appropriate diversity of qualifications, knowledge and relevant experience, individually and collectively.

2.2.2.2 Propriety requirements

Assessed persons shall be of good repute and integrity. The assessment shall include an assessment of the person's honesty and financial soundness based on relevant evidence regarding their character, personal behaviour and business conduct, including criminal, financial and supervisory aspects relevant to the assessment.

2.2.3 Description of the Fit and Proper Process

The assessment is primarily conducted prior to the appointment of a person to a position that is subject to the fit and proper assessment. The persons shall further be assessed on a regular basis to ensure that the persons meet the fit and proper criteria on an on-going basis. Furthermore, a reassessment shall also be conducted if an event occurs that may cast doubt on the fitness or propriety of an assessed person.

The result of the fit and proper assessment is presented to the function or leader responsible for the appointment, who decides whether the assessed person shall be considered fit and proper for the position or not. The decision regarding potential board members, as well as regarding the collective competence of the Board of Directors, is to be taken by the Board of Directors. Required notifications are made to the Swedish Financial Supervisory Authority (Swedish FSA).

[7] Identified staff comprises persons who effectively run the company (members of the Board, CEO and staff with management roles which are essential to the operations of If) and risk takers (employee whose professional activities may have a material impact on the company's risk profile).

[8] The information in this section relates only to persons employed in the company.

[9] Insurance industry's occupational pension plan.

[10] For more information about pensions, see the Annual Report - Note 12 "Salaries and other remuneration for senior executives and other employees", and the Swedish publication Redogörelse för ersättningar inom If Skadeförsäkring AB for the year 2020.

2.3 Risk Management System including own risk and solvency assessment

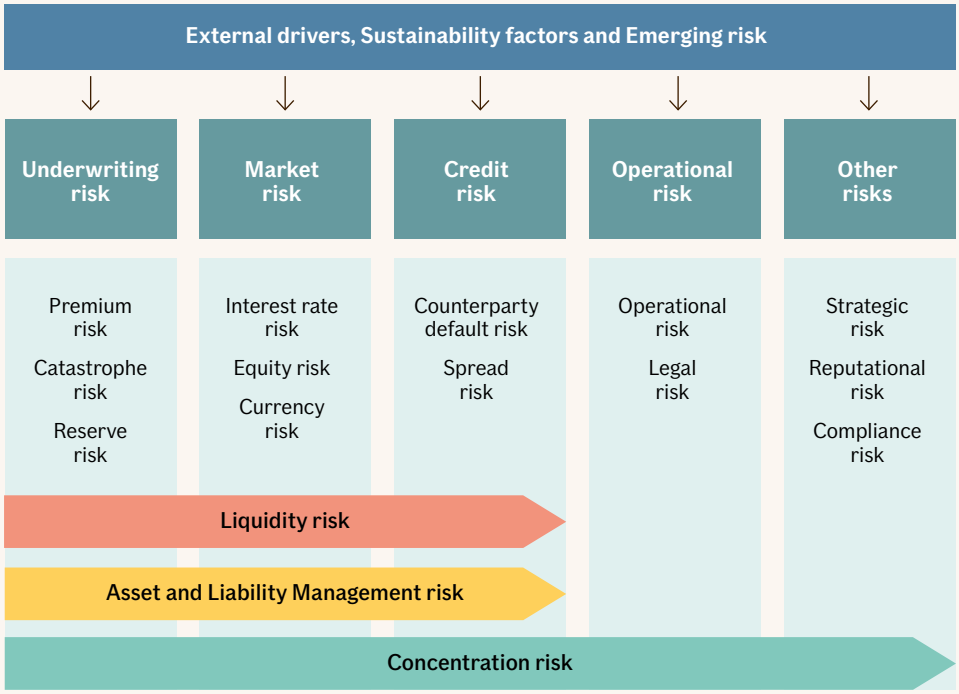
2.3.1 Description of the Risk Management System

If has an effective Risk Management System comprising strategies, processes and reporting procedures necessary to, on a continuous basis, identify, assess, manage, monitor and report the risks at an individual and at an aggregated level and their interdependencies, to which they are or could be exposed. The Risk Management function facilitates the implementation and development of the Risk Management System.

The Risk Management System is part of the Internal Control System and linked with the If Group Risk Management System that ensures that all risks are managed from a company perspective as well as from a group perspective.

If's risks are divided into the following categories: underwriting risk, market risk, credit risk, operational risk and other risks. In the Risk Management System, sustainability risk is not defined as a separate risk category. Like other external drivers and emerging risks, sustainability risk factors are considered to have an impact on the defined risk categories.

Figure 5 – Risks encompassed in the Risk Management System



2.3.2 Objective of the Risk Management System

The objective of the Risk Management System is to create value for If's stakeholders. This is achieved by securing long-term solvency, minimising the risk of unexpected financial loss and giving input to business decisions by considering the effect on If's risk and capital.

A high-quality risk management process is a prerequisite for running the business and for ensuring a stable result and the delivery of the long-term return targets.

2.3.3 Risk Management Strategy

If's risk management strategy is part of the System of Governance. The Risk Management Policy defines the overall risk strategy and the risk appetite for main risks. The risk management strategies comprise:

- Ensure strong governance structure to optimise development and maintenance;
- Ensure a sound and well established internal control and risk culture in If;
- Ensure adequacy of capital in relation to risks and risk appetite;
- Limit fluctuations in the economic values of group companies;
- Ensure strong financial data management;
- Ensure that risks affecting the profit and loss account and the balance sheet are identified, assessed, managed, monitored and reported;
- Ensure that the riskiness of the insurance business is reflected in the pricing;
- Ensure adequate long-term investment returns within set risk levels;
- Ensure well working and efficient reporting processes compliant with external and internal requirements; and
- Safeguard If's reputation and ensure that customers and other stakeholders have confidence in If.

2.3.4 Risk Appetite Framework

If's risk appetite framework defines the boundaries for what risk the company is willing to accept in the pursuit of its objectives. The risk appetite framework includes the risk appetite statement, capital adequacy, policies, processes, controls, and systems through which the risk appetite is established, communicated and monitored.

The risk appetite framework, the risk profile and the capital situation is analysed and reported in the quarterly own risk and solvency assessment process including analyses of the capital adequacy and regulatory capital requirements under various risk scenarios. Consequently, the process influences If's capital management and business planning, including product development and design.

2.3.5 The Risk Management Process

The overall risk management process includes five main steps:

Figure 6 – If's Risk Management Process

Risk identification. Risks are identified by the line organisation, the first line. This is performed through a variety of activities that include workshops within the respective business area or function and analysis of incidents occurring.

Risk assessment and measurement. The Risk Management function within the second line supports the organisation by providing the framework and tools to get a uniform risk measurement in If. The line organisation is responsible for assessing and measuring identified risks.

There are two main methods, quantitative and qualitative, to measure risks in If for internal risk measurement and risk reporting. Underwriting risk and market risk are quantitatively measured using If's internal model. In addition, a qualitative assessment of all risks, including the risks that are difficult to quantify, is performed. The qualitative method assesses the impact on the financial plan as well as the likelihood that the risk will materialise. Furthermore, the risk measurement includes stress tests and scenario analyses to assess the risk sensitivity.

Risk management. The first line is responsible for assessing their risks and for deciding how the risks should be managed. Where applicable, effective control activities shall be implemented to mitigate the risks.

Monitoring. The first line is responsible for monitoring that all risks are identified, assessed, managed and reported. The second line monitors both the risk management processes within the first line as well as the overall aggregated risk profile for If.

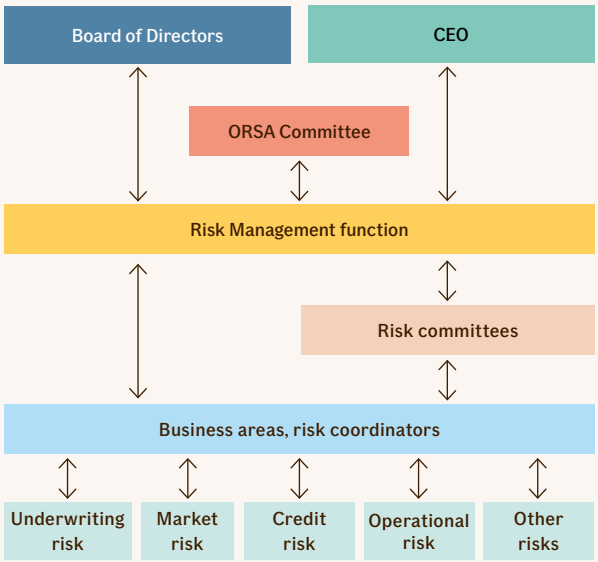
Risk reporting. The first line reports to the second line as well as to applicable risk committees on a monthly, quarterly, bi-annual or annual basis. The second line is responsible for the risk reporting to the Board of Directors and CEO, which includes the following reports:

- Quarterly Own Risk and Solvency Committee (ORSA Committee) report;
- Annual Own Risk and Solvency Assessment (ORSA) report; and
- Annual report on risk management activities performed and a plan for activities during the following year.

2.3.6 Reporting structure within the Risk Management System

The figure below illustrates the reporting structure within the Risk Management System. The system includes processes and activities including committees, risk coordinators and the line organisation.

Figure 7 – Risk Management reporting structure



2.3.7 Responsibilities within the Risk Management System

2.3.7.1 Responsibilities within the Risk Management System

The overall principles and responsibilities of risk management are defined on the Sampo Group level. If organises its operations according to these principles.

2.3.7.2 Board of Directors

The Board of Directors is the corporate body with an overall responsibility for risk control, internal control and that If has appropriate risk management systems and processes in place. The Board of Directors decides on the Risk Management Policy and other risk management documents, is the receiver of risk reporting from the second line as well as from the CEO and takes an active part in the forward-looking ORSA process.

2.3.7.3 CEO

The CEO is responsible for organising and overseeing the daily business activities in accordance with instructions and guidelines from the Board of Directors. The CEO has the ultimate responsibility for the effective implementation of the Risk Management System by ensuring appropriate risk management set-up and promoting a sound risk culture within If.

2.3.7.4 Risk committees

ORSA Committee

The ORSA Committee assists the CEO in fulfilling the responsibility of overseeing the risks and the Risk Management System. The committee reviews the effectiveness of the Internal Control System and gives input to, and follows up on, coordination of efforts and actions relating to these areas. The committee is the recipient of analyses and reporting of risks on a holistic level. In addition, the ORSA Committee supervises If's solvency position, and monitors that both the short-term and long-term aggregated risk profiles are in line with the risk strategy and capital requirements.

Other committees in the Risk Management System

There are separate committees in place for the main risk categories. These committees have the responsibility to assist in the work to manage and control all risks in accordance with steering documents. The chairmen of the committees are responsible for the reporting intended for the ORSA Committee. None of the committees have any decision-making mandate.

2.3.7.5 Risk Management function

The Risk Management function is responsible for coordinating the risk management activities. The main responsibilities of the Risk Management function are to:

- Assist the Board of Directors and CEO in the implementation and operation of the Risk Management System by setting requirements on data and processes as well as coordinating reporting from the line organisation;
- Monitor and support the business areas and support functions in their work to manage all risks;
- Secure a holistic and aggregated reporting of If's risk exposure, risk position and risk profile;
- Regularly assess If's solvency position in accordance with both internal and external measurements;
- Manage and develop If's internal model, including validation of the model;
- Forecast risk and capital under normal and stressed circumstances;
- Give advice to Management on risk management related matters in strategic decisions, including the effect of such decisions on risk and capital; and
- Coordinate and perform the estimation of the loss-absorbing capacity of deferred taxes in the solvency capital requirement.

The Risk Management function is headed by the CRO. The Risk Management function is included in the second line and is operationally independent in relation to the business. This means that the function is not part of the governance of, or the decision-making processes in the operations of the licensed activities.

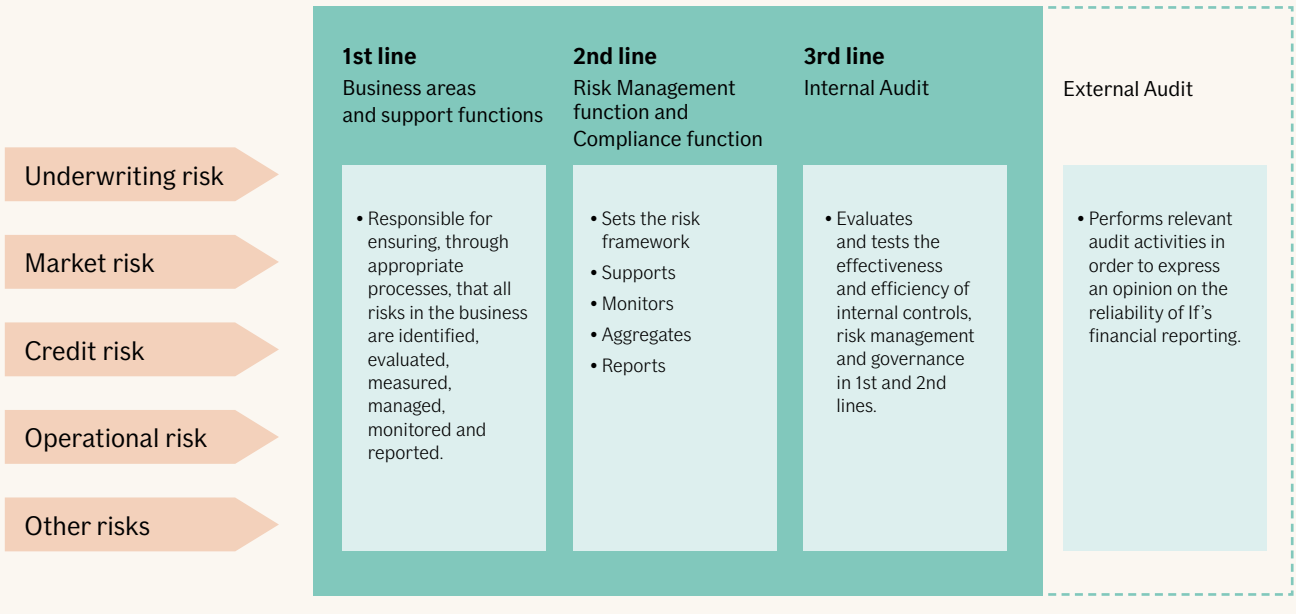
2.3.7.6 Line organisation

The leaders within the line organisation have the day-to-day responsibility to manage risks within the mandates and restrictions set in relevant steering documents and shall ensure that adequate resources and tools for this purpose are in place. On behalf of the Heads of the business areas/support functions, a risk coordinator structure is established within the line organisation regarding the main risk areas. The Head of Risk Control and Reporting and the Chief Compliance Officer issue instructions for the coordinators in which the coordinators' responsibilities are stated. The line organisation has an obligation to inform the Risk Management function of material risks relevant for the performance of their duties.

2.3.7.7 Implementation of the Risk Management System

The three lines model ensures that the responsibility and the different roles of the Risk Management System are clearly established and defined. The responsibilities for each line are described in the figure below.

Figure 8 – Three lines of defence model



The risk committee structure and the coordinator network structure ensure that there are efficient processes and routines in place with clear ownership to identify, assess/measure, manage, monitor and report all material risks and that they are reported to the second line and relevant risk committees.

Risks are identified and measured in the Risk Management System, especially through the internal model. The result is used in significant business decisions.

2.3.8 ORSA Process

If's risks are measured, aggregated, analysed and reported regularly with the purpose of performing an overall assessment of risk and capital. Market risks are followed up and reported monthly while other risks are followed up and reported quarterly or bi-annually. The outcome and the follow-up of these procedures are documented as part of the quarterly ORSA process. A report is prepared for the ORSA Committee, of which a summary is sent to the Board of Directors.

The ORSA consists of a quantitative and qualitative assessment of If's material risks resulting in an assessment on the overall solvency position. A comprehensive ORSA is performed at least annually in order to ensure that the eligible own funds are, and will remain, sufficient to cover the risks resulting from the proposed business plan. The annual ORSA process is carried out in parallel with, and supporting, the business plan that is approved by the Board of Directors.

The solvency position is assessed partly in relation to If's own view of risk, quantified by the internal model, and partly in relation to the regulatory capital requirement. Eligible own funds and capital requirements are forecasted over a three-year planning period. The assessment also includes a number of scenario analyses, stress tests, sensitivity analyses and reverse stress tests. The stress tests cover the main risks and simultaneous adverse effects from different risks. The scenarios are developed in cooperation with the risk owners, Management and Board of Directors.

In addition to a quantification of the main risk categories, a qualitative assessment of the key risks over the planning period is conducted. The risks are assessed on an impact and likelihood basis. The assessment indicates how the risk would affect the ability of If to deliver the set strategy, objectives and financial plan as well as the probability with which the risks could occur over the financial planning period. The concluding assessment is performed by the Risk Management function, based on self-assessments made by the line organisation.

The outcome of the annual ORSA process is documented in an ORSA report, based on data as per 30 September. The report for 2021-2023 was approved by the Board of Directors in December 2020. By approving the report, the Board accepted it as the basis for deciding on the financial plan. Following the approval, the report was submitted to the Swedish FSA.

2.3.9 Governance of the internal model

If applies an internal model for various risk and capital related purposes. This section covers the governance of the internal model for underwriting risks. The main uses of the underwriting risk model are:

– Calculation of economic capital;
– Capital allocation to lines of business and calculation of risk-based combined ratio targets;
– Calculation of the solvency capital requirement;
– Evaluation of reinsurance program structures; and
– ORSA over the planning period.

If has an approval from the Swedish FSA to use the internal model for calculation of the solvency capital requirement for the main underwriting risks. Other risks are calculated according to the Solvency II standard formula with the transitional equity measure.

The internal control and governance around the internal model are considered to be adequate, taking into account the structure and coverage of the model. There are clear decision processes around all parts of the internal model.

