

ANNEX I

(Paragraph 6.13.1(d) of Chapter 6)

Guidelines on System of Governance and on Own Risk and Solvency Assessment

1. This Annex is divided into two parts: Part I adopts the EIOPA Guidelines on System of Governance and Part II adopts the EIOPA Guidelines on Own Risk and Solvency Assessment.

Scope

2. (1) The purpose of Part I of this Annex is to establish the requirements on system of governance which aim to provide for sound and prudent management of the business of an authorised undertaking, without unduly restricting the undertaking in choosing its own organisational structure, as long as it establishes an appropriate segregation of duties;

(2) The purpose of Part II of this Annex is to ensure that an authorised undertaking takes a forward looking review on the risks to which it is exposed to.

Part I – System of Governance

Section 1- Introduction

Definitions

3. For the purpose of Part I of this Annex the following definitions apply:-

“persons who effectively run the undertaking” cover members of the Board of Directors, as well as members of the senior management. The latter includes persons employed by the undertaking who are responsible for high level decision making and for implementing the strategies devised and the policies approved by the Board of Directors;

“persons having other key functions” include all persons performing tasks related to a key function;

“key function holders” are the persons responsible for a key function as opposed to persons having, carrying out or performing a key function,

and if not defined in Part I of this Annex, the terms have the meaning defined in the Act, regulations or Insurance Rules issued thereunder, or in the EU Commission Delegated Regulation.

The Board of Directors

4. (1) The Board of Directors of an authorised undertaking should have appropriate interaction with any committee it establishes as well as with senior management and with persons having other key functions in the undertaking, proactively requesting relevant information from them and challenging that information when necessary.

(2) At group level the Board of Directors of the participating insurance or reinsurance undertaking, the insurance holding company or the mixed financial holding company should have an appropriate interaction with the Board of Directors of all entities within the group that have a material impact on the risk profile of the group, requesting information proactively and challenging the decisions in the matters that may affect the group.

Organisational and operational structure

5. (1) The authorised undertaking should have organisational and operational structures aimed at supporting the strategic objectives and operations of the undertaking. Such structures should be adapted to changes in the strategic objectives, operations or in the business environment of the undertaking within an appropriate period of time.

(2) At group level, the Board of Directors of the participating insurance or reinsurance undertaking, the insurance holding company or the mixed financial holding company should assess how changes to the group's structure impact the financial position of the affected undertakings of the group and make the necessary adjustments in a timely manner.

(3) The Board of Directors of the participating insurance or reinsurance undertaking, the insurance holding company or the mixed financial holding company should, in order to take appropriate measures, have an appropriate knowledge of the corporate organisation of the group, the business model of its different entities and the links and relationships between them and the risks arising from the group's structure.

Significant decisions

6. The authorised undertaking should ensure that any significant decision of the undertaking involves at least two persons who effectively run the undertaking before the decision is being implemented.

Documentation of decisions taken at the level of the Board of Directors

7. The authorised undertaking should appropriately document the decisions taken at the level of the Board of Directors of the undertaking and how information from the risk management system has been taken into account.

Allocation and segregation of duties and responsibilities

8. The authorised undertaking should ensure that the duties and responsibilities are allocated, segregated and coordinated in line with the undertaking's policies and reflected in descriptions of tasks and responsibilities. The authorised undertaking should ensure that all the important duties are covered and that unnecessary overlaps are avoided. Effective cooperation between personnel should be fostered.

Internal review of the system of governance

9. (1) The Board of Directors of the undertaking should determine the scope and frequency of the internal reviews of the system of governance, taking into account the nature, scale and complexity of the business both at individual and at group level, as well as the structure of the group.

(2) The authorised undertaking should ensure that the scope, findings and conclusions of the review are properly documented and reported to its Board of Directors. Suitable feedback loops are necessary to ensure follow-up actions are undertaken and recorded.

Policies

10. (1) The authorised undertaking should align all policies required as part of the system of governance with each other and with its business strategy. Each policy should clearly set out at least:

- (a) the goals pursued by the policy;
- (b) the tasks to be performed and the person or role responsible for them;
- (c) the processes and reporting procedures to be applied;
- (d) the obligation of the relevant organisational units to inform the risk management, internal audit, compliance and actuarial functions of any facts relevant for the performance of their duties;

(2) In the policies that cover the key functions, the authorised undertaking should also address the position of these functions within the undertaking, their rights and powers.

