

IFRS 17 & Solvency II Workshop

Governance under Solvency II

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Agenda

Monday, 15 July

- Recap of IFRS 17 Background
- General Measurement Model
- Implementing IFRS 17

Tuesday, 16 July

- Measurement of direct participation contracts
- Illustrative examples of the Premium Allocation Approach
- Presentation of IFRS 17 Results
- Data management and calculation engines
- Background and scope of Solvency II
- Quantitative aspects of Solvency II

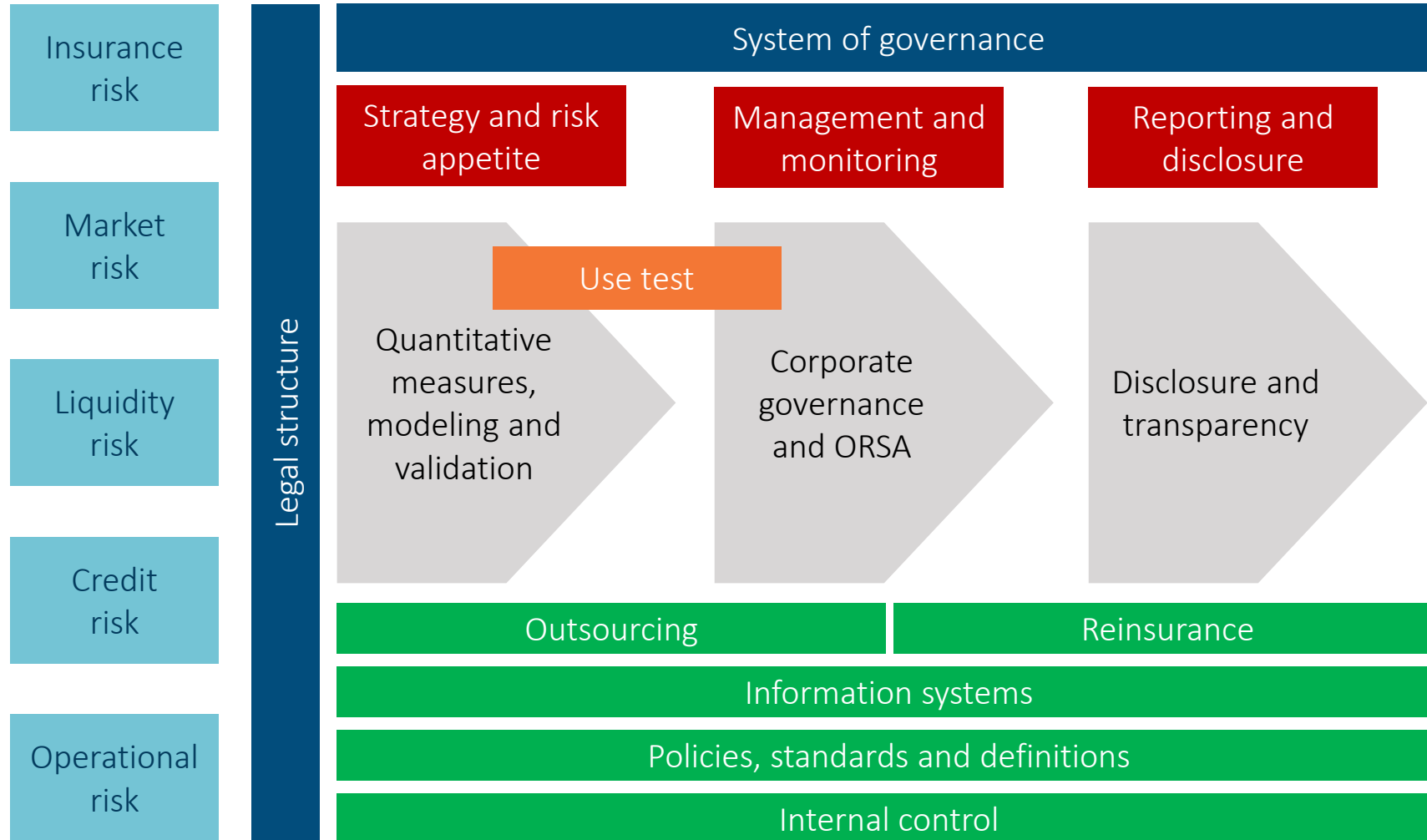
Wednesday 17 July

- Quantitative aspects of Solvency II (cont'd)
- **Governance under Solvency II**
- The Risk Management & Reporting Processes

