SOLVENCY II AND COMPLIANCE IN IF

Karin Friberg, CRO
**Monstret Solvens 2**

De långa förankringsprocesserna gör att det aldrig uppstår ett skarpt läge. Debatten uteblir och plötsligt är en fråga på väg mot lagstiftning.”

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**The Economist**
August 8-14th, 2015

“The government is your number-one client.”

John Mack, former CEO of Morgan Stanley - to his successor
SOLVENCY II

Agenda

ORSA

Risk Management

COMPLIANCE

Outsourcing

Reporting

Questions?
OUR SOLVENCY II JOURNEY

Started already in 2007
OUR SOLVENCY II JOURNEY

- Risk Data Storage
- Internal Model
- Risk Control Tools/Processes
- Capital Projections
- ORSA
- SII Reports

Governance
- Policies
- Documentation
- Organisation

Relax, we'll help you.
**IF’S SOLVENCY II PREPARATIONS**

**Pillar I**
- **Internal Model**
  - Since 2002 IM
  - 2010 Pre-app Pilot

**Pillar II**
- **Risk Governance**
  - Use Test ORSA Model Management Framework
  - Development & Guidance
    - ORSA Test Run 2011 and 2012
    - ORSA 2013 according to preparatory guidelines
- **Implementation of Model Validation**

**Pillar III**
- **Solvency II Balance Sheet and Other Disclosure Requirements**
  - Since 2009 RDS
  - Internal/Pilot Reporting of quantitative information
  - Qualitative disclosures; gap analyses and gathering of information

**Timeline**
- 2012 Q3 to 2016 Q1
  - Pre-application Process
  - Application preparation
  - Gradual implementation
  - Ongoing Model Validation

**Important Dates**
- 2011 - 2013
- Pre-application Process
- 2014 Q1
  - ORSA 2014
  - ORSA 2015
- 2015 Q1
  - ORSA 2016
- 2016 Q1
  - SII in force

**Key Points**
- Model Maintenance according to SII
- Gradual implementation
- Ongoing Model Validation

**Additional Details**
- Use and continuous development including data gathering and IT implementation
- Reporting of quantitative information
- Reporting of qualitative information

**Solvency II Policies in place**
IF HAS A STRONG ERM RATING

- Standard & Poor’s include Enterprise Risk Management in their rating
- In 2011 If achieved a "Strong" ERM score which means 5 out of 6

Other Factors

The ratings covered by this full analysis apply only to the core entities of the group, Sweden-based If P&C Insurance Ltd. (publ) and Finland-based If P&C Insurance Co. Ltd.—collectively the If P&C Insurance group (If).

Our combined view of If’s strong business risk profile and strong financial risk profile could lead to an anchor of 'a' or 'a-' for the company. We assign If an 'a' anchor because If’s strong business risk profile is at the boundary for a very strong assessment, in our view.

If’s stand-alone credit profile (SACP) is 'a+', one notch higher than the anchor, reflecting the strength of If’s enterprise risk management (ERM) and management and governance practices. The 'A' ratings, however, are one notch lower than the SACP; based on our view of the slightly weaker financial risk profile of the parent, Sampo group. We consider the Sampo group's financial risk profile weaker because of the high level of asset-liability mismatches and the presence of significant reinsurance risks.

Other Assessments

We regard If's enterprise risk management (ERM) and management and governance practices as favorable factors for the ratings. Liquidity is exceptional, in our view.