(3) The participating insurance or reinsurance undertaking, the insurance holding company or the mixed financial holding company should ensure that the policies are implemented consistently across the group. In addition, it ensures that the policies of the entities of the group are consistent with the group policies.

Contingency plans

11. The authorised undertaking should identify material risks to be addressed by contingency plans covering the areas where it considers itself to be vulnerable, and it should review, update and test these contingency plans on a regular basis.

Section 2: Remuneration

Scope of the remuneration policy

12. (1) In its remuneration policy the authorised undertaking should at least ensure that:

(a) remuneration awards do not threaten the undertaking's ability to maintain an adequate capital base;

(b) remuneration arrangements with service providers do not encourage risk-taking that is excessive in view of the undertaking's risk management strategy.

(2) The participating insurance or reinsurance undertaking, the insurance holding company or the mixed financial holding company should adopt and implement a remuneration policy for the whole group. This should take into account the complexity and structures of the group in order to establish, develop and implement a consistent policy for the whole group that is in line with the group's risk management strategies. The policy should be applied to all relevant persons at group and individual entity level.

(3) The participating insurance or reinsurance undertaking, the insurance holding company or the mixed financial holding company should ensure:

(a) an overall consistency of the group's remuneration policies by ensuring that they comply with the legal requirements of undertakings which are part of the group and by verifying their correct application;

(b) that all undertakings that belong to the group comply with the remuneration requirements;

(c) that material risks at group level linked to remuneration issues in the group entities are managed.

Remuneration committee

13. Should the authorised undertaking establish a remuneration committee, it is to ensure that the composition of the remuneration committee enables it to exercise a competent and independent judgment on the remuneration policy and its oversight. If no remuneration committee is established, the Board of Directors should assume the tasks that would otherwise have been assigned to a remuneration committee in a way that avoids conflicts of interest.

Section 3: Fit and proper

Fit requirements

14. (1) The authorised undertaking should ensure that persons who effectively run the undertaking or have other key functions are 'fit' and take account of the respective duties allocated to individual persons to ensure appropriate diversity of qualifications, knowledge and relevant experience so that the undertaking is managed and overseen in a professional manner.

(2) The Board of Directors of the authorised undertaking should collectively possess appropriate qualification, experience and knowledge about at least:

- (a) insurance and financial markets;
- (b) business strategy and business model;
- (c) system of governance;
- (d) financial and actuarial analysis;
- (e) regulatory framework and requirements.

Proper requirements

15. When assessing whether a person is 'proper', the undertaking should consider that the period of prescription of the relevant criminal or any other offence is lapsed based on national law.

Fit and proper policies and procedures

16. (1) The authorised undertaking should have a policy on the fit and proper requirements, which includes at least:

(a) a description of the procedure for identifying the positions for which notifying is required and for the notification to the competent authority;

(b) a description of the procedure for assessing the fitness and propriety of the persons who effectively run the undertaking or have other key functions, both when being considered for the specific position and on an on-going basis;

(c) a description of the situations that give rise to a re-assessment of the fit and proper requirements;

(d) a description of the procedure for assessing the skills, knowledge, expertise and personal integrity of other relevant personnel not subject to the requirements of article 18I (2)(a) of the Act and to paragraphs 2.2.1, 2.11.2 and 2.11.4 of Chapter 2 in Part B of these Insurance Rules, according to internal standards, both when being considered for the specific position and on an on-going basis.

(2) The notification requirements referred to in indent (a), only apply to persons who effectively run the authorised undertaking or are key function holders and not to persons who have or perform a key function.

Outsourcing of key functions

17. (1) The authorised undertaking should apply the fit and proper procedures in assessing persons employed by the service provider or sub service provider to perform an outsourced key function.

(2) The authorised undertaking should designate a person within the undertaking with overall responsibility for the outsourced key function who is fit and proper and possesses sufficient knowledge and experience regarding the outsourced key function to be able to challenge the performance and results of the service provider. This designated person should be considered as the person responsible for the key function according to paragraph 2.11.2 of Chapter 2 in Part B of these Insurance Rules that needs to be notified to the competent authority.