The validation of the model is conducted by personnel independent of the modelling team. The objective of the internal model validation is to give assurance to the CRO and the Board of Directors that the internal model is fit for its purpose, appropriately reflects the risk profile and that the regulatory requirements of internal model validation are being met.

There have been no significant changes to the internal model governance during the reporting period.

2.3.9.1 Roles, responsibilities and committees

Below follows a description of the governance of the internal model, including roles and responsibilities.

Board of Directors

The Board of Directors has the ultimate responsibility for the internal model including compliance with the Solvency II requirements and that there is an effective System of Governance in place. The Board of Directors makes the material decisions around the internal model, such as major changes.

CRO

In the Risk Management Policy, it is stated that two of the main responsibilities for the CRO concerning the internal model are to:

– Design and develop the internal model and provide feedback on the suitability of the model; and
– Organise an independent validation of the internal model.

As Head of the Risk Management function the CRO has the responsibility to enforce these policy statements. The responsibility to design and develop the internal model has been delegated to the Capital Management unit and the responsibility to organise an independent validation of the internal model has been delegated to the Risk Control unit.

As chairman of the Internal Model Committee, the CRO decides on minor changes in the model according to the Internal Model Change Policy. An absolute limit to this delegation is when a combination of minor changes can be considered a major change, in which case a decision by the Board of Directors and prior approval by the Swedish FSA are required.

Capital Management

The Capital Management unit is responsible for:

- The design and development of the internal model, and that output for model use including reporting to committees, is appropriately documented and presented;
- That documentation for the internal model is kept up to date;
- Maintaining and updating quantitative validation tools and to contribute to any qualitative and quantitative analysis as specified in the yearly validation plan; and
- Defining data requirements and quality features for the internal model as outlined in the Accounting and Risk Data instruction, to assess appropriateness of the data and, if needed, take appropriate action regarding data quality.

The Head of Capital Management is given the mandate to decide upon updates as outlined in the Internal Model Change Policy. This requires that the documentation for the internal model is updated along with documentation on changes to the model. These updates are to be reported at the subsequent meeting of the Internal Model Committee. The Head of Capital Management shall assure that the internal model is updated at least quarterly and that these updates are quality assured.

Risk Control

The Risk Control unit is responsible for the internal model validation. This includes compilation of the validation plan and the validation report, and reporting of the performed validation and its findings to the CRO, CEO and to the Board of Directors.

Internal Audit

The Internal Audit function shall also receive the validation report. The Internal Audit function performs audits of various aspects of the internal model, such as controls of data quality, governance and control structures.

Internal Model Committee

The Internal Model Committee is the advisory and preparatory body to the Board of Directors and the CEO, according to set instructions. The Internal Model Committee has not a collective decision mandate.

The Committee is chaired by the CRO. Other permanent members are the CFO, Head of Capital Management and a representative from at least one business area.

Other functions relating to the internal model

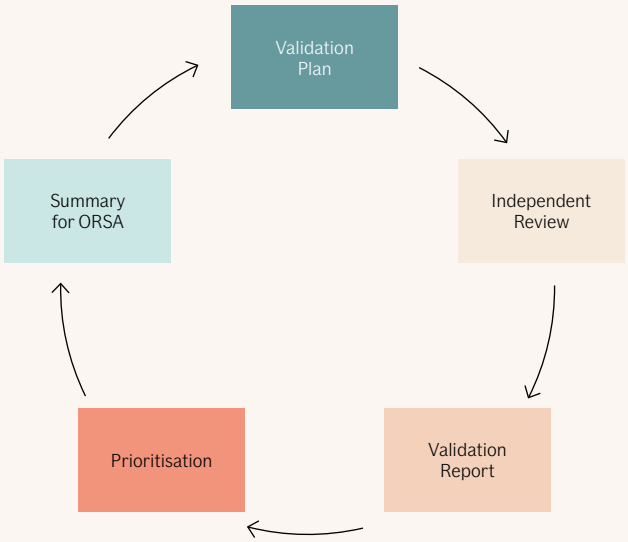
Responsibility for data related to the internal model is regulated in a specific instruction. This instruction states the responsibilities of the Chief Actuary to define data requirements and quality features for technical provisions and to assess the quality of the data and if needed take appropriate actions. Furthermore, a separate function is responsible for periodically assessing the completeness and accuracy of data and maintaining a comprehensive list of any data deficiencies as well as providing an action plan for improving the data quality over time.

The internal model and its outputs are also discussed in the ORSA Committee, Actuarial Committee, Reinsurance Committee and the Underwriting Committee.

2.3.9.2 Description of the validation process

The internal model validation is an annual process that is carried out in accordance with a validation plan. Validation is also initiated by a major change in the internal model. A major change to the internal model may be required if the risk profile changes due to internal or external events.

Figure 9 – Annual validation process



In the process, risks models and methods related to the internal model, the methods for aggregating risks and the methods for integrating the internal model with the standard formula are validated.

The validation also covers the data quality and the governance of the internal model. Validation is performed independently from the model maintenance and development.

Severe findings in connection with the validation are escalated in order to ensure that the users of the model's output receive information of issues that can make the model less reliable. Escalation of findings may take place at any point during the validation process.

After the validation results are reported, validation recommendations are prioritised by the CRO. Findings from previous years are considered when setting the yearly plan.

2.4 Internal control

2.4.1 The Internal Control System

The Internal Control System covers the entire If Group and is an integrated part of the company's organisational structure and decision-making processes. The purpose of the Internal Control System is to support an effective internal control within If by ensuring effective and efficient operations, reliable financial and non-financial reporting as well as compliance with applicable laws and regulations. Internal control related to financial reporting ensures that the Board of Directors and Management have available relevant and reliable financial information supporting their decision-making, and that external stakeholders can rely on the financial information. An effective Internal Control System provides the Board of Directors and CEO with reasonable assurance that the company's objectives related to operations, reporting and compliance are reached.

The Internal Control System is based on the Three Lines Model which clarifies who is responsible for what with regards to risk management and internal control. Reporting channels have been established within the three lines to ensure that the Board of Directors and the CEO are able to fulfil their responsibility in monitoring the effectiveness of the Internal Control System.

The Internal Control Policy sets the framework for an effective Internal Control System and is annually approved by the Board of Directors. The purpose of the policy is to describe how internal control activities are carried out appropriately with regards to the nature, size and complexity of If's business. The internal control framework is based on the COSO[11] framework. The framework provides three objectives related to operations, reporting, and compliance with laws and regulations. Furthermore, the framework consists of five components, all of which need to be in place and function as intended: control environment, risk assessment, control activities, information and communication, as well as monitoring.

The control environment includes aspects such as organisational structure, roles and responsibilities, integrity, steering documents, ethical values and the competence of the employees.
The risk assessment includes goal setting as well as the identification and analysis of the risk of not reaching these goals.

Control activities consist of steering documents, approval procedures, routine descriptions and other controls to manage the identified risks. The controls implemented include activities such as authorisations, rules and referral, the four-eyes principle and the grandparent principle.

Through clear information and communication responsibilities and authorities are provided to personnel in an effective and efficient way.

The monitoring includes oversight of internal controls by each of the three lines. This is accomplished through ongoing monitoring activities and separate quality assurance reviews. Independent monitoring activities are performed by the second and third line.

2.4.2 Compliance function

2.4.2.1 Responsibilities

The Compliance function is responsible for advising the Board of Directors and the CEO on compliance with the rules related to If's license to conduct insurance business. The Compliance function also assesses the adequacy of the measures adopted to prevent non-compliance. It further assesses the possible impact of any changes in the legal environment on the operations as well as identifies and assesses risks for non-compliance. The Compliance function shall primarily address the rules that are related to If's license to conduct insurance business. Advice and support are also provided in other legal areas at the request of the Board of Directors or the CEO.

The Compliance function's areas of responsibilities have been divided into six sub-processes. A risk-based Compliance plan is annually established and approved by the Board of Directors.

Figure 10 –The Compliance function's subprocesses

2.4.2.2 Organisation

The Compliance function is separated from the business organisation, operationally independent and part of the second line. The CCO is the Head of the Compliance function and is appointed by the CEO. The Board of Directors has issued an instruction for the CCO, describing the responsibilities more in detail. The CCO appoints Compliance Officers to perform compliance activities.

2.5 Internal Audit function

2.5.1 Internal Audit

The Internal Audit is a function, independent of business operations, which evaluates the efficiency and effectiveness of the Internal Control System. The function helps the organisation to accomplish its objectives by a systematic, disciplined approach to evaluate and improve the effectiveness of risk management, control and governance processes. The function is established by the Board of Directors and managed by the Group Chief Audit Executive (CAE), appointed by the Board of Directors.

2.5.1.1 Internal Audit Policy

The Internal Audit Policy has been approved by the Board of Directors. It describes the principles and responsibilities of the Internal Audit function. According to the policy, the Internal Audit function is obliged to comply with the International Professional Practices Framework set by the Institute of Internal Auditors.

The policy is reviewed annually. During the reporting period, there has been no significant changes to the policy.

2.5.1.2 Internal Audit Activity Plan

The Internal Audit function annually establishes a three-year internal audit activity plan, which is approved by the Board of Directors.
The Internal Audit function applies a risk-based approach and the activities cover all main areas of the operations and the System of Governance. The external auditors are informed of the Internal Audit function's activity plan.

[11] The Committee of Sponsoring Organizations of the Treadway Commission.

2.5.1.3 Reporting

The Internal Audit function reports on the audits performed to the Board of Directors and the CEO. Severe internal control deficiencies are reported without any delay to the Board of Directors and the CEO.

Before an audit report is finalised, a draft report is sent to the key stakeholder of the audited area. The key stakeholder returns an action plan in writing, including actions for identified findings, action owners and a time plan. The final audit reports are approved by the Group CAE before final distribution.

The Internal Audit function performs ongoing follow-up activities to ensure that appropriate corrective actions have been taken on identified deficiencies.

The Group CAE submits status reports at least twice a year to the Board of Directors and to Sampo's Audit Committee. The status reports include the identified severe internal control deficiencies and potential follow-up issues, which have not been mitigated or remediated according to the agreed actions.

2.5.1.4 Internal Auditor Independence and objectivity

The Internal Audit function is independent and objective and does not carry out any operational tasks in relation to the areas to be audited. Internal auditors are refrained from assessing the operations that they have been responsible for during the last 12 months.

Prior to an audit, the objectivity of the internal auditor is assessed. Internal auditors are chosen based on their knowledge, skills and integrity essential to internal auditing.

2.6 Actuarial function

2.6.1 The implementation of the Actuarial function

The Chief Actuary is responsible for the Actuarial function and reports to the Board of Directors and the CEO and is an advisor on actuarial matters. The Chief Actuary is the Chairman of the Actuarial Committee, a coordination forum for the Actuarial function as well as a preparatory and advisory body for the Chief Actuary. The Chief Actuary is a member of the ORSA Committee, the Underwriting Committee and the Reinsurance Committee, the latter focusing on renewal of reinsurance protection.

2.6.1.1 Responsibilities and tasks

The Actuarial function is part of the System of Governance and the Risk Management System.

The main tasks of the Actuarial function are described in the instruction for the Actuarial function and can be divided into the following areas:

- Coordinating the calculation of technical provisions including their reliability and adequacy;
- Presenting an opinion on the Underwriting Policy;
- Presenting an opinion on the adequacy of the reinsurance arrangements;
- Presenting an opinion on the solvency position; and
- Contributing to the Risk Management System, for example to the ORSA.

The coordination of the calculation of technical provisions is a central part of the work for the Actuarial function. Calculation of technical provisions according to IFRS is carried out by actuaries within each business area. The premium and claims provisions according to the Solvency II regulations are based on parameters from actuaries from each business area and the Actuarial function. The Actuarial function performs the validation of the technical provisions. The data quality is regularly assessed by reconciling information in the accounts with information in the actuarial systems. The reconciling procedure is performed monthly and is a formal procedure. The external auditors receive detailed reconciliation sheets with all accounted differences.

Steering documents govern the calculation of technical provisions. The Actuarial function is responsible for ensuring compliance with these steering documents and ensures that local rules and regulations are reflected in guidelines and working routines.

2.6.1.2 Reporting

The Actuarial function reports at least annually to the Board of Directors and to the CEO information regarding material tasks that have been undertaken as well as the results. Further, does the function advice on how to remedy any deficiencies. The report includes methods used, calculation, reliability and adequacy of technical provisions as well as expressing an opinion on the Underwriting Policy and the adequacy of reinsurance arrangements.

The Actuarial function shall ensure, after each quarterly book closing, that a report is submitted to the Board of Directors and to the CEO giving an opinion on the adequacy and appropriateness of the technical provisions.

The Actuarial function is responsible for the reporting of relevant questions that the Actuarial Committee advises to the ORSA Committee as well as for coordinating the quarterly reporting of reserve and premium risk to the ORSA Committee.

2.7 Outsourcing

2.7.1 The Outsourcing Policy

The Outsourcing Policy describes what should be deemed as outsourcing and sets the criteria for determining whether a function or activity should be considered as critical or important.

The outsourcing process shall ensure an effective control of the outsourcing of critical or important functions or activities and manage risks associated with such outsourcing. The outsourcing process consists, inter alia, of risk analysis, counterparty evaluation, agreement drafting, decision-making, follow-up and reporting.

The Board of Directors has established an Outsourcing Committee that is responsible for monitoring that the outsourcing is conducted in accordance with the Outsourcing Policy. Any new or materially amended outsourcing agreements regarding critical or important functions or activities shall be reported to, and assessed by, the Outsourcing Committee as well as approved by the Board of Directors prior to the agreements being notified to the Swedish FSA.

2.7.2 Outsourcing of critical or important operational functions or activities

In order to make the insurance business more efficient, If outsources critical or important operational activities to internal and external service providers as described below.

Asset management are partially outsourced to Sampo. Because of If's operational structure with business areas Private, Commercial and Industrial operating through different legal entities and branch offices, a number of additional intra-group outsourcing arrangements have been established. For example, the procurement of IT services has been outsourced to the sister company If IT Services A/S in Denmark, which in turn has entered into agreements with IT providers.

Several claims handling arrangements with service providers have also been agreed upon. These contracts are inter alia entered in order to provide claims handling services in areas where If has no physical presence. There are also certain claims handling arrangements which have been concluded as part of larger partner co-operations. These also include sales and franchising arrangements and the partners are located mainly in the Nordic countries.

2.8 Any other information

2.8.1 Adequacy of System of Governance

If's System of Governance is assessed as adequate to the nature, scale and complexity of the risks inherent in the business.

2.8.2 Any other material information

There is no other material information regarding System of Governance.

3 Risk Profile

If's overall risk strategy is to focus on both capital efficiency and sound risk management. Available capital shall exceed both the economic capital and the regulatory solvency capital requirement. In addition, If strives to maintain an A rating by both Standard & Poor's and Moody's[12]. This means that the risk exposure for If is quantified using different measures for different purposes.

In this chapter, If's risk profile and internal measurement of risks are described. The principles for risk measurement and the risk profile are presented on overall level, followed by a more detailed description and analysis of each risk category. The main risk categories described in this section are underwriting risk, market risk, credit risk, liquidity risk, operational risk and other risks. Stress tests performed indicate the effect on own funds, economic capital and on the regulatory solvency capital requirement.

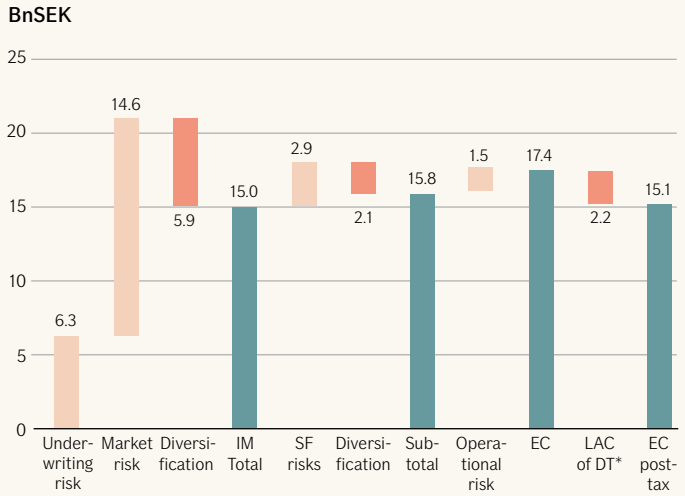
Measurement of risk

For internal quantitative risk measurement and reporting, as well as for decision-making, the measure economic capital (EC) is used. The economic capital is based on If's internal model (IM) for underwriting risk and market risk. Operational risk and less material risks are quantified using the standard formula (SF).

In addition to the quantitative measures, qualitative assessments are conducted for all risks. Risks that are not possible to quantify are only qualitatively assessed. These risks are liquidity risk, legal risk, strategic risk, compliance risk, reputational risk and emerging risk.

As shown in the figure below, the risk categories that contribute the most to economic capital pre-tax, are underwriting risk and market risk.

Figure 11 – Overview of If's economic capital, 31 December 2020

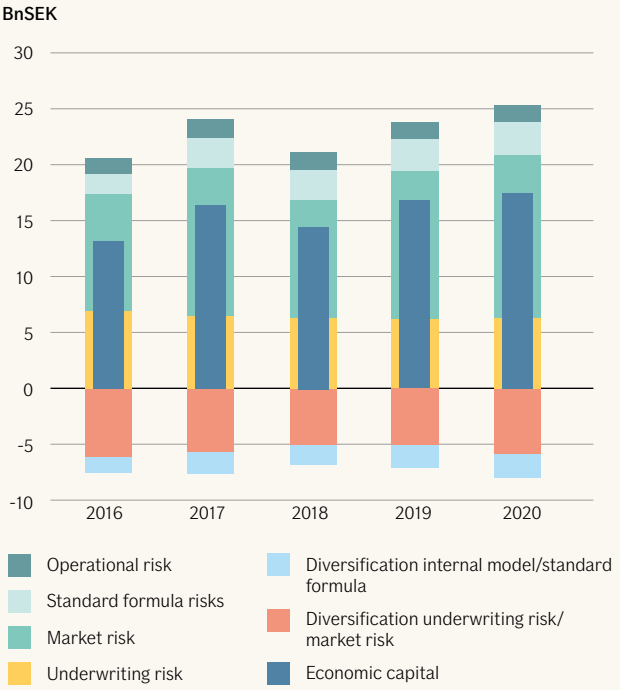


* Loss Absorbing Capacity of Deferred Taxes

Risk profile

The figure below shows economic capital for the period 31 December 2016 to 31 December 2020.