Enterprise risk management: Strong and well established

We assess If's ERM as strong, underpinned by a positive risk management culture, positive risk controls for the group's main risks, and positive emerging and strategic risk management. We assess If's risk management culture as positive, reflecting the well-established risk appetite statement, robust governance structure, extensive reporting, and high emphasis placed on risk in managing the business.
RISK APPETITE STATEMENT

The Risk Appetite Statement is based on the Risk Strategy

- **Risk Appetite**
  The risk If is willing to accept in pursuit of the business objectives

- **Risk Preferences**
  The risks that are taken deliberately in order to create value and achieving the business objectives

- **Risk Tolerances**
  The risk If is willing to take regarding each relevant risk

- **Risk Limits**
  Thresholds to monitor that actual risk exposure stays within the risk appetite and risk tolerances
  Implemented in Policies and Guidelines
IF'S RISK MANAGEMENT GOVERNANCE MODEL

If Board of Directors

ORSA Committee (Chairman: President & CEO)

Coordinated by If Risk Management

Sub-committees and specialist functions

Insurance risk
Credit risk
Market risk
Operational risk
Compliance

Business Areas and Investment Management
THE RISK PROCESSES COVER ALL RISKS IF ARE EXPOSED TO
WHAT IS AN OWN RISK AND SOLVENCY ASSESSMENT (ORSA)?

Build on already existing processes

New processes
- capital projections
- integration
- governance

Dokumentation
RISK MANAGEMENT IS INTEGRATED IN STRATEGIC DECISIONS I.E. PART OF THE FINANCIAL PLAN PROCESS

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**Risk/capital perspective**
- Trends and risks
- Capital adequacy
- Risk assessment
  - Risk based CR targets
  - Risk strategy / tolerance
  - Capital planning
  - Reinsurance strategy
- Own risk and solvency assessment (ORSA)
  - Detailed capital planning and forecast
  - Updated KRI’s
  - Policy updates
- ORSAC/Board reporting
- EC calculation and capital forecast
- Stress & scenario analysis
IF’S ORSA DOCUMENT

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IF IS WELL PREPARED FOR SOLVENCY II PILLAR 3

Status

Narrative information

Quantitative information

System of governance
Capital management
Valuation
Business and performance
System of governance
Risk profile
Regulatory balance sheet
Capital management
Group specific
Balance sheet
Own funds
Assets
Technical provisions
Variation analysis
Reinsurance
SCR
MCR
SOLVENCY II PILLAR 3 REPORTING

Challenges

• Full Solvency II = extensive narrative reporting. RSR and SFCR reports for legal entities and group
• IFRS 7 information in the Annual Report
• ECB reporting
• Potential national reporting to the FSAs.
• How to treat Public disclosures going forward
• Solo reports are expected to be written in the official languages of the Member States concerned. Content of a Group Single SFCR report could be expected to be multi-lingual. To use English in all reports would be preferred for effective work processes and an improved overall quality
• On the IT side, it is unclear how EIOPA intends for the narrative reporting to be integrated into the EIOPA XBRL reporting.
• For the SFCR and RSR reports, Board approval is expected, which will need to be built into the reporting process and timeline.
• Further develop the Solvency II pillar 3 reporting, with a focus on full Solvency II reporting (Q1 2016), and at the same time report Preparatory Guideline reports to the FSAs.

Reconciliation
Text & figures: need system support
COMPLIANCE
THE COMPLIANCE FUNCTION’S TASKS

Internal rules – the assignment from the Boards

The Compliance Policy

• The Compliance function shall address the rules relevant for If’s licenses to conduct insurance business, including underwriting and claims handling, risk management, solvency, technical provisions, accounting and internal control.

• The Compliance function shall include:
  ✓ advising the Board of Directors and CEO, or equivalent corporate body of each If company on compliance issues
  ✓ an assessment of the possible impact of any changes in the legal environment on the company’s business
  ✓ support the identification and assessment of compliance risk.
  ✓ support the line organization in implementing the compliance program, as well as with legal training.

SII focus on advice and reporting to the Boards and management. Our internal rules also include support to the business.
THE COMPLIANCE FUNCTION’S TASKS
Broken down into our yearly processes

- Proactive activities implementation and training
- Policies and instructions yearly quality and content assurance
- Compliance risk and incidents identify, assess and report
- Monitoring to detect non-compliance planned and ad hoc
- Legal committee
- Monitoring of new legislation
- Advice to management and business information and support
- Reporting to management
- Boss, this antitrust guy from the government! he was really getting on my nerves! I killed him. Have I done something wrong?