(3) Intra-group outsourcing is not necessarily different from external outsourcing. It may allow for a more flexible selection process, but it should not to be seen as automatically requiring less care and oversight than external outsourcing.

Notification

18. The notification to the competent authority of persons subject to notification requirements is to be accompanied by a Personal Questionnaire as found in Annex I to Chapter 2 in Part B of these Insurance Rules.

Assessment of the fit and proper requirements by the competent authority

19. The assessment of the fit and proper requirements of the persons subject to notification requirements, will be carried out by the competent authority. Feedback on the assessment will be provided to the authorised undertaking concerned within an appropriate timeframe from the receipt of a complete notification.

Section 4: Risk management

Role of the Board of Directors in the risk management system

20. (1) The Board of Directors is ultimately responsible for ensuring the effectiveness of the risk management system, setting the undertaking's risk appetite and overall risk tolerance limits, as well as approving the main risk management strategies and policies.

(2) The Board of Directors of the participating insurance or reinsurance undertaking, the insurance holding company or the mixed financial holding company should ensure that the risk management system of the whole group is effective. This risk management system of the group should include at least:

- (a) the strategic decisions and policies on risk management at group level;
- (b) the definition of group's risk appetite and overall risk tolerance limits;
- (c) the identification, measurement, management, monitoring and reporting of risks at group level.

(3) The Board of Directors of the participating insurance or reinsurance undertaking, the insurance holding company or the mixed financial holding company should ensure that such strategic decisions and policies are consistent with the group's structure, size and the specificities of the entities that are part of the group.

Risk management policy

21. In addition to the requirements of paragraph 6.1.5 of Chapter 6 in Part B of these Insurance Rules, an authorised undertaking should establish a risk management policy which at least:

- (a) defines the risk categories and the methods to measure the risks;
- (b) outlines how the undertaking manages each relevant category, area of risks and any potential aggregation of risks;

(c) describes the connection with the overall solvency needs assessment as identified in the ORSA, the regulatory capital requirements and the undertaking's risk tolerance limits;

(d) specifies risk tolerance limits within all relevant risk categories in line with the undertaking's risk appetite;

(e) describes the frequency and content of regular stress tests and the situations that would warrant ad-hoc stress tests.

Risk management function: tasks

22. The authorised undertaking should require the risk management function to report to the Board of Directors on risks that have been identified as potentially material. The risk management function should also report on other specific areas of risks both on its own initiative and following requests from the Board of Directors.

Underwriting and reserving risk management policy

23. In its risk management policy, the authorised undertaking should cover at least the following with regard to underwriting and reserve risk:

(a) the types and characteristics of the insurance business, such as the type of insurance risk the undertaking is willing to accept;

(b) how the sufficiency of premium income to cover expected claims and expenses is to be ensured;

(c) the identification of the risks arising from the undertaking's insurance obligations, including embedded options and guaranteed surrender values in its products;

(d) how, in the process of designing a new insurance product and the premium calculation, the undertaking takes account of the constraints related to investments;

(e) how, in the process of designing a new insurance product and the premium calculation, the undertaking takes account of reinsurance or other risk mitigation techniques.

Operational risk management policy

24. (1) In the risk management policy, the authorised undertaking should cover at least the following with regard to operational risk:

(a) identification of the operational risks it is or might be exposed to and assessment of the way to mitigate them;

(b) activities and internal processes for managing operational risks, including the IT system supporting them;

(c) risk tolerance limits with respect to the undertaking's main operational risk areas.

(2) The authorised undertaking should have processes to identify, analyse and report on operational risk events. For this purpose, it should establish a process for collecting and monitoring operational risk events.

(3) For the purposes of operational risk management, the authorised undertaking should develop and analyse an appropriate set of operational risk scenarios based on at least the following approaches:

(a) the failure of a key process, personnel or system;

(b) the occurrence of external events.