Figure 12 – Development of economic capital (pre-tax)



The changes in economic capital during the past five years are mainly attributable to market risk and the effects of the merger of If P&C Insurance Company Ltd (Finland) in 2017. In 2020, economic capital increased due to increased market risk, mainly driven by higher spread risk.

3.1 Underwriting risk

Underwriting risk refers to the risk of loss, or of adverse change, in the value of insurance liabilities, due to uncertainty in pricing and provisioning assumptions. Lapse risk, revision risk, premium risk, catastrophe risk, reserve risk and inflation risk are included in underwriting risk.

3.1.1 Risk exposure

For quantification of underwriting risk in the internal model, actuarial and statistical methods are used to model risks in the insurance operations, complemented by external modelling for natural catastrophe risk and inflation risk. Lapse risk and revision risk are calculated in accordance with the standard formula.

The economic capital for underwriting risk reflects the exposure to underwriting risk over a one-year horizon and has remained stable at 6.3 BnSEK during 2020. Premium risk and reserve risk have the largest effects on economic capital. During 2020 inflation risk has decreased, while premium risk, catastrophe risk and reserve risk have increased.

[12] Rating agency measures are not specifically handled in this report.

3.1.1.1 Premium risk and catastrophe risk

Premium risk refers to the risk of loss, or of adverse change in the value of insurance liabilities, resulting from fluctuations in the timing, frequency and severity of insured events that have not occurred at the balance date.

Catastrophe risk refers to the risk of loss, or of adverse change in the value of insurance liabilities, resulting from significant uncertainty of pricing and provisioning assumptions related to extreme or exceptional events.

The main factors affecting premium risk are claims volatility, claims inflation and pricing methodology. During 2020, the economic capital for premium risk increased due to portfolio growth.

3.1.1.2 Reserve risk and inflation risk

Reserve risk refers to the risk of loss, or of adverse change in the value of insurance liabilities, resulting from fluctuations in the timing and amount of claim settlements for events that have occurred at, or prior to, the balance date.

Risk factors underlying reserve risk are assessed and reported twice a year by the Chief Actuary on an impact and likelihood basis. The main risk factors affecting reserve risk are claims inflation, decreasing discount rates, increase in retirement age and increase in life expectancy. During 2020, economic capital for reserve risk increased due to decreasing discount rates.

The reserves in If are dominated by long tailed business which amplifies the significant exposure to inflation risk. Future claims inflation is quantified separately for premium and reserve risk. During 2020, economic capital for inflation risk decreased due to deacreased inflation volatility.

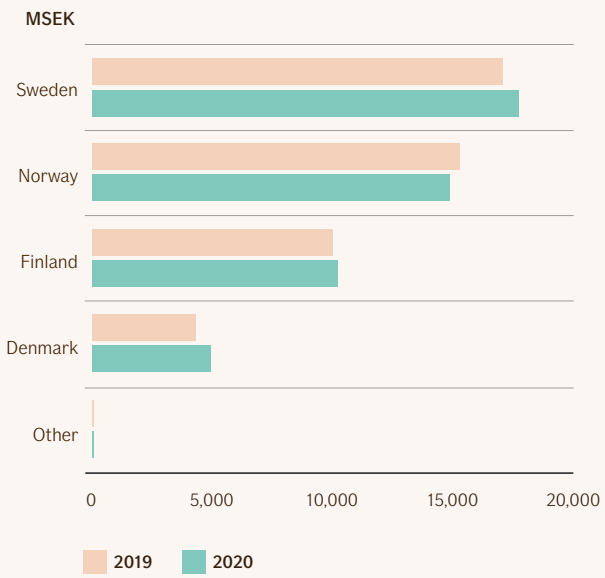
The provisions for the Swedish lines of business Motor Third Party Liability and Workers' Compensation include annuities that are sensitive to changes in retirement age, mortality assumptions, claims inflation and discount rates. The Swedish Motor Third Party Liability portfolio constitute the main reserve risk and accounts for 19% of the Solvency II claims reserve. The inflation risk is limited in Finland, as index increments for annuities are handled through a national pay-as-you-go system, where the yearly increases are included in the insurance premium. The effect of a decrease in discount rates is damped for provisions with long duration due to convergence towards the ultimate forward rate. Reserve risk includes revision risk resulting from fluctuations in the level, trend, or volatility of revision rates applied to annuities, due to changes in the legal environment or in the state of health of the persons insured.

For further information on technical provisions, see Solvency II Quantitative Reporting Templates (QRT) S.12.01.02, S.17.01.02 and S.19.01.21.

3.1.2 Risk concentration

The insurance portfolio is well diversified due to the fact that If has a large customer base that is distributed across several different geographical areas and lines of business. The geographical distribution of gross written premium for 2020 is shown in the figure below.

Figure 13 – Gross written premium per country



Despite the diversified portfolio, risk concentrations and consequently severe claims may arise through for example pandemics or natural catastrophes such as storms and floods. Accumulation of risks within the business area Industrial is monitored by detailed latitude/longitude data registration. For further data on the premium distribution across lines of business, see QRT S.05.01.02.

3.1.3 Risk mitigation

The principal methods for mitigating premium risk are reinsurance, diversification, prudent underwriting and follow-ups on regular basis linked to the strategy and financial planning process. The Underwriting Policy sets general principles, restrictions as well as roles and responsibilities for the underwriting process. The policy is supplemented with guidelines outlining in greater detail how to conduct underwriting within each business area.

Reserve risk is managed through actuarial estimates based on historical claims and exposures that are available at the closing date. Factors that are considered include for example loss development trends, the level of unpaid claims, changes in legislation, case law and economic conditions. When setting provisions, established actuarial methods are used, combined with projections of the number of claims and average claim costs.

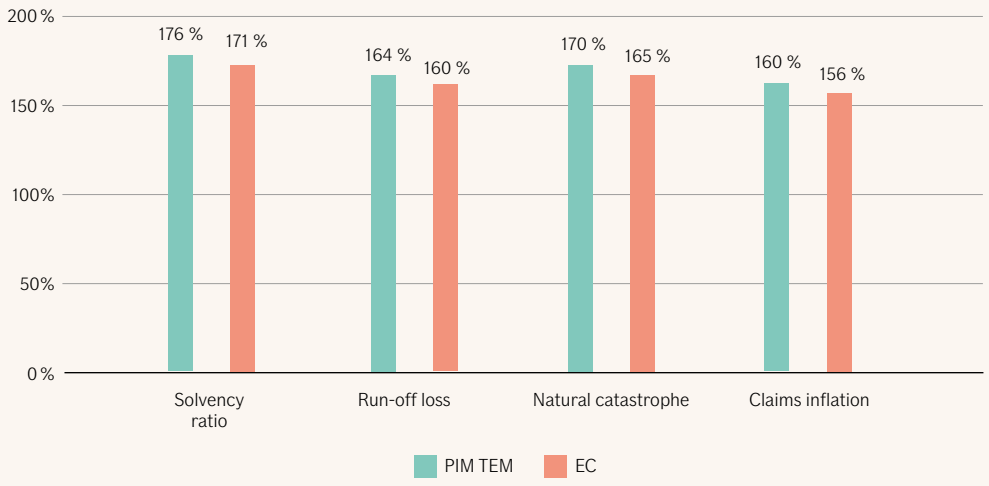
The provisions for annuities are calculated as discounted values based on the amounts and payment periodicity in each individual case, considering the expected investment income, expenses, indexation, mortality and other possible adjustments.

The economic impact of natural disasters and single large claims is managed through a combination of reinsurance and diversification. The need and optimal choice of reinsurance is evaluated by comparing the expected cost versus the benefit of the reinsurance, the impact on result volatility and capital requirements. The main tool for this evaluation is If's internal model.

3.1.4 Risk sensitivity

Stress tests have been performed to assess the sensitivity to major risk factors. The sensitivity is expressed as the effect on If's capital position, based on the internal economic capital and on the regulatory solvency capital requirement, at 31 December 2020. The solvency ratio for economic capital is based on If's internal model for both underwriting risk and market risk. The solvency ratio for the regulatory solvency capital requirement is calculated according to the partial internal model with transitional equity measures (PIM TEM), where underwriting risk is based on If's internal model. Risks not covered by the internal model are calculated using the standard formula.
The purpose of the stress tests is to estimate the impact on the capital position of a one in ten-year run-off loss, a one in ten-year natural catastrophe or 100 bps higher claims inflation than expected. In all tests, If maintains a solvency ratio above 150%.

Figure 14 – Solvency II sensitivity underwriting risk, 31 December 2020



In the run-off stress, it is assumed that the technical provisions will increase and lead to an increase in reserve risk and inflation risk. In the natural catastrophe stress, it is assumed that claims payments are immediate and hence technical provisions are not affected. Underwriting risk and market risk are unaffected but the eligible own funds are reduced. In the inflation stress, the increase of claims inflation is assumed to increase the technical provisions.

3.2 Market risk

Market risk refers to the risk of loss, or of adverse change in the financial situation resulting, directly or indirectly, from fluctuations in the level or in the volatility of market prices of assets, liabilities and financial instruments.

In accordance with the calculation of economic capital If's market risk consists of currency risk, equity risk, interest rate risk and spread risk. Even though spread risk is included when calculating economic capital for market risk, If considers spread risk as a part of credit risk. The exposure, concentration, mitigation and sensitivity of spread risk are described in section 3.3 Credit risk. Asset and liability management (ALM) risk is not calculated separately but is included in the calculation of interest rate risk and currency risk. The main risk components within market risk are equity risk and spread risk.

3.2.1 Risk exposure

The economic capital for market risk increased by 1.4 BnSEK to 14.6 BnSEK during 2020. The increase is mainly due to increased spread risk and to a lesser extent due to increased equity risk and interest rate risk. If has a well-diversified investment portfolio, which has positive diversification effects when calculating the economic capital.

If's investments are mainly concentrated to Nordic securities and when investing in non-Nordic securities, funds or other assets, third party managed investments are mainly used. The use of derivatives is limited.
The calculation of market risk is typically not complicated since If applies mark-to-market procedures to most of its investments. There are only a limited number of instruments that require mark-to-model procedures. If pledges collateral for letters of credit (in the insurance operations) and for derivatives.

The main factors that could affect If's market risk are the geopolitical uncertainty, the development of property prices in Sweden and Norway, the equity market movements and the concentration towards financial institutions. Low interest rates for a long time also have impact on the market risk, as this affects the investment return.

3.2.1.1 Currency risk

Currency risk refers to the sensitivity of the value of assets, liabilities and financial instruments to changes in the level or in the volatility of currency exchange rates.

If is exposed to currency risk due to operations in foreign branches. In addition, If's investment decisions create currency exposure. Compared to 31 December 2019, the currency risk has decreased slightly.

3.2.1.2 Equity risk

Equity risk refers to the sensitivity of the value of assets, liabilities and financial instruments to changes in the level or in the volatility of market prices of equities.

The equity portfolio consists of Nordic shares and a diversified portfolio of global funds. Compared to 31 December 2019, the equity risk has increased slightly mainly due to an increased market volatility.

3.2.1.3 Interest rate risk

Interest rate risk refers to the sensitivity of the value of assets, liabilities and financial instruments to changes in the term structure of interest rates, or in the volatility of interest rates.

The duration of fixed income investments was 1.4 years at year-end 2020. Compared to 31 December 2019, the interest rate risk has increased slightly.

3.2.1.4 Spread risk

Spread risk refers to the sensitivity of the value of assets, liabilities and financial instruments to changes in the level or in the volatility of credit spreads over the risk-free interest rate term structure.

The spread risk in If has increased, mainly due to higher spread volatility but also due to changes in the portfolio allocation. For information on exposure, concentration, risk mitigation and sensitivity for spread risk, refer to section 3.3 Credit risk.

3.2.1.5 Asset and Liability Management risk

Asset and Liability Management (ALM) risk refers to the risk of loss, or of adverse change in the financial situation, resulting from a mismatch between the assets' and the liabilities' sensitivity to fluctuations in the level or in the volatility of market rates.
ALM risk consists of interest rate risk and currency risk. In the accounts, most of the technical provisions are nominal, while the annuity and annuity IBNR[13] reserves, are discounted using interest rates in accordance with regulatory practice. Accordingly, from an accounting perspective, If is mainly exposed to changes in inflation and regulatory discount rates. From an economic perspective, whereby the technical provisions are discounted using prevailing interest rates, If is exposed to changes in both inflation and nominal market rates.

3.2.2 Risk concentration

In figure 15 and 16 the market risk concentration of the investment portfolio as per 31 December 2020 is presented. Figure 15 shows the market values per type of asset and Figure 16 shows the economic capital for market risk per type of asset (pre-diversification effects).

Figure 15 – Market values per type of asset, 31 December 2020

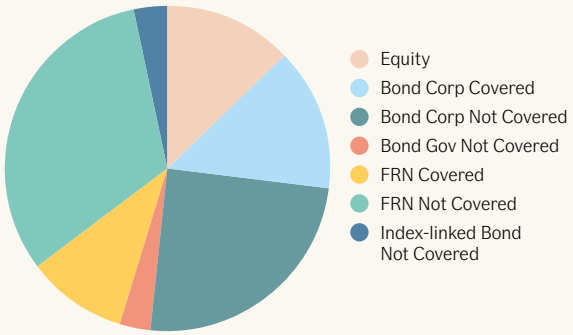
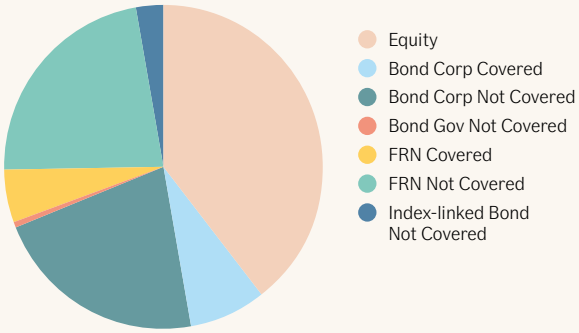


Figure 16 – Economic capital per type of asset, 31 December 2020



[13] Incurred But Not Reported.

If's currency positions against SEK are shown in the table below. The figures are according to IFRS and give a fair picture of currency risk concentrations excluding translation risk. Translation risk exposure arises when consolidating the financial statements of branches that have a different presentation currency than the parent company.

Table 5 – Currency risk

MSEK **Currency**	**EUR**	**NOK**	**DKK**	**GBP**	**USD**	**JPY**	**OTHER**
Open position, 2020	-123	84	23	-27	-208	173	-154
Open position, 2019	-269	149	132	-11	-364	-5	-82

The investment portfolio consists mainly of fixed income (87.4%) and equities (12.6%).

Table 6 – Breakdown of equity investments by industry sectors

MSEK	**2020**		**2019**	
Industry sector	**Carrying amount**	**%**	**Carrying amount**	**%**
Industrials	4,461	49.3	4,464	48.9
Consumer Discretionary	2,769	30.6	2,198	24.1
Materials	748	8.3	754	8.3
Telecommunication Services	548	6.1	624	6.8
Health Care	360	4.0	857	9.4
Energy	101	1.1	174	1.9
Consumer Staples	51	0.6	59	0.6
Financials and Real Estate	4	0.0	4	0.0
Total	**9,042**	**100**	**9,134**	**100**

The sector allocation of equity excludes investments made through ETF: s, mutual and private equity funds of 4,198 MSEK (4,438 MSEK).

Table 7 – Breakdown of equity investments by geographical regions

MSEK	**2020**		**2019**	
Geographical area	**Carrying amount**	**%**	**Carrying amount**	**%**
Denmark	49	0.4	7	0.1
Norway	981	7.5	1,159	8.7
Sweden	6,919	52.8	6,907	51.6
Asia	1,563	11.9	1,527	11.4
Europe	2,365	18.0	2,403	17.9
North America	826	6.3	891	6.7
Latin America	402	3.1	499	3.7
Total	**13,104**	**100**	**13,394**	**100**

The geographical allocation of equity excludes investments made through private equity funds of 136 MSEK (178 MSEK).

The IFRS values in table 6 and table 7 give a reasonable picture of risk concentrations and do not materially differ from Solvency II values.

The average duration of fixed income investments was 1.4 years at year-end 2020. The duration of the fixed income investments is shown in the table below.

Table 8 – Duration and breakdown of fixed income investments per instrument type

MSEK Instrument type [1]	2020 Carrying amount	2020 %	2020 Duration	2019 Carrying amount	2019 %	2019 Duration
Short-term fixed income	1,846	2.0	0.0	2,596	2.8	0.1
Scandinavia, long-term government and corporate securities	70,299	77.1	1.0	71,213	75.7	1.1
Scandinavia, index-linked bonds	3,184	3.5	9.3	190	0.2	0.9
Europe, long-term government and corporate securities	12,648	13.9	1.9	15,727	16.7	1.9
US, long-term government and corporate securities	1,758	1.9	2.5	2,840	3.0	2.3
Global, long-term government and corporate securities	1,424	1.6	2.5	1,458	1.6	3.5
Total	**91,159**	**100**	**1.4**	**94,024**	**100**	**1.3**

[1] *IR Derivatives are included in the table.*

For information on exposure, concentration, risk mitigation and sensitivity for spreadrisk, see section 3.3 Credit risk.

