

# The 2nd International Istanbul Insurance Conference Insurance Practitioners' Association

## Solvency II With Respect to Good Corporate Governance

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Solvency II  
Framework Directive – overview

PILLAR I

Quantitative  
Requirements

- Assets and Liabilities - market consistent valuation
- Investments
- Solvency Capital Requirement (SCR):
  - European Standard Formula;
  - or
  - Internal Model
- Minimum Capital Requirement (MCR)
- Own Funds

PILLAR II

Supervisor review

- System of governance
- Own risk and solvency assessment (ORSA)
- Supervisory review process
- Supervisory intervention including capital add-on

PILLAR III

Disclosure

- Public Disclosure – annual solvency & financial condition report
- Information to be provided for supervisory purposes

GROUP SUPERVISION - all pillars applicable to solo entities and groups

## Pillar II – Key themes (1/2)

*‘Solvency II is not just about capital. It is a change of behavior’*

Thomas Steffen, Chairman of CEIOPS

**Impact on organisation** with introduction of governance requirements

- Ultimate responsibility with the administrative and management body
- ‘Functions’ or specific areas of responsibility and expertise
  - Risk management
  - Compliance
  - Internal Audit
  - Actuarial Function
- Outsourcing: Duty of responsibility need to be retained and enforced
- Fit and proper requirements
- System of governance proportionate to nature, scale and complexity Requirements include written policies (to be reviewed on annual basis)

# Pillar II – Key themes (2/2)

## Own Risk and Solvency Assessment (ORSA)

- Internal assessment taking into account own risk profile and risk tolerance
- Required to be integral part of a firm's strategic decision-making
  - On an ongoing basis
  - Forward looking
  - Assessment of compliance on an continuous basis with SCR, MCR and principles for technical provisions
- Principle of proportionality
- Must be disclosed to regulator
- ORSA a vehicle for embedding risk management principles in Solvency II into the organisation



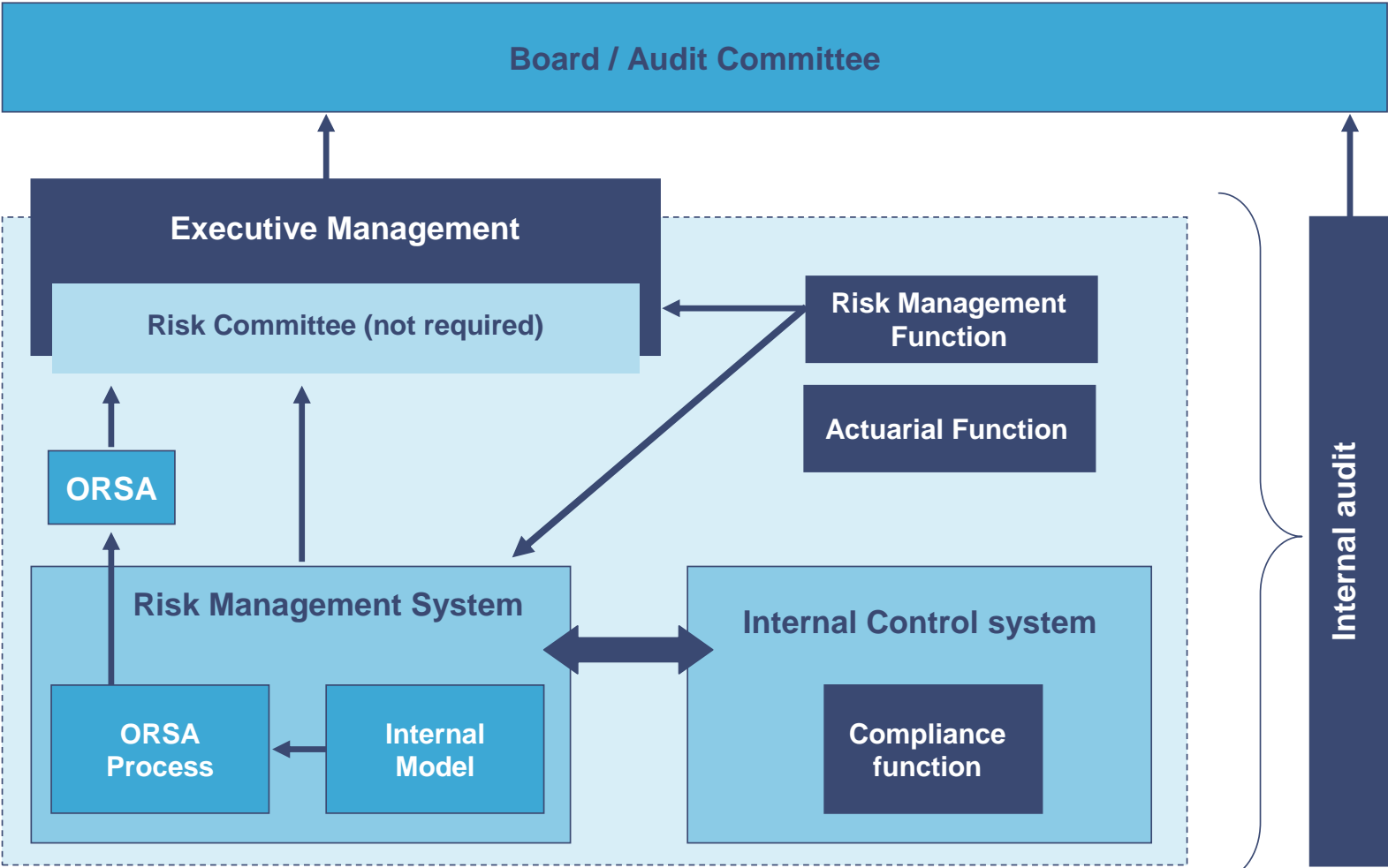
## Supervisory Review Process

- Review and evaluate compliance on ongoing basis
- Powers to add-on capital (exceptional circumstances)

# General Governance Requirements

- Need of appropriate organizational values and priorities
  - Issues to be considered within a system of governance:
    - Effective cooperation, internal reporting and communication of information at all relevant levels
    - Well-defined organizational structure
    - Sufficient professional qualifications, knowledge and experience in the relevant areas for the members of the administrative or management body and employed personnel
    - Awareness of all personnel for the proper discharge of their responsibilities
    - Implementation and maintenance of decision-making procedure
    - Adequate information systems
    - Security and confidentiality of information
    - Clear reporting lines
    - Adequate risk management, compliance, internal audit and actuarial function
- Review on a regular basis

# Overall structure



# GAP analysis (Governance and Risk management)

## Areas expected to be non-compliant (summary of GAP analysis in Scandinavia)

There is a need to establish and expand a number of areas in the Governance and Risk Management System in relation to the future Solvency II requirements:

- Developing risk management system, including the establishment of independent operational risk management function
- Reinforcement of internal control, including the establishment of the compliance function
- Establishment of internal audit
- Establishment of ORSA link to strategy, budget process and integrated into RMS
- Establishment of a new future external reporting, RTS report targeted surveillance and SFCR report for publication by the solvency and financial position, and new reporting templates
- Outsourcing - the expansion of ongoing monitoring and reporting from outsourcing partners around governance and risk management, operational risk, compliance risk and controls

In addition there are a number of areas where there is a need to supplement existing guidelines, policies and procedures:

- ALM strategy and policy
- Fit and Proper policy and process
- Establish comprehensive IT policy and guidelines for IT security, data and IT governance
- Policy for operational risk.

# Thank you !