Reinsurance and other risk-mitigation techniques – risk management policy

25. In the risk management policy the authorised undertaking should cover at least the following with regard to reinsurance and other risk mitigation techniques:

(a) identification of the level of risk transfer appropriate to the undertaking's defined risk tolerance limits and which kind of reinsurance arrangements are most appropriate considering the undertaking's risk profile;

(b) principles for the selection of such risk mitigation counterparties and procedures for assessing and monitoring the creditworthiness and diversification of reinsurance counterparties;

(c) procedures for assessing the effective risk transfer and consideration of basis risk;

(d) liquidity management procedures to deal with any timing mismatch between claims' payments and reinsurance recoverable.

Strategic and reputational risk

26. The authorised undertaking should manage, monitor and report the following situations:

(a) actual or potential exposure to reputational and strategic risks and the interrelationship between these risks and other material risks;

(b) key issues affecting the undertaking's reputation, considering the sensitivity of the market and the expectations of policyholders, insureds, shareholders and other interested parties.

Asset-liability management policy

27. In its risk management policy the authorised undertaking should cover at least the following information with regard to asset-liability management:

(a) a description of the procedure for identification and assessment of different natures of mismatches between assets and liabilities, at least with regard to terms and currency;

(b) a description of mitigation techniques to be used and the expected effect of relevant risk-mitigating techniques on asset-liability management;

(c) a description of deliberate mismatches permitted;

(d) a description of the underlying methodology and frequency of stress tests and scenario tests to be carried out.

Investment risk management policy

28. In its risk management policy the authorised undertaking should cover at least the following information with regard to investments:

(a) the level of security, quality, liquidity and profitability the undertaking is aiming for with regard to the whole portfolio of assets and how it plans to achieve this;

(b) its quantitative limits on assets and exposures, including off-balance sheet exposures, that are to be established to help to ensure the undertaking achieves its desired level of security, quality, liquidity, profitability and availability for the portfolio;

(c) the level of availability the undertaking is aiming for with regard to the whole portfolio of assets and how it plans to achieve this;

(d) consideration of the financial market environment;

(e) the link between market risk and other risks in adverse scenarios;

(f) the procedure for appropriately valuing and verifying the investment assets; consideration of the financial market environment;

(g) the procedures to monitor the performance of the investments and review the policy when necessary;

(h) how the assets are to be selected in the best interest of policyholders and insureds.

Liquidity risk management policy

29. In its risk management policy the authorised undertaking should cover at least the following information with regard to liquidity risk:

(a) the procedure for determining the level of mismatch between the cash inflows and the cash outflows of both assets and liabilities, including expected cash flows of direct insurance and reinsurance such as claims, lapses or surrenders;

(b) consideration of total liquidity needs in the short and medium term, including an appropriate liquidity buffer to guard against a liquidity shortfall;

(c) consideration of the level and monitoring of liquid assets, including a quantification of potential costs or financial losses arising from an enforced realisation;

(d) identification and costs of alternative financing tools;

(e) consideration of the effect on the liquidity situation of expected new business.

Section 5: The prudent person principle and the system of governance

Investment risk management

30. (1) An authorised undertaking should take investment decisions having regard to the prudent person principle and to the interests of policyholders and insureds.

(2) When making its investment decisions, the authorised undertaking should:

(a) not solely depend on the information provided by third parties, such as financial institutions, asset managers and rating agencies. In particular, the authorised undertaking should develop its own set of key risk indicators in line with its investment risk management policy and business strategy;

(b) take into account the risks associated with the investments without relying only on the risk being adequately captured by the capital requirements.

Assessment of non-routine investment activities

31. (1) Before performing any investment or investment activity of a non-routine nature the authorised undertaking should carry out an assessment of at least:

(a) its ability to perform and manage the investment or the investment activity;

(b) the risks specifically related to the investment or the investment activity and the impact of the investment or the investment activity on the undertaking's risk profile;

(c) the consistency of the investment or investment activity with the insureds' and policyholders' interest, liability constraints set by the undertaking and efficient portfolio management;

(d) the impact of this investment or investment activity on the quality, security, liquidity, profitability and availability of the whole portfolio.

(2) The authorised undertaking should have procedures that require that where such investment or investment activity entails a significant risk or change in the risk profile, the undertaking's risk management function communicates such a risk or change in the risk profile to the Board of Directors.