3.2.3 Risk mitigation

The Investment Policy is the principal document for managing the market risks. It sets guiding principles, for instance the prudent person principle, specific risk restrictions and a decision-making structure for the investment activities.

When deciding limits and setting return and liquidity targets the overall risk appetite, risk tolerance, regulatory requirements, rating targets as well as the structure and nature of the technical provisions are taken into account. The Board of Directors decides on the Investment Policy at least once a year. The Investment Policy is supplemented with guidelines defining mandates, authorisations and the use of derivatives.

The currency risk is reduced by matching technical provisions with investment assets in the corresponding currencies or by using currency derivatives. The currency exposure in the insurance operations is hedged to the presentation currency on a regular basis. The currency exposure in investment assets is controlled weekly and hedged when the exposure reaches a specified level, which is set with respect to cost efficiency and minimum transaction size. If is also exposed to translation risk, which is not hedged since those investments are regarded as being of a long-term nature and the currency effects related to them will not affect the results.

The equity portfolio is actively managed with a long-term investment horizon. The equity risk is reduced by diversifying the investments across industry sectors and geographical regions. According to the Investment Policy, equity investments in relation to the total investment portfolio and the exposure towards an individual issuer should be limited.

The interest rate risk is managed by sensitivity limits for interest rate sensitive instruments. The ALM risk is managed in accordance with Sampo's Group-wide principles. ALM is taken into account through the risk appetite framework and is governed by the Investment Policy. To maintain the ALM risk within the overall risk appetite, the cash flows of insurance liabilities may be matched by investing in fixed income instruments and by using currency derivatives.

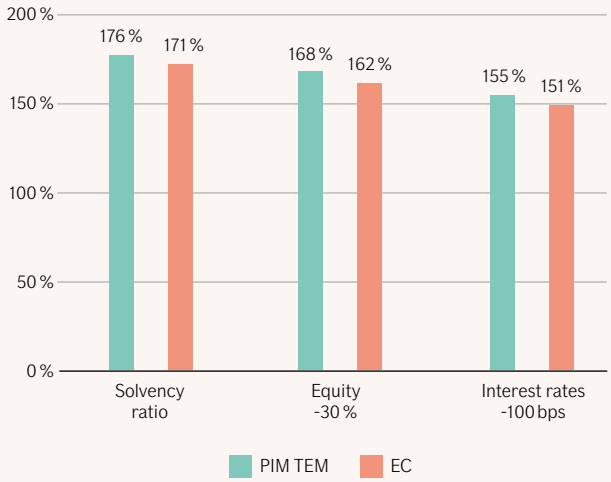
The market risk is actively monitored and controlled by the Investment Control Committee and reported to the ORSA Committee quarterly.

3.2.4 Risk sensitivity

To test the sensitivity to changes in market risk, equity and interest rate stresses have been performed. The sensitivity is expressed as the effect on the capital position, both in terms of internal economic capital and in terms of the regulatory solvency capital requirement as per 31 December 2020.

The purpose of the stress tests is to estimate how the capital position is affected by a 30% decrease in the market values for equities and by a 100 bps decrease in interest rates. In both stresses, If maintains a solvency ratio above 150%.

Figure 17 – Market risk sensitivity, 31 December 2020



The key assumption in the equity stress is that the equity risk decreases with the same proportion as the market value, but with change in symmetric adjustment for equities explicitly taken into consideration for the regulatory capital requirement. In the interest rate stress, the decreased interest rates increase the investment assets as well as technical provisions. The increase of technical provision is larger than the increase of investment assets due to the longer duration of technical provisions.

The interest rate stress is based on a parallel shift of the market rates used as input to the calculation of the Solvency II yield curves.

The effect is dampened for the highest maturities due to convergence to the ultimate forward rate used in the long end, which is not stressed in this calculation.

3.3 Credit risk

Credit risk refers to the risk of loss, or of adverse change, in the financial situation resulting from fluctuations in the credit standing of issuers of securities, counterparties and any debtors to which If is exposed to in the form of counterparty default risk, spread risk or market risk concentrations.

3.3.1 Risk exposure

Counterparty default risk refers to the risk of loss due to unexpected default, or deterioration in the credit standing, of counterparties and debtors. Counterparty default risk is calculated using the standard formula.

Spread risk refers to the sensitivity of the value of assets, liabilities and financial instruments to changes in the level or in the volatility of credit spreads over the risk-free interest rate term structure. For economic capital spread risk is calculated using the internal model as described in section 3.2 Market risk. For the regulatory solvency capital requirement spread risk is calculated using the standard formula.

Credit risk exposure towards policyholders is very limited, since non-payment of premiums generally results in the cancellation of insurance policies.

3.3.1.1 Credit risk in Investment Operations

In the asset management, credit risk is in most cases reflected through the credit spread. Investment assets usually have a lower market value at a higher credit spread, even in cases of no default. Consequently, the spread is the market price of credit risk and can be affected partly by the market's risk assessment of an individual issuer and partly by the general appetite for credit risk in the financial markets. As increased spread levels usually adversely affect the market price of investment asset, materialising of the risk typically leads to a negative impact on own funds. Likewise, counterparties defaulting on payments can adversely affect own funds.

The additional risk, stemming either from lack of diversification in the asset portfolio or from large exposure to default risk by a single issuer of securities or a group of related issuers not captured by the spread risk or counterparty default risk, is measured as concentration risk.

3.3.1.2 Credit risk in Reinsurance Operations

In addition to the credit risk associated with investment assets, credit risk arises from insurance operations, most importantly through ceded reinsurance. Credit risk related to reinsurers arises through reinsurance receivables and through the reinsurers' portion of claims outstanding.

3.3.2 Risk concentration

3.3.2.1 Concentration in Reinsurance Operations

The distribution of reinsurance receivables and recoverables excluding expected loss is presented in table 9.

In the table, 1,379 MSEK (1,214 MSEK) is excluded, which mainly relates to captives and statutory pool solutions.

Table 9 – Reinsurance recoverables

MSEK Rating (S&P)	2020	%	2019	%
AAA	-	-	-	-
AA	614	44.5	541	65.6
A	763	55.3	277	33.6
BBB	-	-	4	0.5
BB – CCC	-	-	-	-
Not rated	3	0.2	2	0.3
Total	**1,380**	**100**	**825**	**100**

The distribution of ceded treaty and facultative premiums per rating category is presented in table 10.

Table 10 – Ceded treaty and facultative premiums per rating category

MSEK Rating (S&P)	2020	%	2019	%
AAA	-	-	-	-
AA	352	57.9	344	59.2
A	256	42.1	237	40.8
BBB	-	-	-	-
BB – CCC	-	-	-	-
Not rated	-	-	-	-
Total	**608**	**100**	**581**	**100**

3.3.2.2 Concentration in Investment Operations

A large part of the fixed income investments is concentrated to financial institutions, whereof the main part of the investments is made in the Nordic market. The most significant credit risk exposures arise from fixed income investments. The exposures are shown by sector, asset class and rating category in the table below.

Table 11 – Fixed income exposure by sector, asset class and rating, 31 December 2020

MSEK Sector	AAA	AA+ - AA-	A+ - A-	BBB+ - BBB-	BB+ - C	D	Not rated	Total	Equities	Proper- ties	Derivatives (counter- party risk)	Total	Change compared to Dec 31, 2019
Basic Industry	-	-	-	1,072	203	-	36	**1,311**	407	-	-	**1,718**	118
Capital Goods	-	-	618	377	186	-	861	**2,042**	4,713	-	-	**6,755**	-21
Consumer Products	-	-	996	2,683	235	-	1,021	**4,935**	2,904	-	-	**7,838**	550
Energy	-	-	-	-	88	12	904	**1,003**	17	-	-	**1,020**	-667
Financial Institutions	395	6,046	9,317	7,387	1,394	-	976	**25,515**	-	-	7	**25,522**	-1,672
Governments	3,383	-	-	-	-	-	-	**3,383**	-	-	-	**3,383**	3,288
Government Guaranteed	-	249	-	-	-	-	-	**249**	-	-	-	**249**	-102
Health Care	71	-	102	205	30	-	356	**763**	313	-	-	**1,077**	-555
Insurance	-	-	371	771	165	-	1,205	**2,511**	-	-	-	**2,511**	703
Media	-	-	-	-	-	-	226	**226**	-	-	-	**226**	63
Packaging	-	-	-	-	-	-	113	**113**	-	-	-	**113**	-15
Public Sector, Other	4,819	691	-	-	-	-	-	**5,511**	-	-	-	**5,511**	89
Real Estate	-	-	724	3,444	506	-	4,122	**8,796**	-	35	-	**8,830**	-780
Services	-	-	-	399	941	-	318	**1,658**	-	-	-	**1,658**	221
Technology and Electronics	-	-	183	76	89	-	536	**884**	-	-	-	**884**	-572
Telecommunications	-	-	202	1,346	482	-	42	**2,072**	548	-	-	**2,621**	23
Transportation	-	221	229	275	-	-	1,547	**2,272**	6	-	-	**2,278**	-1,265
Utilities	-	-	505	1,068	712	-	212	**2,497**	-	-	-	**2,497**	-611
Covered Bonds	24,798	-	-	-	-	-	-	**24,798**	-	-	-	**24,798**	-1,781
Funds	-	-	-	-	-	-	-	**-**	4,198	-	-	**4,198**	-240
Others	-	91	-	-	-	-	258	**349**	134	-	-	**483**	-128
Total	**33,467**	**7,297**	**13,247**	**19,102**	**5,029**	**12**	**12,733**	**90,887**	**13,240**	**35**	**7**	**104,168**	**2,715**
Change compared to Dec 31, 2019	2,142	-3,318	-1,973	1,865	68	12	-1,788	-2,993	-332	-1	-27	**2,715**	**-**

3.3.3 Risk mitigation

Credit risk in the investment operations is managed by specific limits stipulated in the Investment Policy. In the policy, limits are set for maximum exposures towards single issuers, type of debt category and per rating class. The spread risk is further limited by sensitivity restrictions for instruments sensitive to spread changes. In accordance with the Investment Policy, the prudent person principle is considered when investment decisions are taken. The default risk of derivative counterparties is mitigated by diversification, a careful selection of counterparties and clearing houses as well as by using collateral.

To limit and control credit risk associated with ceded reinsurance, the Reinsurance Policy sets requirements for reinsurers' minimum credit ratings and the maximum exposure to individual reinsurers. Credit ratings from rating agencies are used to determine the creditworthiness of reinsurance companies.

The Reinsurance Security Committee shall give input and suggestions to decisions in respect of various issues regarding reinsurance default risk and risk exposure, as well as proposed deviations from the Reinsurance Policy. The Chairman is responsible for the reporting of policy deviations and other issues dealt with by the committee to the ORSA Committee.

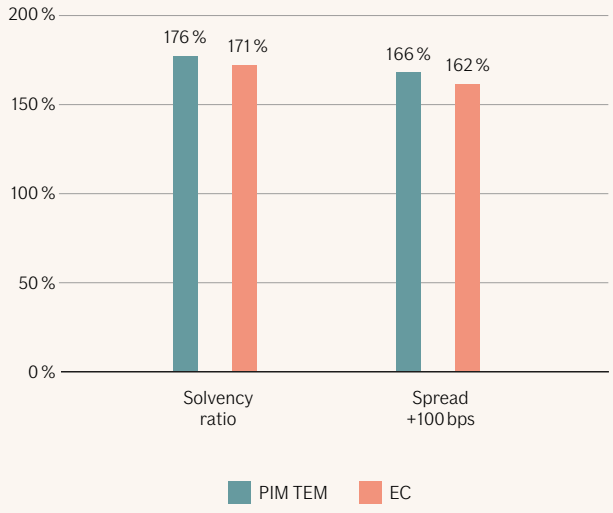
The development of the portfolio with respect to credit risk is monitored and reported to the Investment Control Committee and the Reinsurance Security Committee on a regular basis and on quarterly basis to the ORSA Committee.

3.3.4 Risk sensitivity

3.3.4.1 Risk sensitivity in Investment Operations

To test the sensitivity for major risk factors, a credit spread stress has been performed showing the effect on the Solvency II ratio and EC ratio as per 31 December 2020. If maintains a ratio above 160% after the stress. The spread stress estimates an impact on the solvency ratio of a 100 bps increase in the spreads. The key assumption in the spread stress is that the stress does not have an impact on technical provisions.

Figure 18 – Credit risk sensitivity in Investment Operations, 31 December 2020



3.3.4.2 Risk sensitivity in Reinsurance Operations

To quantify the exposure to credit losses due to reinsurance counterparty default, a credit simulation within the reinsurance operations is performed. In the simulation a counterparty default rate of 50% on average is assumed and future credit losses are estimated for 50,000 outcomes with a one-year horizon. Non-rated captives and pools are treated as BBB rated. The exposure is based on discounted values in line with Solvency II as per 31 December 2020. The results, as shown in figure 19 and table 12, indicate limited exposure to credit risk towards reinsurance counterparties.

Figure 19 – Risk sensitivity, 31 December 2020

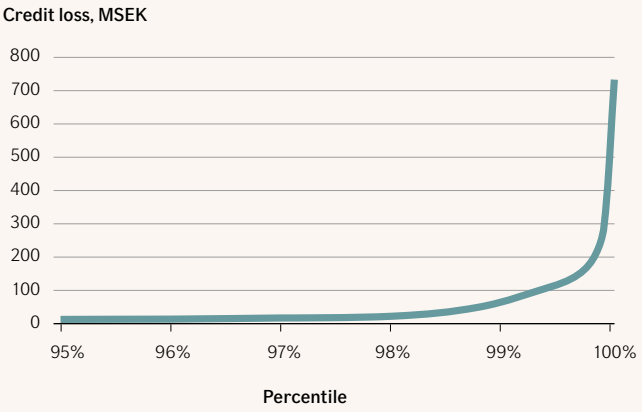


Table 12 – Risk sensitivity, 31 December 2020

Probability	MSEK
5.0%	1
2.5%	12
1.0%	62
0.5%	119
0.03%	407

3.4 Liquidity risk

Liquidity risk refers to the risk that insurance undertakings may be unable to realise investments and other assets in order to settle their financial obligations when they fall due.

3.4.1 Risk exposure

The liquidity risk is deemed not to be material, since premiums are collected in advance and large claims payments are usually known well in advance. Hence liquidity risk is identified and managed regularly but solvency needs are not quantified.

3.4.2 Risk concentration

The maturities of cash flows for technical provisions, financial assets and liabilities are presented in table 13. In the table, financial assets and liabilities are divided into contracts with a contractual maturity profile and those without contractual maturity. The table also shows expected cash flows for net technical provisions, which are inherently associated with a degree of uncertainty.

Table 13 – Maturities of IFRS cash flows for financial assets, financial liabilities and net technical provisions, 31 December 2020

				Cash flows						
MSEK	Carrying amount	*of which without maturity*	*of which with contractual maturity*	2021	2022	2023	2024	2025	2026-2035	2036-
Financial assets	122,051	*14,952*	*107,098*	33,794	19,806	16,566	19,400	12,427	8,291	-
Derivative liabilities	-445	-	*-445*	-444	-1	-	-1	-	-	-
Other financial liabilities	-7,921	*-11*	*-7,911*	-5,522	-	-	-	-	-	-
Net technical provisions	-83,612	-83,612	-	-31,193	-9,906	-5,444	-3,764	-2,989	-17,202	-16,249

3.4.3 Risk mitigation

Together with the prudent person principle and the instruction for the Investment Control Committee, the Investment Policy establishes strategies, objectives, processes, reporting procedures for the management of liquidity risks. The Cash Management function manages the liquidity risk on a day-to-day basis. The risk is monitored by the Investment department and reported to the ORSA Committee.

3.4.4 Risk sensitivity

To identify the liquidity risk exposure, expected cash flows from investment assets and technical provisions are analysed regularly. Cash flows from investment assets are measured both from availability and maturity point of view. When measuring availability, normal market conditions as well as stressed and extreme conditions are taken into consideration. When deemed necessary, the analysis covers identification and costs of alternative financing tools and consideration of the effect on the liquidity situation of expected new business. The expected cash flows from investment assets and technical provisions are also compared to measure the level of mismatch.

3.4.5 Expected profit included in future premiums

The total expected profit included in future premiums (EPIFP) amounted to 2,058 MSEK at 31 December 2020.

3.5 Operational risk

Operational risk refers to the risk of loss arising from inadequate or failed processes or systems, from personnel or from external events (expected or unexpected). The definition also includes legal risk that refers to the risk of loss due to disputes not related to insurance claims, breach of contract or entry into illegal contracts as well as breach of intellectual property rights.

Operational risks occur in all parts of the organisation and are a natural part of the business. It is not cost-effective to eliminate all operational risks and therefore the level of risk mitigation needs to be balanced. Managers within the line organisation are the risk owners and responsible for continuously managing significant risks within their operations to an acceptable level.

3.5.1 Risk exposure

Assessment of operational risk is performed through the qualitative Operational and Compliance Risk Assessment (OCRA) process. In this process, operational risks are identified, assessed, managed, monitored and reported regularly. An operational risk coordinator network supports the risk owners in the OCRA process and the results are challenged and aggregated by the Risk Management function.

Identified risks are assessed from a likelihood and impact perspective and evaluated using a traffic light system. In addition, the risks are classified into five different categories:

– Process execution failure;
– Business disruption and system failures;
– Customers, products and business practices;
– Employment practices; and
– Internal and external fraud.

Key risk indicators are used to identify and follow the development of various risks, where incident reporting and quality assurance reviews are two important indicators. The most significant risks are reported to the Operational Risk Committee.

External factors that may affect operational risk are identified through the processes for strategic risk and emerging risk. See section 3.6.1 Strategic risk and section 3.6.4 Emerging risk. A special process exists to identify and report any external and internal fraud.

The main operational risks are related to processes and IT systems. There have been no material changes in the risk exposure during the reporting period.