Internal functions



Solvency II framework



Governance under Solvency II

System of governance [Art. 41—50]

Own Risk and Solvency Assessment (ORSA) [Art. 45]



Risk management
Art. 44



Internal control
Art. 46



Internal audit
Art. 47



Actuarial
Art. 48

The risk management function

- Companies must have an effective risk management system comprising
 - strategies
 - processes
 - reporting procedures
- Target is to continuously identify, measure, monitor, manage and report individual and aggregated risks, and their interdependencies
- Areas of coverage:
 - underwriting and reserving
 - ALM
 - investment, particularly derivatives
 - liquidity and concentration risk management
 - operational risk management
 - reinsurance and other risk-mitigation techniques



The internal control function

- Companies must have an effective internal control system, including at least:
 - administrative and accounting procedures
 - internal control framework
 - appropriate reporting arrangements at all levels
 - compliance function
- The compliance function shall include
 - advising the management on compliance with Solvency II
 - assessment of possible impact of changes in the legal environment on the operations



The internal audit function

- Companies must have an effective internal audit function, including an evaluation of the adequacy and effectiveness of the internal control system and other elements of the system of governance
- Any findings or recommendations of the internal audit shall be reported to management, which shall
 - determine what actions are to be taken and
 - ensure that those actions are carried out



The actuarial function

- Companies must provide for an effective actuarial function to
 - coordinate the calculation of technical provisions
 - ensure the appropriateness and adequacy of the methodologies and underlying models used as well as the assumptions made in the calculation of the technical provisions
 - assess the sufficiency and quality of data used in the calculation of the technical provisions
 - compare best estimates against experience
 - inform management of the reliability and adequacy of the calculation of technical provisions
 - express an opinion on the overall underwriting policy
 - express an opinion on the adequacy of reinsurance arrangements
 - contribute to the effective implementation of the risk management system, in particular with respect to risk modeling



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The actuarial function (cont'd)

- The actuarial function shall be carried out by persons who
 - have knowledge of actuarial and financial mathematics, commensurate with the nature, scale and complexity of the risk inherent on the business of the insurance company, and
 - can demonstrate their relevant experience with applicable professional and other standards