Security, quality, liquidity and profitability of the investment portfolios

32. The authorised undertaking should regularly review and monitor the security, quality, liquidity and profitability of the portfolio as a whole by considering at least:

(a) any liability constraints, including policyholders' guarantees, and any disclosed policy on future discretionary benefits and, where relevant, reasonable policyholders' expectations;

(b) the level and nature of risks that an undertaking is willing to accept;

(c) the level of diversification of the portfolio as a whole;

(d) the characteristics of the assets including:

(i) credit quality of counterparties;

(ii) liquidity;

(iii) tangibility;

(iv) sustainability;

(v) existence and quality of collateral or other assets backing the assets;

(vi) gearing or encumbrances;

(vii) tranches;

(e) events that could potentially change the characteristics of the investments, including any guarantees, or that affect the value of the assets;

(f) issues relating to the localisation and availability of the assets including:

- (i) non-transferability;
- (ii) legal issues in other countries;
- (iii) currency measures;
- (iv) custodian risk;
- (v) over-collateralisation and lending.

Profitability

33. The authorised undertaking should establish targets for the returns it seeks from its investments taking into account the need to obtain a sustainable yield on the asset portfolios to meet reasonable policyholders' expectations.

Conflicts of interests

34. The authorised undertaking should describe in its investment policy how it identifies and manages any conflict of interest that arises regarding investments, irrespective of whether they arise in the undertaking or in the entity which manages the asset portfolio. It should also document the actions taken to manage such conflicts.

Unit-linked and index-linked contracts

35. (1) The authorised undertaking should ensure that its investments of unit-linked and index-linked contracts are selected in the best interest of policyholders and insureds taking into account any disclosed policy objectives.

(2) In the case of unit-linked business the authorised undertaking should take into account and manage the constraints related to unit-linked contracts, in particular liquidity or any contractual or legal transferability constraints.

Assets not admitted for trading on a regulated financial market

36. (1) The authorised undertaking should implement, manage, monitor and control procedures in relation to investments that are not admitted to trading on a regulated financial market or to complex products, which are difficult to value.

(2) The authorised undertaking should treat assets admitted to trading, but not traded or traded on a non-regular basis, similarly to those assets not admitted to trading on a regulated financial market.

Derivatives

37. (1) When using derivatives, the authorised undertaking should implement the procedures in line with its investment risk management policy to monitor the performance of these derivatives.

(2) The authorised undertaking should demonstrate how the quality, security, liquidity or profitability of the portfolio is improved without significant impairment of any of these features where derivatives are used to facilitate efficient portfolio management.

(3) The authorised undertaking should document the rationale and demonstrate the effective risk transfer obtained by the use of the derivatives where derivatives are used to contribute to a reduction of risks or as a risk mitigation technique.

Securitised instruments

38. Where the authorised undertaking invests in securitised instruments, it should ensure that its interests and the interests of the originator or sponsor concerning the securitised assets are well understood and aligned.

Section 6: Own fund requirements and the system of governance

Capital management policy

39. The authorised undertaking should develop a capital management policy which includes a description of the procedures to:

(a) ensure that own-fund items, both at issue and subsequently, are classified according to the features in Articles 71, 73, 75 and 77 of the EU Commission Delegated Regulation;

(b) monitor tier by tier the issuance of own fund items according to the medium-term capital management plan, and ensure before issuance of any own fund items that it can satisfy the criteria for the appropriate tier on a continuous basis;

(c) monitor that own-funds items are not encumbered by the existence of any agreements or connected transactions, or as a consequence of a group structure, which would undermine their efficacy as capital;

(d) ensure that the actions required or permitted under the contractual, statutory or legal provisions governing an own-fund item are initiated and completed in a timely manner;

(e) ensure that ancillary own-fund items can be, and are, called in a timely manner when necessary;

(f) identify and document any arrangements, legislation or products that give rise to ring-fenced funds (example: protected cell companies) and ensure that appropriate calculations and adjustments in the determination of the solvency capital requirement and own funds are made;

(g) ensure that the contractual terms governing own-fund items are clear and unambiguous in relation to the criteria for classification into tiers;

(h) ensure that any policy or statement in respect of ordinary share dividends distributed by the undertaking is fully taken into account in consideration of the capital position and the assessment of the foreseeable dividends;

(i) identify and document the instances in which distributions on tier 1 own-fund items might be cancelled on a discretionary basis;

(j) identify, document and enforce the instances in which distributions on an own-funds item need to be deferred or cancelled in accordance with Articles 71(1)(l) and 73(1)(g) of the EU Commission Delegated Regulation;

(k) identify the extent to which the undertaking relies on own-fund items subject to transitional measures;

(l) ensure that the manner in which items included in own funds under the transitional measures pursuant to the Insurance Business (Solvency II Transitional Provisions) Regulations, 2015, operate in times of stress, and in particular how the items absorb losses is assessed and, if necessary, taken into account in the ORSA.