3.5.2 Risk concentration

No significant risk concentrations have been identified for operational risk.

3.5.3 Risk mitigation

Examples of key risk mitigating techniques used to manage operational risk are clear and well implemented steering documents, set mandates, four-eyes and grandparent principles, clear roles and division of responsibilities, employee training as well as other automated and manual controls in key business processes. To further strengthen the key processes and increase efficiency in the long-term, new IT systems are currently being developed, including automation of certain controls.

Guidelines relevant for operational risk include guidelines for management of internal and external fraud, business continuity planning and information security. Analyses of fraud trends are performed continuously, and control activities are carried out to mitigate the risk. In addition, internal training on ethical rules and guidelines are provided to employees on a regular basis.

The processes for business continuity planning include preparation of risk-based business continuity plans, set up of crisis management teams and regular crisis management exercises. The purpose of this work is to protect the company's assets and ensure that the organisation is able to deliver even when something unpredictable happens.

Steering documents regulate the work on information security and vulnerabilities are continuously monitored and addressed to improve the security.

Within the line organisation there are functions that are responsible for monitoring and developing the risk and quality work within the business. In connection with this work, among other things, quality assurance reviews and controls are carried out within key processes. In the OCRA process, risk reducing activities are defined for significant risks which are followed up on a regular basis.

3.5.4 Risk sensitivity

Operational risk is included through an explicit charge in the quantitative risk measures and is calculated according to the standard formula, based on factors applied to premium and reserve volumes. Significant realised operational risks do not affect the quantitative risk measures but affect the own funds to the extent they affect the financial result.

3.6 Other Material Risks

3.6.1 Strategic risk

Strategic risk refers to the risk of loss due to changes in the competitive environment, the overall economic climate, technology development or internal inflexibility.

3.6.1.1 Risk exposure

Strategic risks are identified by the business in the yearly financial planning process and are reported to the Corporate Control and Strategy unit. The risks are aggregated and assessed based on likelihood and impact. In the assessment, external changes that could have an impact on If are also taken into consideration.

Strategic risk relates to changes in insurance needs in the society and to changes in the operational environment and If's capability to proactively adjust to the changes. Strategic risk for If is related to competitors' behaviour, mainly changes in market shares through price reductions or increased distribution capacity. If's operations are also affected by changes in relevant legislation and case law. The development of the Covid-19 pandemic and the implications for If's business are monitored closely and the need for mitigating actions through for example product changes are continuously evaluated.

Changes in the car insurance market is also an important strategic risk for If. During the reporting period the development towards new ways of owning and using car related services continued, which may change the insurance need in the long-term. This development is also closely monitored by If.

3.6.1.2 Risk concentration

No significant risk concentrations for strategic risk have been identified.

3.6.1.3 Risk mitigation

The development of the identified material strategic risks is continuously monitored by both the line organisation and the Corporate Control and Strategy unit. The risks are evaluated at least annually in the financial planning process where activities to manage significant risks and adjustments to changes in the market and economic climate, are considered.

3.6.2 Compliance risk

Compliance risk refers to the risk of legal or regulatory sanctions, material financial loss or loss to reputation as a result of not complying with applicable rules.

3.6.2.1 Risk exposure

Compliance risks are assessed in the OCRA process, see section 3.5 Operational risk. The compliance risks are measured by assessing the impact and likelihood of breaching applicable rules. The main compliance risks are identified as the risk of breaching the General Data Protection Regulation (GDPR) and the risk of breaching the Anti-Money Laundering (AML) legislation.

3.6.2.2 Risk concentration

No significant risk concentrations for compliance risks have been identified.

3.6.2.3 Risk mitigation

The Internal Control System encompasses a range of both proactive and reactive mitigating techniques to mitigate the compliance risks, e.g. clear and implemented steering documents and instructions, employee training, segregation of duties, access rights and four-eyes principle. The effectiveness of the risk mitigation techniques are monitored through various kinds of quality follow-ups.

3.6.3 Reputational risk

Reputational risk is often a consequence of a materialised operational or compliance risk and refers to the risk of damage to the company through deterioration of the reputation among customers and other stakeholders.

3.6.3.1 Risk exposure

When operational risks and compliance risks are assessed by the line organisation, the reputational risk is also evaluated. The risks are assessed based on likelihood and impact. Some processes, such as the claims process, are especially sensitive to reputational risk. Identified reputational risks are managed by the business and, when applicable, also by the Communication department. Twice a year a risk assessment is reported to the Operational Risk Committee by the Head of Communication.

To maintain a good reputation, the focus areas are clear insurance conditions as well as transparent and fair claims handling. Customers are informed about how to proceed if they want to file a complaint and how to get in contact with If's Kundombudsman.

During the reporting period, there have been no significant changes to the risk exposure to reputational risk.

3.6.3.2 Risk concentration

No significant risk concentrations for reputational risk have been identified.

3.6.3.3 Risk mitigation

Professional behaviour and clear communication are key to mitigating reputational risk. Additional mitigating techniques are for example; clear and implemented steering documents, e.g. Ethics Policy and Social media instructions, as well as incident handling procedures and the whistleblowing process. Close monitoring of all types of media reporting is performed continuously to identify potential negative publicity at an early stage.

3.6.4 Emerging risk

Emerging risk refers to newly developing or changing risks that are difficult to quantify and which may have a major impact on If.

3.6.4.1 Risk exposure

When emerging risks materialise, or identified risks change, they are primarily identified, assessed and managed by the underwriting and claims teams in the different business areas as part of the regular risk assessment processes. Due to the risk of a potentially large accumulation of emerging risks that could negatively affect the long-term solvency position, the Emerging Risk Core Team has been established, consisting of key persons from various business areas. The group meets regularly to follow up and analyse important emerging risks factors and suggests possible actions. The risks assessed as being most serious are reported twice a year to the ORSA Committee by the Emerging Risk Coordinator.

Key risks that have been monitored during 2020 are the lack of climate change adaption, cyber risks, risks related to Internet of Things (IoT) and terrorism. The risk stemming from the IoT increased during 2020 due to an expected increase of connected devices in conjunction with the implementation of 5G technology. The IoT enables remote influence on machines which can lead to physical damage that is not covered by cyber insurance but by traditional property or liability insurance.

3.6.4.2 Risk concentration

Climate change can lead to changes in the risk concentration, for example through increased frequency of flooding or forest fires. Cyber insurance is inherently exposed to risk concentration. Cyber threats are continuously developing, which may lead to changes in the risk concentration.

3.6.4.3 Risk mitigation

The main principle is that each business area is responsible for identifying and taking action with regard to potential emerging risk exposures in its portfolios. The awareness of new risks from internal and external sources in combination with constant review of insurance contracts terms are necessary means of managing and mitigating new risks. To mitigate the risk, identified emerging risks can be excluded from future insurance policies or an appropriate premium element can be added to the policies for insurable risks. Reinsurance is also used as a mitigating technique.

3.6.5 Risk sensitivity other material risks

Strategic, compliance, reputational and emerging risk are not included in the quantitative risk measures. If a severe risk event occurs as a result of any of these risks, it may have an effect on own funds but not any direct impact on the economic capital or the regulatory solvency capital requirement.

A material strategic risk event might have a negative effect on the ability to compete, with decreased premium volumes and profitability as consequence.

A significant compliance risk that materialises can for example result in sanctions or interventions from the Swedish FSA.

A significant materialised reputational risk event may lead to a combination of decreased premium volumes due to customers leaving If and a one-time cost effect on own funds to manage the risk.

Emerging risks can affect all the other existing risk categories. The sensitivity and concentration of these qualitative risks are, due to their nature, very difficult to quantify.

3.7 Other information

There is no other material information regarding the risk profile for If.

4 Valuation for Solvency Purposes

The valuation of assets and liabilities in the Solvency II balance sheet is based on fair value principles. Items in the Solvency II balance sheet are based on corresponding items in the Annual Report and adjusted in accordance with the Solvency II regulation. The Annual Report is prepared according to Swedish accounting regulation referred to as IFRS restricted by law. Figures in the Annual Report are referred to as statutory accounts value in this report.

The accounting policies used in the statutory accounts have not been subject to any significant amendments in 2020. Balance sheet items in foreign currency are translated to SEK using the closing date exchange rate, both in the statutory accounts and in Solvency II.

Overall, as an effect of the Solvency II adjustments at year-end, the excess of assets over liabilities is 779 MSEK higher in the Solvency II balance sheet compared to the statutory accounts. Solvency II adjustments are mainly related to technical provisions.

Table 14 provides an overview of balance sheet adjustments between the statutory accounts and Solvency II.

Table 14 – Balance sheet adjustments for Solvency II, 31 December 2020

MSEK	Statutory accounts value	Solvency II adjustments	Solvency II value	Category
Assets				
Goodwill	3	-3	-	A
Deferred acquisition costs	1,126	-1,126	-	B
Intangible assets	144	-144	-	A
Deferred tax assets	-	137	137	G
Property, plant & equipment held for own use	197	1,472	1,668	C
Investments (other than assets held for index-linked and unit-linked contracts)	101,132	-	101,132	
Property (other than for own use)	*35*	*-*	*35*	
Equities	*9,010*	*-*	*9,010*	
Bonds	*87,765*	*-*	*87,765*	
Collective Investments Undertakings	*4,193*	*-*	*4,193*	
Derivatives	*129*	*-*	*129*	
Loans and mortgages	1,665	-	1,665	
Reinsurance recoverables from:	2,813	-377	2,436	B
Non-life and health similar to non-life	*2,798*	*-377*	*2,421*	
Life and health similar to life, excluding health and index-linked and unit-linked	*15*	*0*	*16*	
Insurance and intermediaries receivables	14,498	-10,232	4,266	B
Reinsurance receivables	306	-	306	
Receivables (trade, not insurance)	2,754	-627	2,127	D
Cash and cash equivalents	1,449	-	1,449	
Any other assets, not elsewhere shown	444	-110	335	C,E
Total assets	**126,532**	**-11,010**	**115,521**	
Liabilities				
Total Technical provisions	86,425	-13,625	72,800	B
Technical provisions – non-life (excluding health)	*48,157*	*-12,629*	*35,527*	
Technical provisions - health (similar to non-life)	*15,439*	*-1,751*	*13,688*	
Technical provisions - life (excluding index-linked and unit-linked)	*22,829*	*755*	*23,584*	
Provisions other than technical provisions	189	-	189	
Pension benefit obligations	218	745	963	E
Deferred tax liabilities	859	363	1,222	G
Derivatives	447	-	447	
Financial liabilities other than debts owed to credit institutions	-	1,454	1,454	C
Insurance & intermediaries payables	1,924	-	1,924	
Reinsurance payables	315	-79	236	B
Payables (trade, not insurance)	3,813	-627	3,186	D
Subordinated liabilities	1,107	25	1,131	F
Subordinated liabilities in Basic Own Funds	*1,107*	*25*	*1,131*	
Any other liabilities, not elsewhere shown	1,789	-45	1,745	B
Total liabilities	**97,085**	**-11,790**	**85,296**	
Excess of assets over liabilities	**29,446**	**779**	**30,226**	

The adjustments in the table above can be divided into seven categories:

A. Assets which have no carrying amount recognised in Solvency II, e.g. goodwill and intangibles;
B. Technical provisions and items related to these which are affected as a result of Solvency II valuation, i.e. technical provisions, deferred acquisition costs, premium receivables and equivalent items related to ceded reinsurance;
C. Leasing valued according to IFRS 16 in Solvency II;
D. The Finnish Medical Malpractice Pool public sector contracts, which are not insurance contracts under IFRS 4, are reclassified from payables (trade, not insurance) to technical provisions and netted against receivables related to the pool;
E. Pension benefit obligation is valued according to IAS 19 which involves some reclassifications and nettings but above all an increased valuation of the liability;
F. Subordinated liabilities measured at amortised cost in the statutory accounts are revalued using a method allowing for changes in market interest rates; and
G. The effect of Solvency II adjustments on the carrying amount of deferred tax assets and liabilities.

The methods used for the valuation of assets and liabilities are disclosed separately for each material class in the sections below. The disclosure includes the basis, methods and main assumptions as well as a quantitative and qualitative explanation of any material differences between the valuation in the statutory accounts and Solvency II. The aggregation of assets and liabilities into material classes is based on the nature, function and materiality of the items.

4.1 Assets

4.1.1 Goodwill

Goodwill pertaining to acquisition of companies and portfolios is recognised in the statutory accounts. The total carrying amount at year-end 2020 was 3 MSEK. Goodwill is valued at zero in Solvency II since it is not possible to derive the fair value.

4.1.2 Intangible assets

Other intangible assets of 144 MSEK are reported in the statutory accounts. The amount relates mainly to capitalised costs for the development of various insurance systems, including patents, licenses and other contractual rights in relation to computer software.

As the intangible assets in the statutory accounts do not have a listed market value, they do not fulfil the requirements for recognition in the Solvency II balance sheet.

4.1.3 Property, plant and equipment held for own use

Property, plant and equipment held for own use consist of machinery and equipment and are initially valued at acquisition value. Acquisition value includes not only the purchase price but also expenses directly attributable to the acquisition. Machinery and equipment are in the statutory accounts reported at historical acquisition value, less accumulated straight-line depreciation. Depreciation is based on the historical acquisition value and the estimated economic useful life.

The current treatment in the statutory accounts is applicable also for Solvency II as the acquisition value is considered a reasonable approximation of the fair value.

In the Solvency II balance sheet, right of use assets related to rented real estate are reported as property, plant and equipment held for own use. Disclosure in relation to leased assets and leasing liabilities is included in section 4.5.1 Lease arrangements.

4.1.4 Investments

4.1.4.1 Property (other than for own use)

All owned properties are recognised as investment assets both in the statutory accounts and in Solvency II. Properties are fair valued both in the statutory accounts, pursuant to IAS 40, and in Solvency II.

The fair value consists of the net realisable value and is set annually by external surveyors using acknowledged and accepted valuation methods. Accepted methods consist of the local sales-price method (current prices paid for comparable properties in the same location/area) or cash flow models applying current market interest rates for the calculation of the present value of the property.

4.1.4.2 Equities

Equities are fair valued in the statutory accounts and in Solvency II. For equities listed on an authorised stock exchange or marketplace, the sales value normally refers to the latest trade price on the closing date.

4.1.4.3 Bonds

Interest-bearing securities with short and long maturity are reported as bonds, and the balance consists of corporate and government bonds. Bonds are fair valued in the statutory accounts and in Solvency II. When measuring at fair value, the listed bid price or yield-curve models, based on listed mid prices, are used.

4.1.4.4 Collective investment undertakings

Collective investment undertakings in the Solvency II balance sheet relate to ownership in investment funds and alternative investment funds. In the statutory accounts, investment funds are either reported as shares and participations or as bonds and other interest-bearing securities, depending on the investment strategy of the fund. Investment funds are valued at fair value in the statutory accounts and in Solvency II. Unlisted securities included in private equity investments are valued using established valuation models.

4.1.4.5 Derivatives (assets and liabilities)

Derivates are financial instruments that are valued based on the expected future price movements of the underlying assets to which they are linked. All derivative instruments are valued individually at fair value both in the statutory accounts and in Solvency II.

4.1.5 Loans and mortgages

In the statutory accounts, loans are recognised at accrued acquisition value pursuant to application of IAS 39. The treatment in the statutory accounts is applicable also for Solvency II, as the accrued acquisition value is considered a reasonable approximation of the fair value.

4.1.6 Reinsurance receivables and receivables (trade, not insurance)

Reinsurance receivables and receivables (trade, not insurance) are in the statutory accounts and in Solvency II reported in the amounts expected to be received, which is considered a reasonable approximation of the fair value. Provisions for doubtful receivables are normally based on individual valuation of the receivables. Receivables (trade, not insurance) in the Solvency II balance sheet mainly consist of inter-company receivables.

The receivables on the Finnish Medical Malpractice Pool for the public sector, amounting to 627 MSEK, have been reclassified to best estimate technical provisions in Solvency II.

4.1.7 Cash and cash equivalents

In the statutory accounts and in Solvency II, cash balances are valued at nominal value. In addition to small petty cash amounts, cash and

cash equivalents consist of bank balances in insurance operations and funds transferred to asset management that have not been invested in investment assets.

4.1.8 Any other assets, not elsewhere shown

Any other assets not elsewhere shown includes balances that are not shown in any other Solvency II balance sheet item, mainly accrued income and prepaid expenses not directly related to insurance operations, pension assets and an item regarding leasing. Except for the treatment of pension assets, which are described in section 4.3.2 Pension benefit obligation, and reversal of prepaid expenses related to leasing agreements, which are described in section 4.5.1 Lease arrangements, these balances are treated consistently in the statutory accounts and in Solvency II, as the carrying amount is considered a reasonable approximation of the fair value.

4.1.9 Assets linked to the calculation of Solvency II technical provisions

4.1.9.1 Deferred acquisition costs

Deferred acquisition costs in the statutory accounts relate to selling costs that have a clear connection with the writing of insurance contracts. Selling costs include operating expenses such as commission, marketing costs, salaries and overheads for sales personnel, which are directly or indirectly related to the acquisition or renewal of insurance contracts. These costs are reported as assets in the statutory accounts.

Deferred acquisition costs in assets and liabilities in the statutory accounts are de-recognised from the Solvency II balance sheet. Deferred acquisition costs arise from accrual accounting in the statutory accounts. These items are unrelated to the timing of the acquisition cost cash flows which is the criteria under which Solvency II technical provisions are recognised. Future acquisition cost cash flows (i.e. those cash flows expected but not yet incurred in relation to policies in force) are instead considered through the Solvency II calculation of the best estimate technical provisions.

4.1.9.2 Reinsurance recoverables

Reinsurance recoverables refer to reinsurers' share of the Solvency II technical provisions. Technical provisions are covered in more detail in section 4.2 Technical provisions.