Outsourcing of functions

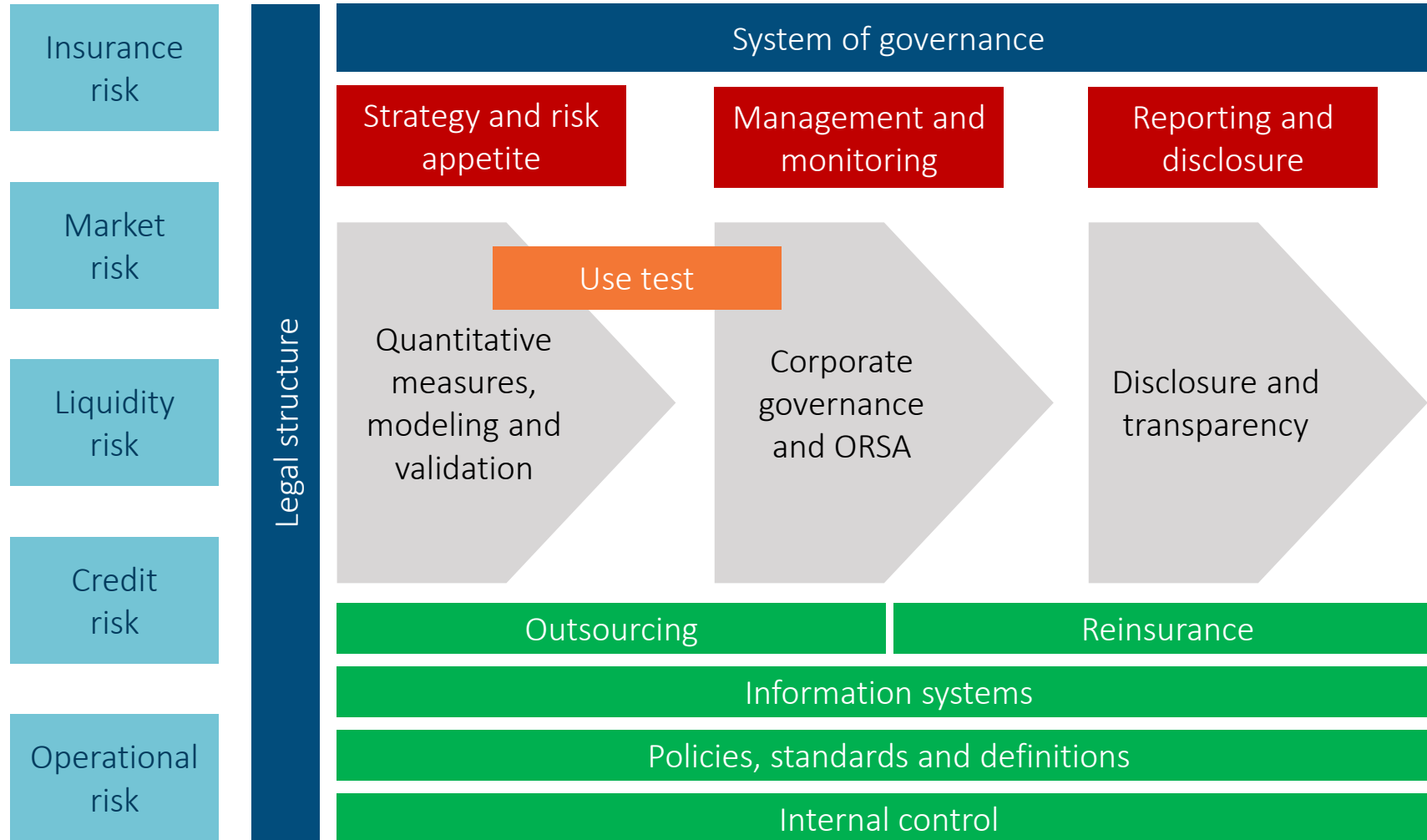
- Insurance companies remain fully responsible when they outsource functions
- Outsourcing shall not be undertaken in such a way as to lead to any of the following:
 - materially impairing the quality of the system of governance
 - unduly increasing operational risk
 - impairing the ability of the supervisory authorities to monitor compliance
 - undermining conditions and satisfactory service to policyholders



The use test



Solvency II framework



The use test

- For companies adopting a full or partial internal model, it shall be demonstrated that the model is widely used in and plays an important role in the company's system of governance, in particular:
 - the risk management system and the decision-making processes
 - the economic and solvency capital assessment and allocation processes, including the own risk and solvency assessment (ORSA)
- Management shall be responsible for ensuring
 - the ongoing appropriateness of the design and operations of the internal model, and
 - that the internal model continues to appropriately reflect the risk profile of the company



Documentation



Documentation standards for internal models

- The documentation shall demonstrate compliance with:
 - the use test
 - statistical quality standards
 - calibration standards
 - profit and loss attribution
 - validation standards
- The documentation shall provide a detailed outline of the theory, assumptions, and mathematical and empirical bases underlying the model
- The documentation shall indicate any circumstances under which the internal model does not work effectively
- Changes in models must be documented

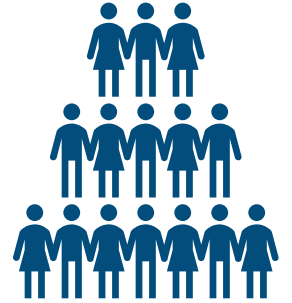


Fit and proper requirements



Fit and proper requirements for persons with key functions

- Companies shall ensure that all persons who effectively run the company or have key functions at all time fulfil the following:
 - their professional qualifications, knowledge and experience are adequate to enable sound and prudent management (fit); and
 - they are of good repute and integrity (proper)
- Companies shall notify the supervisory authority of any changes to the identity of the key persons along with all information needed to assess whether any new persons are fit and proper
- Changes/replacements of persons shall be notified to the supervisory authority





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