- Well, hum... I can't tell, Sonny. It's not provided for in the Code of Conduct. Check with the compliance guys, they should know.
NON-COMPLIANCE

May have serious consequences

Breach of rules or insufficient internal governance or control may lead to sanctions or – in worst case – revoked license

Some examples of FSA sanctions:

• 2015: Nordea - 50 mSEK fine due to major deficiencies in Nordea's work to prevent money laundering and insufficient internal control (Nordea received a remark and a 30 MSEK fine as late as 2013 for having breached the money laundering rules and the EU's sanctions regulation)

• 2013: Gjensidige – 1.2 mNOK fine and threat of revoked concession to handle personal data due to deficiencies in the internal control system

• 2013: Exchange Finans Europe – license revoked due to failure to comply with the regulatory requirements regarding governance and internal control

• 2012: Länsförsäkringar - 10 mSEK fine based on deficiencies in the internal control and lack of sufficient resources for the Compliance function

• 2009: Trygg Hansa – 5 mSEK fine due to deficiencies in the internal governance and control
SWEDISH-FSA SANCTIONS

Breach of rules may lead to sanctions

- If a company under SFSA supervision breach the rules and regulation applicable to the business this may, depending on the severity of the breach, lead to:
  - Remark
  - Warning
  - Fines
  - Revoked concession

- The minimum fine is 5 000 SEK and the maximum 50 MSEK.

- So far the maximum fine has been used four times, e.g:
  - Nordea – major deficiencies in Nordea's work to prevent money laundering
  - Forex – lack of control and poor management of risks
  - Carnegie - serious deficiencies in the governance and control
“Outsourcing” means an arrangement of any form between an If and a service provider, whether a supervised entity or not, by which that service provider performs a process, a service or an activity, whether directly or by sub-outsourcing, which would otherwise be performed by If itself.
1. Member States shall ensure that insurance and reinsurance undertakings remain fully responsible for discharging all of their obligations under this Directive when they outsource functions or any insurance or reinsurance activities.

2. Outsourcing of **CRITICAL OR IMPORTANT OPERATIONAL FUNCTIONS OR ACTIVITIES** shall not be undertaken in such a way as to lead to any of the following:

   (a) materially impairing the quality of the system of governance of the undertaking concerned;

   (b) unduly increasing the operational risk;

   (c) impairing the ability of the supervisory authorities to monitor the compliance of the undertaking with its obligations;

   (d) undermining continuous and satisfactory service to policy holders.

3. Insurance and reinsurance undertakings shall, in a timely manner, notify the supervisory authorities prior to the outsourcing of **CRITICAL OR IMPORTANT FUNCTIONS OR ACTIVITIES** as well as of any subsequent material developments with respect to those functions or activities.
CRITICAL OR IMPORTANT FUNCTIONS OR ACTIVITIES

Critical or important

- Product & price
- Investment management
- ORSA
- Claims handling
- IT maintenance or support
- Data storage
- Underwriting
- Key functions
Relax, we’ll help you.
Risk management should not only be seen as a process or function, it should be part of the culture — embedded in business decisions; a “what if...” culture.
Solvency II - A Three Pillar Approach

Group supervision & cross-sectoral convergence
Groups are recognised as an economic entity
=> supervision on a consolidated basis

Pillar 1:
Quantitative capital requirements
- Technical provisions
- Minimum capital requirement (MCR)
- Solvency Capital Requirement (SCR)
- Investment rules

Market-consistent valuation
Validation of internal models

Pillar 2:
Qualitative requirements
Supervisory Review
- Principles for internal control, risk management and corporate gov.
- Supervisory review process SRP
- Own risk and solvency assessment (ORSA)

New focus for supervisors
Maximum level of harmonisation
‘Use test’

Pillar 3:
Disclosure requirements
- Public information
- Transparency
- Regulatory reporting
- IFRS, IAIS, EU-legislation, ECB

More pressure from capital markets
More pressure from rating agencies

Relax, we'll help you.