4.1.9.3 Insurance and intermediaries receivables

In line with Solvency II classification, insurance and intermediaries receivables relate to receivables amounts due by policyholders, other insurers, and receivables linked to the insurance business. Under Solvency II classification, the technical provisions should fully take account of all cash inflows and outflows. Rather than recognizing a receivable amount in relation to future premiums expected on policies in force but not yet due, as is done in the statutory accounts treatment of premium receivables, the future premiums are instead fully considered within the best estimate premium provision in the Solvency II balance sheet.

The remaining balance in Solvency II relates only to the amounts due for payment by policyholders and insurers as well as other receivables linked to the insurance business. These are reported in the amounts expected to be received, both in the statutory accounts and in Solvency II.

4.2 Technical Provisions

4.2.1 Valuation used for solvency purposes

Differences in valuation of technical provisions between Solvency II and the statutory accounts mainly refer to:

– Recognition of the premium provisions in Solvency II compared to the unearned premium reserve of the statutory accounts;
– Application of discounting and differences in discounting rates; and
– Recognition of an explicit risk margin in Solvency II.

Some minor valuation differences also arise due to the counterparty default calculation in relation to reinsurer's share of technical provisions.

The total effect of revaluation of net technical provisions for Solvency II purposes add up to a reduced liability of 2,014 MSEK. This includes Solvency II adjustments related to premium receivable described in section 4.1 Assets, as well as removal of deferred acquisition costs. Adjustments of technical provisions are presented in the table below.

No material changes in the level of technical provisions have occurred since the last reporting period.

Table 15 – Revaluation of technical provisions according to Solvency II

MSEK **Solvency II adjustments**	**2020**	**2019**
Gross deferred acquisition costs	-1,126	-1,257
Ceded technical provisions	-377	-351
Premium receivable asset	-10,232	-10,270
Total adjustment of assets	**-11,735**	**-11,878**
Technical provisions gross (excl. risk margin)	-16,028	-17,875
Reinsurance payable liability	-79	-55
Ceded deferred acquisition costs	-45	-42
Introduction of risk margin	2,403	2,428
Total adjustment of liabilities	**-13,749**	**-15,544**
Total adjustment of technical provisions according to Solvency II	**-2,014**	**-3,666**

4.2.1.1 Main quantitative differences explained

Table 16 displays differences in valuation of technical provisions between Solvency II and the statutory accounts.

Table 16 – Split of technical provisions by Solvency II lines of business, 31 December 2020

	Reinsurance share of best estimates			Technical provisions, gross				
MSEK **Type of technical provisions**	**Annual statement**	**Solvency II adjustment**	**Solvency II value**	**Annual statement**	**Solvency II adjustment**	**Solvency II value**	**Best estimate**	**Risk margin**
Total	**2,813**	**-377**	**2,436**	**86,425**	**-13,625**	**72,800**	**70,397**	**2,403**
Health similar to life	**-**	**-**	**-**	**11,562**	**756**	**12,318**	**12,007**	**311**
Income protection insurance (annuities)	-	-	-	376	-7	369	359	10
Medical expense insurance (annuities)	-	-	-	29	2	31	30	1
Workers' compensation insurance (annuities)	-	-	-	11,158	760	11,918	11,619	300
Health similar to non-life	**301**	**-17**	**284**	**15,439**	**-1,751**	**13,688**	**13,104**	**585**
Income protection insurance	4	-1	3	7,670	-1,398	6,272	6,039	234
Medical expense insurance	9	-4	5	2,561	-497	2,064	1,969	95
Workers' compensation insurance	288	-12	276	5,207	144	5,352	5,096	256
Life excluding health	**15**	**0**	**16**	**11,267**	**-1**	**11,266**	**11,056**	**210**
Fire and other damage to property insurance (annuities)	-	-	-	49	-2	47	46	1
Motor vehicle liability insurance (annuities)	15	0	16	11,043	-3	11,040	10,839	202
General liability insurance (annuities)	-	-	-	176	4	180	172	8
Non-life excluding health	**2,497**	**-360**	**2,137**	**48,157**	**-12,629**	**35,527**	**34,230**	**1,297**
Fire and other damage to property insurance	1,320	-214	1,107	15,007	-4,116	10,890	10,463	427
Marine, aviation and transport insurance	288	-15	273	1,239	-100	1,139	1,065	74
Other motor insurance	27	-10	17	9,713	-5,802	3,911	3,809	101
Motor vehicle liability insurance	11	-1	9	15,622	-2,286	13,336	12,933	403
General liability insurance	852	-120	732	6,576	-325	6,251	5,960	291

The largest revaluation effect is due to the inclusion of future cash inflows for payments not yet due by policyholders that are instead part of premium receivables in the statutory accounts. Discounting also has an effect on the size of technical provisions. The majority of technical provisions (with the exception of vested annuities in the claims provision and the annuity IBNR provision in Finland) are undiscounted in the statutory accounts whereas in Solvency II all reserves are subject to discounting. As a result of discounting, ceded provisions and gross provisions decrease. The introduction of a risk margin offsets the positive difference above.

In the statutory accounts, recognition of a liability as an insurance contract would according to IFRS 4 be dependent on the existence of significant underwriting risk. Based on If's assessment that there is no material degree of underwriting risk prevalent, the Medical Malpractice Pool public sector in Finland is not recognised as an insurance contract in the statutory accounts but is treated as a service contract with its components recognised in other assets and other liabilities. Accordingly, a difference occurs with the Solvency II treatment where the liability should be recognised within the insurance obligations. Therefore, under Solvency II treatment, all receivables and liabilities related to the Medical Malpractice Pool public sector are reclassified as forming a part of the Solvency II best estimate technical provisions. Under this treatment the receivables balances are netted against the liabilities in the technical provisions, as they are premium cash inflows and thus included in the best estimate.

4.2.2 Assumptions underlying the calculation of If's technical provisions

4.2.2.1 Adherence with solvency requirements

The value of technical provisions is equal to the sum of a best estimate and a risk margin, which corresponds to the current amount the undertaking would have to pay if it immediately transferred its (re)insurance obligations to another undertaking.

4.2.2.2 General provisions

If's technical provisions are calculated within clearly defined homogeneous risk groups and lines of business. All material assumptions are reviewed quarterly, and material changes are reviewed in the actuarial opinion of each business area actuary. Assumptions are recorded and reviewed on the basis of adequate data. The methodology is documented in Guiding Technical Principles Policy and General Reserving Policy.

The best estimate is calculated gross, without deduction of the amounts recoverable from reinsurance contracts (see section 4.2.2.14 Recoverables from reinsurance contracts and special purpose vehicles). The calculation of the technical provisions takes into account the time value of money by using the relevant risk-free interest rate term structure.

The risk margin is calculated by determining the cost of providing an amount of eligible own funds equal to the solvency capital requirement necessary to support the insurance and reinsurance obligations over their lifetime. The interest rate used in the determination is called Cost-of-Capital rate. The solvency capital requirement used in the risk margin calculation is based on the partial internal model.

4.2.2.3 Data quality

Directories of all the data used in the calculation of the technical provisions exist separately for Denmark, Finland, Norway and Sweden.

The data used in the calculation of technical provisions is primarily If's own historical claims data. This includes for instance payments, reserves and number of claims. Since the products and risks are similar from year to year within the defined homogenous risk group, the data is consistent with the purpose for which it is used (i.e. estimating future claims development based on experience) and reflects the risks to which If is exposed.

4.2.2.4 Risk-free interest rate term structure

The risk-free interest rate term structure used to calculate the best estimate with respect to insurance or reinsurance obligations are calculated separately for each material currency, based on information and data relevant for that currency. The risk-free interest rate term structures are determined in a transparent, prudent, reliable and objective manner. Neither volatility adjustment nor matching adjustment is applied.

4.2.2.5 Basic risk-free interest rate term structure

The basic risk-free rates are derived for the following currencies: DKK, EUR, GBP, NOK, SEK and USD and these currencies cover more than 99% of the technical provisions. For technical provisions in other currencies than these, either EUR or USD risk-free interest rate term structure is used. For each material currency, the basic risk-free interest rate term structure is derived on the basis of swap rates of the relevant currency, adjusted for credit risk and currency risk where applicable.

4.2.2.6 Segmentation and setting up of homogenous risk group

If segments its insurance obligations and reinsurance obligations into homogeneous risk groups, and as a minimum by line of business, when calculating technical provisions. This segmentation operates on a more granular basis than the Solvency II line of business level. Where required and whenever practicable, unbundling of package products is done.

Lines of business as defined by Solvency II differ from EU classes of insurance which is mainly used for the presentation statutory accounts data.

4.2.2.7 Methods and assumptions

Actuarial and statistical methods used to calculate If's technical provisions are proportionate to the nature, scale and complexity of the risks supported by If. Actuarial and statistical methods used for calculating best estimates of technical provisions are based on recognised actuarial and statistical techniques. The information on which the calculation of technical provisions is based is largely If's own historical claims data. External data used, such as Consumer Price Index and various branch indices, are based on official sources, which are considered reliable and transparent as well as publicly available.

4.2.2.8 Assumptions on future management actions

If makes the assumption that future reinsurance will be purchased to cover its run-off of written business. This assumption is only relevant for the evaluation of the premium provision since the horizon of the premium provision is beyond the expiry date of present reinsurance contracts in force. Therefore, in calculating the net best estimate, the costs of future reinsurance are included.

4.2.2.9 Assumptions on policyholder behaviour

When calculating the Solvency II technical provisions, the likelihood that policyholders may exercise the option to cancel their contracts is considered.

If takes into account future policyholder behaviour through a policy lapse assumption, which is based on an analysis of past policyholder behaviour for the relevant lines of business and business areas and is therefore based on credible and relevant experience of cancellations.

4.2.2.10 On proportionality and the use of simplifications

If employs standard actuarial methods that are considered to be proportionate to the nature, scale and complexity of the insurance obligations. The deviation between estimates of the outstanding liabilities at different points in time is continually monitored. The source of material deviations between projected and actual outcome is investigated in order to assess whether the assumptions underlying the relevant method needs to be adjusted.
If does not apply the simplified calculation of recoverables from reinsurance contracts, instead the recoverables are calculated directly from gross. If does apply simplified methods for calculation of the risk margin, the premium provision of the best estimate for insurance obligations and for expected loss due to counterparty default.

4.2.2.11 Boundary of contract

With regards to the boundary of insurance contract used for solvency purposes, a proportionate approach is adopted, whereby the following policy is applied: "An insurance contract is recognised when the premiums become due, but at the latest when the insurance cover begins, unless this interpretation has a material impact on the solvency assessment".

In certain cases, an insurance contract cannot be cancelled even though the risk coverage period has not yet incepted, and thereby the above interpretation might not lead to the exact same definition of the boundaries of contract as Solvency II definition. Currently contracts falling into the beforementioned class are not accounted for in the valuation of technical provisions, leading into negligible overestimation of technical provisions. All insurance contracts are subsequently derecognised at expiry date after which it is the insurance company's right to adjust the premium for a new period to fully reflect the risk.

The policy is not expected to give rise to material differences in the valuation of technical provisions.

4.2.2.12 Cash-flow projections for the calculation of the best estimate

Cash-flow projections used in the calculation of the best estimate include all claims payments that will be paid to policyholders and beneficiaries (including third parties for liability and motor liability insurance), as well as payments to builders, repair shops etc. for services rendered and expected recoveries from reinsurance contracts. Recoveries and payments for salvage and subrogation are taken into account. In line with previous discussion regarding contract boundaries, cash flows for premium provisions will include future premium payments on existing contracts where this has a material effect on the result.

The best estimate corresponds to the probability-weighted average of future cash flows, taking into account the time value of money using the risk-free interest rate term structure. The best estimate is calculated gross, without deduction of the amounts recoverable from reinsurance contracts and special purpose vehicles. The best estimate of future cash flows implicitly takes into account relevant uncertainties and dependencies.

Expenses in claims provisions are taken into account implicitly since they are part of the historical claims data (and allocated to

each claim). Claims handling expenses for incurred claims are taken into account when estimating the claims adjustment reserve, while expenses for non-incurred claims are taken into account when estimating the premium provision. The allocation of claims handling expenses to homogeneous risk groups is done using keys maintained by the controller departments and are regarded as being realistic and consistent over time.

The calculation of the best estimate is done separately for each material currency.

Reserves are calculated in a transparent manner and would be possible to review by a qualified expert.

4.2.2.13 Derivation of the risk margin

The risk margin is based on the solvency capital requirement according to the partial internal model.

The risk margin is intended to represent a technical provision corresponding to the cost of capital for holding the insurance liabilities to full run-off, in an empty reference undertaking that is assumed to take over the liabilities.

When calculating the risk margin, it is assumed that the assets are selected in such a way that the solvency capital requirement for market risk to which the reference undertaking is exposed to is zero, i.e. there is no residual market risk. To calculate the risk margin, cash flows are recalculated to best estimates, which in turn are used to calculate a basic solvency capital requirement. The basic solvency capital requirement for the relevant risks together with operational risk are discounted and a Cost-of-Capital is introduced to arrive at the final risk margin. The risk margin is then distributed over its corresponding lines of business, reflecting their contribution to the solvency capital requirement, to arrive at the line of business allocated risk margin.

4.2.2.14 Recoverables from reinsurance contracts and special purpose vehicles

The amounts recoverable from reinsurance contracts for non-life insurance obligations are calculated separately for premium provisions and provisions for claims. The adjustment relating to expected losses due to counterparty default is calculated as the expected present value of the change in cash flows underlying the amounts recoverable from that counterparty, resulting from a possible default of the counterparty or dispute. The calculation takes into account the probability of defaults over the lifetime of the reinsurance obligations. It is carried out separately per counterparty and per reserve type. In cases where a deposit has been made for the cash flows, the amounts recoverable are adjusted accordingly to avoid a double counting of the assets and liabilities relating to the deposit. If has no special purpose vehicles.

4.2.2.15 Uncertainties connected to the calculations

The nature of technical provisions means that there is always inherent uncertainty associated with the calculations, since it inevitably involves assumptions about future events. The main risk factors affecting reserve risk are described further in section 3.1 Underwriting risk.

4.3 Liabilities (other than technical provisions)

4.3.1 Provisions other than technical provisions

According to the classification in Solvency II, provisions other than technical provisions relate to liabilities of uncertain timing or amount. The item mainly pertains to restructuring reserves for approved organisational changes and to provisions for other commitments and uncertain obligations. The treatment of the item is consistent in the statutory accounts and in Solvency II.

4.3.2 Pension benefit obligation

If's pension benefit obligations comprise pension plans in several national systems that are regulated through local and collective bargaining agreements and national insurance laws. The obligations consist of both defined contribution and defined benefit plans. For defined contribution plans, the pension cost comprises the premiums paid for securing the pension obligations in life insurance companies.

Regarding defined benefit plans, the reporting of pension costs and obligations in the statutory accounts is not fully aligned with the IFRS framework. However full IFRS alignment is ensured in the Solvency II accounts in accordance with IAS 19 Employee benefits.

According to this standard the present value of future pension obligations, valued according to the Projected unit Credit method, less the market value of the plan assets covered by the plan is to be recognised as a pension liability in the balance sheet. Moving from legal entity to IAS 19 recognition of pension obligations results in two main effects when comparing between Solvency II and statutory information in the balance sheet:

- An undertaking's pension benefit obligations are presented net. As a result, prepaid expenses of 71 MSEK (assets) are netted against pension obligations in the accounts of 218 MSEK, leading to net position of 147 MSEK; and
- As a result of revaluation of pension obligations using IAS 19 the net liability increased by 816 MSEK when compared with the statutory accounts, leading to a revalued net position of 963 MSEK.
- Further information in relation to pension liabilities is found in section 4.5 Any other information.

4.3.3 Deferred tax assets and liabilities

Deferred tax attributable to temporary differences between the amounts in Solvency II and the equivalent actual taxation, is reported in Solvency II.

Deferred tax assets and tax liabilities are reported net in those cases where they pertain to the same tax authority and can be offset against each other. The tax effects of tax loss carry-forwards are reported as deferred tax assets if it is considered likely that they can be used to off-set taxable profits in the future.

Deferred tax assets and tax liabilities are not discounted and are measured at the tax rates expected to apply when the asset is realised, or the liability is settled. The table below presents the tax rates used when calculating deferred tax assets and liabilities.

Table 17 – Tax rates

Country	2020	2019
Sweden	20.6%	21.4%
Norway	25.0%	25.0%
Denmark	22.0%	22.0%
Finland	20.6%	21.4%
UK	20.6%	21.4%
Germany	27.9%	27.9%
France	27.4%	28.9%
Netherlands	20.6%	21.4%

For the year-end 2020, a net deferred tax liability of 859 MSEK was recognised in the statutory accounts. As an effect of Solvency II valuation adjustments, the deferred tax liability was increased by 363 MSEK to a deferred tax liability position of 1,222 MSEK and a deferred tax asset of 137 MSEK was generated.

Table 18 – Reconciliation of net deferred tax position in Solvency II balance sheet, 31 December 2020

MSEK Reconciliation of net deferred tax position	Statutory accounts value	Solvency II adjustments	Solvency II value
1. Provisions, including pension obligations, reported in line with IAS 19 in Solvency II	74	175	249
2. Goodwill eliminated in Solvency II	-	1	1
3. Under-depreciation	2	-	2
4. Investment assets at fair value	-924	-	-924
5. Deferred tax relating to untaxed reserves	-96	-	-96
6. Technical provisions recalculated according to Solvency II	-	-443	-443
7. Other intangible assets eliminated in the Solvency II	-	31	31
8. Subordinated liabilities	-	5	5
9. Leasing according to IFRS 16	-	5	5
10. Other temporary differences	85	-	85
Deferred tax liabilities, net	**-859**	**-226**	**-1,085**

The main drivers for this change are technical provisions (including re-insurance recoverables), the impact of IAS 19 recognition of pension obligations as well as the differing treatment of intangible assets. The deferred tax asset is due to Solvency II adjustments and cannot be offset with deferred tax liabilities since they do not pertain to the same tax authority.

Deferred taxes related to untaxed reserves (refers to the Swedish security reserve[14]) are not recognised in Solvency II. Hence untaxed reserves have the same value in the statutory accounts and in Solvency II.

4.3.4 Derivatives

The treatment of derivatives as discussed in section 4.1 Assets also covers derivative liabilities.

[14] In Swedish ”säkerhetsreserv”

4.3.5 Financial liabilities other than debts owed to credit institutions

Financial liabilities other than debts owed to credit institutions include leasing liabilities in accordance with IFRS 16 that are recognised in Solvency II. The treatment of the item is presented more closely in section 4.5.1 Lease arrangements.

4.3.6 Insurance and intermediaries payables

In line with Solvency II classification, insurance and intermediaries payables include amounts due to policyholders and other insurers as well as payables linked to the insurance business, but which are not recognised as a part of the technical provisions. These balances are recognised at accrued acquisition value in the statutory accounts and in Solvency II, as the carrying amount is considered a reasonable approximation of the fair value.

4.3.7 Reinsurance payables

In line with Solvency II classification, reinsurance payables include amounts due to reinsurers and payables linked to reinsurance.

Under Solvency II classification, the technical provisions should fully take account of all cash inflows and outflows. Rather than recognising a payables amount in relation to future ceded premiums expected on policies in force but not yet due, the future premiums are instead fully considered within the ceded part of the best estimate premium provisions, i.e. (the reinsurance recoverables). Payables of 79 MSEK are reclassified from reinsurance payables to the ceded part of the insurance obligation. The remaining balance in reinsurance payables consists of amounts payable to reinsurers. The treatment of these balances in the statutory accounts is applicable also in Solvency II.

4.3.8 Payables (trade not insurance)

Payables (trade not insurance), mainly consisting of tax liabilities and premium tax, are recognised at accrued acquisition value in the statutory accounts and in Solvency II, as the carrying amount is considered a reasonable approximation of the fair value.

4.3.9 Subordinated liabilities

In the statutory accounts, subordinated liabilities are recognised at accrued acquisition value. The acquisition value includes surplus/deficit prices arising on the issue date and other external expenses attributable to borrowing. During the term of the loan, the subordinated loans are reported using the accrued acquisition value, whereby surplus/deficit prices and capitalised borrowing expenses are distributed over the term of the loan.

The subordinated liability meets the requirements in Solvency II regulation for inclusion in basic own funds, and therefore, the whole balance is recognised under the caption Subordinated liabilities in basic own funds.

For Solvency II subordinated liabilities are initially measured at fair value less issue costs. At subsequent valuations, the discounted value is recalculated using the current government yield and the spread observable at inception.

By year-end, the valuation difference between the statutory accounts and Solvency II causes an increase in the subordinated liability of 25 MSEK.

4.3.10 Any other liabilities not elsewhere shown

In line with Solvency II classification any other liabilities not elsewhere shown includes mainly accrued expenses related to salaries and social insurance.

Apart from the elimination of reinsurers' share of ceded deferred acquisition costs amounting to 45 MSEK in the statutory accounts, no differences arise in the treatment of these balances between the statutory accounts and Solvency II. This is due to the carrying amount being considered a reasonable approximation of the fair value.

4.4 Alternative methods for valuation

The default valuation method in Solvency II is to value assets and liabilities using quoted market prices in active markets (QMP). An active market is typically characterised by quoted prices that are easily and regularly available and that represent actual and regularly occurring transactions at arm's length distance. If quoted market prices in active markets for assets or liabilities are not available companies should, alternatively, use quoted market prices in active markets for similar assets and liabilities with adjustments to reflect differences (QMPS). When that option is also not available companies should apply alternative methods for valuation (AVM).

No Solvency II adjustments are necessary for investments or financial liabilities, apart from subordinated liabilities and leasing liabilities. As the Solvency II framework bears many affinities and similarities to the IFRS framework when it comes to identification and measurement of financial assets and liabilities, the presentation in Solvency II is based on the disclosures in the statutory accounts. The fair value hierarchy within the IFRS framework consists of:

– Level 1: Quoted prices, in active markets;
– Level 2: Level 1 quoted prices are not available but fair value is based on observable market data; and
– Level 3: Inputs that are not based on observable market data.

The table below provides information on how the assets are split between categories QMP/QMPS and AVM. Technical provisions and those classes of assets and liabilities where the carrying amount is considered a reasonable approximation for the fair value are not included in the table. The level of uncertainty is immaterial since only a minor part of the investment asset is classified as AVM.

Table 19 – Solvency II assets split between QMP/QMPS and AVM, 31 December 2020

MSEK	AVM	QMP/QMPS	Total
Government bonds	-	10,689	**10,689**
Corporate bonds	46	77,030	**77,076**
Derivatives	-	129	**129**
Equities	134	8,876	**9,010**
Collective investment undertakings	51	4,142	**4,193**
Property (other than own use)	35	-	**35**
Total	**266**	**100,866**	**101,132**

Corporate bonds that are valued with AVM are distressed assets encountering financial difficulties where trading has essentially ceased to exist. The values are based on latest market transactions.

External evaluations are obtained for some unlisted equites. The external valuations are based on models that contain non-observable assumptions.

The fair values for private equity investments in collective investment undertakings are based on prices and share-values obtained from the fund administrators. These quotations are based on the value of the underlying assets in accordance with market practice.

The value of property (other than own use) corresponds to the net realisable value and is set annually by external surveyors using the local sales-price method or cash flow models. Please also refer to section 4.1.4.1 Property (other than for own use).

4.5 Any other information

4.5.1 Lease arrangements

If only has significant operating lease arrangements in the capacity of lessee. Lease arrangements pertain to lease of premises and vehicles. Payments made under operating leases are charged to profit or loss on a straight-line basis over the period of the lease in the statutory accounts.

Table 20 – Operating leases, 31 December 2020

MSEK	Total future minimum lease payments				Total lease payments during the period
Asset class	**<1 year**	**1-5 years**	**>5 years**	**Total**	
Property, plant & equipment	260	816	941	2,017	278

IFRS 16 Leases took effect on January 1, 2019, but in accordance with RFR 2 Accounting for legal entities, the standard is not applied to statutory accounts. No right-of-use asset or liability is recognised in the balance sheet. Instead all lease payments are recognised as an expense in the income statement in accordance with IAS 17. In Solvency II, the right-of-use asset and liability are recognised in accordance with IFRS 16. The valuation according to IFRS 16 is considered consistent with Article 75 in the Solvency II Directive.

The right-of-use asset is recognised under Property, plant and equipment held for own use in Solvency II and initially the value corresponds to the present value of future lease payments and any expenses directly associated to the lease arrangement. The initial value of the lease liability is also the present value of future lease payments. The treatment of leases is considered a reasonable approximation of the fair value.

Only lease agreements attributable to major office premises are treated according the IFRS 16. At 31 December 2020 application of IFRS 16 in Solvency II has only a minor effect on the excess of assets over liabilities.

Table 21 – Leasing arrangements according to Solvency II, 31 December 2020

IFRS 16 Lease Agreements MSEK	Solvency II
Right-of-use assets and reversal of prepaid lease expenses	1,433
Lease liabilities	-1,454
Net effect on excess of assets over liabilities in Solvency II	**-21**

4.5.2 Defined pension benefit plans

If has defined benefit plans in Sweden and Norway. For both countries, the pension benefits referred to are old-age pension and survivors' pension. A common feature of the defined-benefit plans is that the employees and survivors encompassed by the plans are entitled to a guaranteed pension that mainly depends on the employees' service period and pensionable salary at the time of retirement. The dominating benefit is the old-age pension, which refers in part to temporary pension before the anticipated retirement age and in part to a life-long pension after the anticipated retirement age.

Table 22 – Employee benefit obligations

MSEK	2020	2019
Present value of estimated pension obligation, including social costs	3,382	3,449
Fair value of plan assets	2,402	2,412
Net pension obligation recognised in the Solvency II balance sheet	**980**	**1,037**

The pensions obligations are primarily funded through insurance whereby the insurers establish the premiums and disburse the benefits (funded plans). In Norway, the funded pension obligations are insured with Storebrand. In Sweden, the pension obligations are mainly insured with Skandia, but a minor part is funded through the mutual pension association, FPK. If's obligation is primarily fulfilled through payment of premiums. In addition to funded pension plans, there are also unfunded pension benefits in Norway for which If is responsible for ongoing payments. To cover the funded pension benefits, the related capital is managed as part of the insurers' management portfolios. The insurers and If are jointly responsible for monitoring the pension plans, including investment decisions and contributions. The pension plans are essentially exposed to similar material risks regarding the final amount of the benefits, longevity, the investment risk associated with the plan assets and the fact that the choice of discount interest rate affects their valuation in the financial statements.

In accordance with IAS 19, the pension obligations and the pension costs attributable to the fiscal period are calculated using the Projected Unit Credit method. The calculation of the defined benefit obligation is based on future anticipated pension payments and includes yearly updated assumptions regarding salary growth, inflation, mortality and employee turnover. The expected pension payments are then discounted to a present value using a discount rate set with reference to AAA and AA corporate bonds, including mortgage-backed bonds, issued in local currency. The discount rates chosen take into account the duration of the company's pension obligations in each respective country. After a deduction for the plan assets, a net asset or net liability is recognised in the balance sheet.

The following tables contain a number of material assumptions, specifications of pension costs, assets and liabilities and a sensitivity analysis showing the potential effect on the obligations of reasonable changes in those assumptions as at the end of the fiscal year. The carrying amounts have been stated including special payroll tax in Sweden (24.26%) and a corresponding fee in Norway (14.10%-19.10%).

Table 23 – Specification of employee benefit obligations by geographical area, 31 December 2020

MSEK	Sweden	Norway
Recognised in income statement and other comprehensive income		
Current service cost	-71	-13
Past service cost	-	-
Interest expense on net pension liability	-10	-5
Total in income statement	-81	-19
Remeasurement of the net pension liability	81	-83
Total in comprehensive income statement	-1	-102
Recognised in balance sheet		
Present value of estimated pension liability, including social costs	2,842	540
Fair value of plan assets	2,180	222
Net liability recognised in balance sheet	663	318

Distribution by asset class	**Sweden**	**Norway**
Debt instruments, level 1	45%	49%
Debt instruments, level 2	0%	12%
Equity instruments, level 1	23%	6%
Equity instruments, level 3	9%	1%
Property, level 3	10%	16%
Other, level 1	0%	11%
Other, level 2	5%	1%
Other, level 3	7%	4%

Table 24 – Actuarial assumptions used for the calculation of defined benefit pension plans

2020	Sweden	Norway
Discount rate	1.25%	1.75%
Future salary increases	2.50%	3.00%
Price inflation	1.75%	2.00%
Mortality table	DUS14	K2013
Average duration of pension liabilities	21 years	13 years
Expected contributions to the defined benefit plans during 2021 and 2020	79 MSEK	10 MSEK

Table 25 – Sensitivity analysis of effect of reasonably possible changes

	2020			2019		
MSEK	Sweden	Norway	Total	Sweden	Norway	Total
Discount rate, +0,50%	-338	-31	**-369**	-348	-35	**-383**
Discount rate, -0,50%	390	35	**425**	403	38	**441**
Future salary increases, +0,25%	93	2	**95**	102	3	**105**
Future salary increases, -0,25%	-85	-2	**-87**	-95	-3	**-98**
Expected longevity, +1 year	138	15	**152**	138	15	**152**

Table 26 – Analysis of the employee benefit obligation

	2020			2019		
MSEK	Funded plans	Unfunded plans	Total	Funded plans	Unfunded plans	Total
Present value of estimated pension liability, including social costs	3,091	291	**3,382**	3,155	295	**3,450**
Fair value of plan assets	2,402	-	**2,402**	2,412	-	**2,412**

5 Capital Management

5.1 Own funds

5.1.1 Objectives, policies and procedures for managing own funds

5.1.1.1 Capital Management framework

If focuses on capital efficiency and sound risk management by keeping its capital resources at an appropriate level in relation to the risks taken over the business planning period. This means ensuring that the available capital exceeds the internal and regulatory capital requirements.

Capital management is based on a risk-appetite statement decided by the Board of Directors, which provides further details on risk preferences and risk tolerances. The risk profile, capital requirements and available capital are measured, analysed and reported to the ORSA Committee and the Board of Directors on a quarterly basis, or more often when deemed necessary. In order to maintain a sufficient level of capital If:

- estimates buffers and capital needs;
- performs stress and scenario tests to evaluate risk sensitivities and to evaluate the future capital situation;
- projects risks and capital according to the financial plan;
- allocates capital to business areas and Lines of Business, ensuring that a risk-based approach is used for target setting and profitability evaluation; and
- assures dividend capacity through the effective use of reinsurance, group synergies and diversification benefits.

The Risk Management function assesses the solvency position in accordance with both external and internal measurements through its ongoing analysis and evaluation.

Risks are measured, reported and aggregated in order to perform an overall assessment of risk and capital. The outcome of these procedures and the subsequent follow-ups are documented as part of the quarterly ORSA process. A quarterly report is prepared to the ORSA Committee, and a summary is sent to the Board of Directors. The solvency position is reported quarterly to the Swedish FSA.

The annual ORSA process, which is described in section 2.3.8 ORSA process, is a key tool in assessing whether own funds are sufficient at present as well as over a medium-term time horizon.

The ORSA process as well as the regular monitoring also provide input to the medium-term capital management plan. The capital management plan covers three years and considers any planned capital issuances, redemptions or repayments of own funds items as well as outlines how the dividend forecast will affect own funds.

The combination of the above procedures enables effective monitoring and projection of capital needs over the planning period, ensuring that the Board of Directors is provided with relevant input to their strategic management process and decision-making. The risk and solvency assessment take into account risks over a three year planning period through regular analysis of likely or foreseeable changes in the risk profile and business strategy, that may affect previous analysis and/or sensitivity to assumptions made.

5.1.1.2 Capital requirement measures

The regulatory solvency capital requirement intends to cover all potential quantifiable risks that the business is exposed to. Available capital is referred to as eligible own funds. According to the regulation an insurance company must have own funds amounting to at least the solvency capital requirement. The solvency capital requirement reflects a level of own funds that enables an undertaking to absorb unforeseen losses and that gives reasonable assurance to policyholders and beneficiaries. The confidence level for solvency capital requirement is 99.5% which corresponds to an event that occurs once in 200 years. A breach in the solvency capital requirement triggers an intervention in the supervision of the entity's solvency. The minimum capital requirement reflects a level of own funds where the company in 85% of all possible outcomes during a year can meet its commitments and is a solvency level below which policyholders and beneficiaries would be exposed to an unacceptable level of risk if the insurance undertaking is allowed to continue its operations.

Apart from the regulatory capital requirements, If applies other measures to describe its risk and capital position:

- Economic capital is an internal measure and is used for establishing internal risk limits as well as measuring and managing the aggregated risk exposure; and
- Measures from external rating agencies to maintain an A rating from Standard & Poor's and Moody's.

5.1.2 Own funds and solvency position

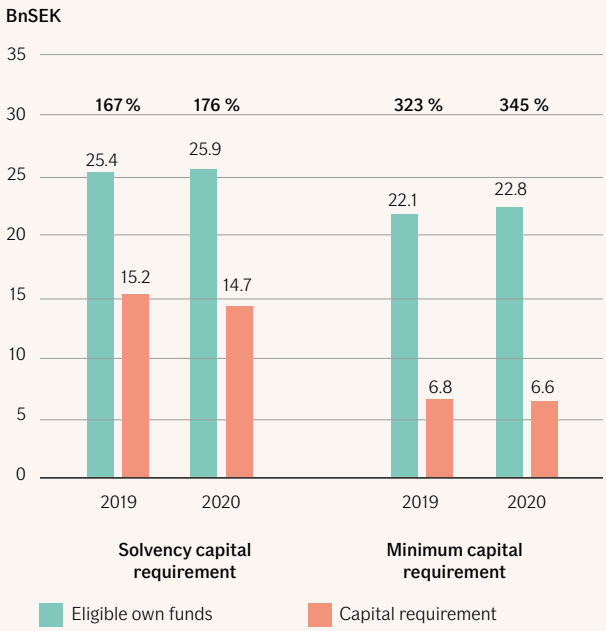
At 31 December 2020, according to the partial internal model, the solvency capital requirement ratio amounted to 176% (167%) and the minimum capital ratio to 345% (323%). Transitional equity measures are applied.

As shown in figure 20 the solvency capital requirement has decreased and eligible own funds have increased compared to previous year, which explains the higher solvency ratio. The capital requirement has decreased as a result of lower market risk which is mainly due to decreased interest rate risk and lower spread risk.

Based on the financial plan[15] If is considered to have a strong capital structure and solvency position, a high level of profitability, and stable results. If is considered to be in a good position to generate capital and to maintain a capital level needed to support risks and business objectives going forward.

[15] Decided by the Board of Directors in December 2020.

Figure 20 – If's capital and solvency overview



5.1.2.1 Change in own funds over the reporting period

Total eligible own funds for the solvency capital requirement coverage have increased by 499 MSEK over the reporting period. There have been no own funds items issued or redeemed.

Table 27 – Changes in own funds

MSEK	Total	Tier 1 - unrestricted	Tier 1 - restricted	Tier 2	Tier 3
Eligible own funds for solvency capital requirement coverage at 1 January 2020	**25,358**	**20,685**	**-**	**4,673**	**-**
Net result, statutory accounts	**7,082**	7,082	-	-	-
Other comprehensive income, statutory accounts	**332**	332	-	-	-
Change in own funds items not included in equity in the statutory accounts	**-303**	-3	-	-300	-
Change in Solvency II valuation adjustments in excess of assets over liabilities	**-1,083**	-1,174	-	-45	137
Add back of change in Solvency II valuation adjustment for subordinated liabilities	**-29**	-	-	-29	-
Transfer between tiers	**0**	82	-	-82	-
Proposed dividend	**-5,500**	-5,500	-	-	-
Eligible own funds for solvency capital requirement coverage at 31 December 2020	**25,857**	**21,504**	**-**	**4,216**	**137**

5.1.2.2 Composition of eligible own funds for the solvency capital requirement and the minimum capital requirement coverage

Own funds comprise basic own funds consisting of the excess of assets over liabilities, deferred tax assets and subordinated liabilities in the Solvency II balance sheet which may be called up in order to absorb losses. There are no own funds items currently qualifying for ancillary own funds treatment.

The available own funds are tiered based on their eligibility to cover the solvency capital requirement and the minimum capital requirement. The tiers reflect the degree of loss absorbency of an undertaking's own funds in the event of liquidation.

5.1.2.3 Tiering of basic own funds items

The ordinary share capital of 104 MSEK (104 MSEK) meets the requirement for inclusion in Tier 1 unrestricted items.

The reconciliation reserve amounts to 21,400 MSEK (20,581 MSEK) at 31 December 2020. The reconciliation reserve consists of shareholders' equity and untaxed reserves (excluding ordinary share capital and Norwegian natural perils capital) according to the statutory accounts as well as Solvency II valuation adjustments. A proposed dividend of 5,500 MSEK (6,900 MSEK) has been deducted from the reconciliation reserve. The reconciliation reserve meets the requirements for treatment as Tier 1 unrestricted own funds.

The Norwegian branch provides property insurance that includes protection against perils caused by natural events. As a consequence, the branch is a member of the Norwegian Natural Peril's Pool and is obliged to make equity provisions in the form of natural perils capital. The natural perils capital of 3,085 MSEK (3,468 MSEK) is included as Tier 2 own funds and presented as other items approved by the supervisory authority. The item includes an untaxed part of 2,868 MSEK (3,084 MSEK) and a taxed part of 217 MSEK (299 MSEK).

Other items included as Tier 2 own funds consist of subordinated debt of 1,131 MSEK (1,205 MSEK), nominal amount 110 MEUR. The decrease in statutory accounts value is mainly due to exchange rate effects but also to changes in Solvency II adjustments. The debt is dated with a final maturity in 2041. The terms in the agreement include limited incentives to repay, with a first call option at 8 December 2021 (10 years from the date of issuance). The subordinated debt qualifies for Tier 2 own funds inclusion through the transitional arrangements. The subordinated debt may, subject to regulatory approval and a sufficient solvency situation, be redeemed on the first call option date or on any quarterly interest payment date falling after 8 December 2021.

Deferred tax asset amounting to 137 MSEK (- MSEK) was recognised as Tier 3 own funds at 31 December 2020. The deferred tax asset is due to Solvency II adjustments and cannot be offset with deferred tax liabilities since they do not pertain to the same tax authority. The deferred tax asset can likely be used to offset taxable profits in the future.

Table 28 – The tiering of own funds, 31 December 2020

MSEK	Total	Tier 1 - unrestricted	Tier 1 - restricted	Tier 2	Tier 3
Ordinary share capital	**104**	104	-	-	-
Reconciliation reserve	**21,400**	21,400	-	-	-
Subordinated liabilities	**1,131**	-	-	1,131	-
Deferred tax assets	**137**				137
Other own fund items approved by the FSA	**3,085**	-	-	3,085	-
Total eligible own funds, in QRT template S.23.01.01	**25,857**	**21,504**	**-**	**4,216**	**137**

5.1.2.4 Minimum duration requirements criteria for basic own funds items, in particular subordinated liabilities

All items included in Tier 1 own funds items are undated and thus fulfil the permanence requirements. The subordinated liability in Tier 2 own funds has its final maturity in 2041 and is thus considered to be of sufficiently long duration. This could be compared to the weighted average duration of 7.4 years (7.2 years) for Solvency II best estimate.

5.1.2.5 General eligibility limit application

Eligible own funds are sufficient to meet both with the solvency capital requirement and the minimum capital requirement. There are no eligibility constraints on Tier 2 and Tier 3 own funds for solvency capital requirement coverage, but an eligibility constraint does set in for the minimum capital requirement coverage, as Tier 2 own funds are limited to cover maximum 20% of the minimum capital requirement. Tier 3 own funds cannot be used to cover the minimum capital requirement.

Table 29 – Assessment of eligible own funds, 31 December 2020

MSEK	Total	Tier 1 - unrestricted	Tier 1 - restricted	Tier 2	Tier 3
Total eligible own funds to meet the solvency capital requirement	**25,857**	21,504	-	4,216	137
Total eligible own funds to meet the minimum capital requirement	**22,826**	21,504	-	1,321	-
Solvency capital requirement	**14,683**				
Solvency capital requirement, ratio	**176%**				
Minimum capital requirement	**6,607**				
Minimum capital requirement, ratio	**345%**				

5.1.2.6 Reconciliation of shareholders' equity to Solvency II excess of assets over liabilities

The excess of assets over liabilities is based on shareholders' equity when all assets and liabilities are revalued in accordance with the Solvency II regulation, as reported in QRT S.02.01.02 and S.23.01.01.

The subordinated liability that meets the requirements for inclusion in own funds is recognised as part of the basic own funds and is revalued in accordance with the Solvency II regulation.

Table 30 – Shareholders' equity and untaxed reserves, excess of assets over liabilities and available basic own funds

MSEK	2020	2019
Ordinary share capital	104	104
Statutory reserve	388	388
Fund for costs of development	144	312
Fair value reserve	5,519	4,714
Retained earnings and net income for the year	16,433	16,555
Untaxed reserves	6,859	7,118
Total equity and untaxed reserves statutory accounts	**29,446**	**29,191**
Solvency II valuation adjustments		
Eliminations for goodwill and intangible assets	-147	-317
Changes in deferred taxes	-226	-541
Changes in net technical provisions	2,014	3,666
Changes in pension benefit obligations	-816	-881
Changes in valuation of lease agreements	-21	-11
Changes in valuation of subordinated liabilities	-25	-54
Sum of all reconciling movements, due to differences in valuation	**779**	**1,862**
Excess of assets over liabilities, Solvency II balance sheet template	**30,226**	**31,053**
Subordinated liabilities in basic own funds	1,131	1,205
Proposed dividend	-5,500	-6,900
Total available basic own funds, reported in the own funds QRT	**25,857**	**25,358**

5.2 Solvency capital requirement and minimum capital requirement

If applies the partial internal model for its regulatory solvency capital requirement calculation (SCR). The modelling of underwriting risk in the partial internal model is combined with the other risk modules calculated using the standard formula (SF). The solvency capital requirement is a combination of the major underwriting risks calculated using the internal model (IM) and the other risks, including market risks, calculated using the standard formula with the transitional measure for equity risk. If does not apply any undertaking-specific parameters in the life, non-life and health underwriting risk modules based on the standard formula. Neither does If apply simplified calculations for any of the risk modules (or sub-modules) of the standard formula.

To arrive at If's solvency capital requirement a tax adjustment is subtracted from the pre-tax solvency capital requirements, representing the loss-absorbing capacity of deferred taxes. As the untaxed reserves are fully included in the own funds, the solvency capital requirement tax computation is adjusted to take account of these reserves absorbing losses primarily on a pre-tax basis. This affects the tax computation, since If's calculation of the loss-absorbing capacity of deferred taxes only takes account of the solvency capital requirement pre-tax which exceeds the untaxed reserves.

When demonstrating the utilization of the loss-absorbing capacity of deferred taxes (LAC DT) it is assumed that the eligible own funds pre-tax decreases by an amount corresponding to the solvency capital requirement (SCR shock). To the extent possible, current net deferred tax liabilities are used to offset the loss and the remaining part is justified with increases in deferred tax assets following available future taxable profit.

Table 31 – Description of the loss-absorbing capacity of deferred taxes, 31 December 2020

MSEK	
Loss-absorbing capacity of deferred taxes	**2,130**
- whereof justified by reversion of deferred tax liability	1,085
- whereof justified by reference to probable future taxable economic profit	1,045
- whereof justified by carry back	-

To demonstrate the probability of future available taxable profit after the SCR shock, the following assumptions are made:

- If's financial plan is adjusted for the increased lapse rates following the SCR shock with the effect being kept constant throughout the financial planning period;
- The effects of the SCR shock on the balance sheet and future available taxable profits are explicitly considered;
- A capital injection is assumed post SCR shock, to restore the solvency ratio to 100%;
- New business sales beyond the financial planning period are not assumed and appropriate haircuts are applied to profits that materialise after the financial planning period; and
- The investment forecast is adjusted to be in line with the risk-free rate of return following the SCR shock. It is assumed that risk premiums are continued to be earned on the equity and corporate bond portfolios post shock.

The linear minimum capital requirement is calculated for each individual line of business by adding:

- a factor applied to technical provisions (not including the risk margin), net of reinsurance, subject to a minimum of zero; and
- a factor applied to written premiums over the last 12-month period, net of reinsurance, subject to a minimum of zero.

The intention is that the minimum capital requirement is calibrated to the Value-at-Risk of the basic own funds subject to a confidence level of approximately 85% over a one-year time horizon. As If has both non-life and life exposures, the linear minimum capital requirement is derived separately for life (this includes If's non-life and health annuities) and non-life exposures. The final minimum capital requirement computation then takes into account that the minimum capital requirement must be in range of:

- Minimum 25% and maximum 45% of the solvency capital requirement; and
- 3.7 MEUR, which is the applicable absolute floor for If.

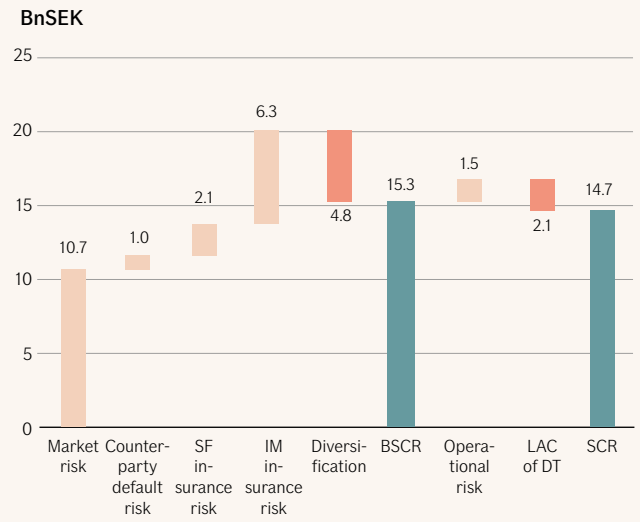
The minimum capital requirement at 31 December 2020 corresponds to the upper limit of the minimum capital requirement (6.6 BnSEK, or 45% of the solvency capital requirement).

Further disclosure of If's solvency capital requirement and minimum capital requirement are included in QRT S.25.02.21 and S.28.01.01, respectively.

5.2.1 Overview of regulatory solvency capital requirements

The figure below summarises If's solvency capital requirement based on the partial internal model.

Figure 21 – Solvency capital requirement, 31 December 2020



Aside from underwriting risk, market risk is predominant in the calculation of the basic solvency capital requirement (BSCR). The largest components of the market risk are spread risk, equity risk and currency risk. More detailed figures are shown in QRT S.25.02.21.

During the year the solvency capital requirement has decreased from 15.2 BnSEK to 14.7 BnSEK, mainly driven by the decrease in interest rate risk and spread risk, which has led to an overall decrease in market risk. The minimum capital requirement has decreased from 6.8 BnSEK to 6.6 BnSEK during the year, driven by the decreased solvency capital requirement.

5.3 Use of the duration-based equity risk sub-module in the calculation of the solvency capital requirement

The duration-based equity risk sub-module is not used by If.

5.4 Differences between the standard formula and the internal model

The main difference between the standard formula and the partial internal model is the modelling approach and the resulting capital requirements. The modelling of underwriting risk in the partial internal model is based on stochastic simulations for premium risk, reserve risk, natural catastrophe risk and inflation risk. Since the partial internal model accounts for geographical diversification and is parameterised based on internal data, it gives a more accurate view of the capital related to underwriting risk compared to the standard formula.

The main objective of the internal model for underwriting risk is to contribute to the risk management process. The main uses of the model are:

- Calculation of economic capital and solvency capital requirement;
- Capital allocation to lines of business and calculation of risk-based combined ratio targets;
- Evaluation of reinsurance program structures; and
- Risk and solvency assessment over the planning period (ORSA).

In the partial internal model, the insurance business is modelled by countries, business areas and insurance classes divided into homogenous risk groups, called lines of business. Underwriting risk includes premium risk, reserve risk, catastrophe risk and inflation risk. The modelling of premium risk and reserve risk is based on established statistical methods for modelling of underwriting risk applied on If's historical data. Risks not covered by the internal model's regulatory scope are market risk, operational risk, counterparty default risk, lapse risks, and revision risk of annuities. These are instead calculated with the standard formula. The result from the standard formula and the internal model are aggregated to obtain the total solvency capital requirement.

Within underwriting risk correlation matrices are used to model dependencies, in combination with dependency assumptions within the external models used for inflation risk and catastrophe risk. The setting of correlations for underwriting risk is based on a process where quantitative analysis and qualitative reasoning from business experts are combined. Catastrophe risk is modelled using third party catastrophe models explicitly modelling events and their impact across the whole portfolio. The inflation scenarios as such are considered to be independent of the claims outcome, as the uninflated attritional claims, large claims, reserve risk and catastrophe claims, are not considered to be dependent on the development of inflation. Rather, by adding inflation to the uninflated claims outcome, the effect of inflation is captured as a risk driver throughout the modelling of underwriting risk, capturing dependencies both within countries and between countries from this driver.

On the basic solvency capital requirement level, capital requirements for risks covered by the standard formula are aggregated with the capital requirement from the internal model by using a specified correlation matrix based on the standard formula correlation parameters. Operational risk is added to the resulting capital requirement without assuming any diversification benefits.

The modelling horizon is one year, and the risk measure used for the solvency capital requirement is Value-at-Risk at the 99.5% percentile of the change in own funds. As the internal model is based on simulations it provides a full distribution of outcomes, and If is therefore not limited to a specific risk measure or confidence level. The main risk measures reported by the model are the solvency capital requirement and the economic capital.

The main driver of the differences between the results of the standard formula and the partial internal model is due to differences

in the measurement of diversification effects in relation to underwriting risk. If underwrites policies that cover risks of individuals and corporations on a geographically diverse area covering mainly Sweden, Norway, Finland and Denmark but it underwrites also policies for Nordic corporate clients' activities outside the Nordic countries. In addition to the geographical diversification, the business is well-diversified over lines of business. The standard formula does not recognise geographical diversification benefits between countries in the Nordic area, that are key drivers for If's business model.

The data needed for the different stages of the internal model is the responsibility of the Capital Management unit to specify. Risk data, including the data for the internal model, is collected and stored in a customised database. Different types of data are used in the internal model including data used for the risk parameterisation, exposure data such as reserves and financial plan data. All data specifications and quality requirements for the data are part of the database documentation and follow the Accounting, Reserve and Risk Data Instruction.

5.5 Non-compliance with the minimum capital requirement and non-compliance with the solvency capital requirement

If has at no point in time during the year been non-compliant with the minimum capital requirement or the solvency capital requirement.

5.6 Any other information

There is no other material information regarding capital management.

Appendix

Appendix 1 – Explanation of measures used to monitor If's capital position

Measure	Eligible own funds (EOF):
Economic Capital (EC): Economic capital is based on If's internal model and is a risk measure used in risk reporting and in decision-making. The economic capital is calculated by aggregating the underwriting risk and the market risk from the internal model, with the remaining risks calculated using the Solvency II standard formula. The loss coverage capacity for deferred tax is considered. The economic capital is defined as the difference between the expected result and the simulated result at the 99.5% percentile over a one-year horizon (1-in-200 years).	The eligible own funds for coverage of economic capital are based on the Solvency II balance sheet, but with the risk margin in technical provisions calculated on the basis of the economic capital and not on the regulatory solvency capital requirement.
Solvency capital requirement according to the partial internal model (SCR PIM TEM): The solvency capital requirement is calculated by aggregating the insurance risk from the internal model, with the remaining risks calculated using the Solvency II standard formula, including transitional equity measures. The purpose of the transitional equity measure is to smoothen the transition from Solvency I to Solvency II. The loss coverage capacity for deferred tax is considered. The insurance risk from the internal model is defined as the difference between the expected result and the simulated result at the 99.5% percentile over a one-year horizon (1-in-200 years).	The eligible own funds for coverage of the solvency capital requirement are based on the Solvency II balance sheet, where the risk margin is calculated based on the partial internal model.
Minimum capital requirement (MCR): The level of the minimum capital requirement is linked to the solvency capital requirement as it should normally be 25-45% of the solvency capital requirement. The minimum capital requirement must at least be 3.7 MEUR. The intention is that the minimum capital requirement is calibrated to the Value-at-Risk of the basic own funds subject to a confidence level of approximately 85% over a one-year time horizon.	The eligible own funds for coverage of the minimum capital requirement are based on the Solvency II balance sheet as are also own funds for coverage of the solvency capital requirement. There are, however, additional restrictions on the inclusion of specific eligible own fund items.

Appendix 2 – Quantitative reporting templates

The following reporting templates (QRT) are included as attachments to the report. The files can be found on www.if.se/solvens-och-verksamhetsrapporter

S.02.01.02 Balance sheet

S.05.01.02 Premium, claims and expenses per line of business

S.05.02.01 Premiums, claims and expenses by country

S.12.01.02 Life and Health SLT technical provisions

S.17.01.02 Non-life Technical Provisions

S.19.01.21 Non-life insurance claims total non-life business

S.23.01.01 Own funds

S.25.02.21 Solvency capital requirement

S.28.01.01 Minimum capital requirement

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