Medium-term capital management plan

40. The authorised undertaking should develop a medium-term capital management plan which is monitored by the Board of Directors, and which includes at least consideration of:

- (a) any planned capital issuance;
- (b) the maturity of own-fund items, incorporating both the contractual maturity and any earlier opportunity to repay or redeem, relating to the undertaking's own fund items;
- (c) the result of the projections made in the ORSA;
- (d) how any issuance, redemption or repayment, or other variation in the valuation of own-funds items affects the application of the limits on tiers;
- (e) how applying the distribution policy will affect own funds; and
- (f) the impact of the end of the transitional period.

Section 7: Internal controls

Internal control environment

41. (1) The authorised undertaking should promote the importance of performing appropriate internal controls by ensuring that all personnel are aware of their role in the internal control system. The control activities should be commensurate to the risks arising from the activities and processes to be controlled.

(2) The participating insurance or reinsurance undertaking, the insurance holding company or the mixed financial holding company should ensure a consistent implementation of the internal control systems across the group.

Monitoring and reporting

42. The authorised undertaking should establish monitoring and reporting mechanisms within the internal control system which provide the Board of Directors with the relevant information for the decision-making processes.

Section 8: Internal audit function

Independence of the internal audit function

43. (1) The authorised undertaking should ensure that the internal audit function does not perform any operational functions and is free from undue influence by any other functions including key functions.

(2) When performing an audit and when evaluating and reporting the audit results, the authorised undertaking should ensure that the internal audit function is not subject to influence from the Board of Directors that can impair its operational independence and impartiality.

Conflicts of interest within the internal audit function

44. (1) The authorised undertaking should take adequate measures in order to mitigate the risk of any conflict of interest.

(2) The authorised undertaking should therefore ensure that internally recruited auditors do not audit activities or functions they previously performed during the time-frame covered by the audit.

Internal audit policy

45. (1) The authorised undertaking should have an internal audit policy which covers at least the following areas:

(a) the terms and conditions according to which the internal audit function can be called upon to give its opinion or assistance or to carry out other special tasks;

(b) if the policy provides for, the internal rules setting out the procedures the person responsible for the internal audit function needs to follow before informing the competent authority;

(c) where appropriate, the criteria for the rotation of staff assignments.

(2) The participating insurance or reinsurance undertaking, the insurance holding company or the mixed financial holding company should ensure that the internal audit policy at group level describes how the internal audit function:

(a) coordinates the internal audit activity across the group;

(b) ensures compliance with the internal audit requirements at group level.

Internal audit plan

46. The authorised undertaking should ensure that the internal audit plan:

(a) is based on a methodical risk analysis, taking into account all the activities and the complete system of governance, as well as expected developments of activities and innovations;

(b) covers all significant activities that are to be reviewed within a reasonable period of time.

Internal audit documentation

47. The authorised undertaking should keep a record of its work in order to allow for an assessment of the effectiveness of the work of the internal audit function, and to document the audits in a way that allows for retracing the audits undertaken and the findings they produced.

Internal audit function tasks

48. The authorised undertaking should require that the internal audit function, in its report to the Board of Directors, includes the envisaged period of time to remedy the shortcomings, as well as information on the achievement of previous audit recommendations.

Section 9: Actuarial function

Tasks of the actuarial function

49. (1) The authorised undertaking should take appropriate measures to address the potential conflicts of interests, if the undertaking decides to add additional tasks or activities to the tasks and activities of the actuarial function.

(2) The participating insurance or reinsurance undertaking, the insurance holding company or the mixed financial holding company should require that the group actuarial function gives an opinion on the reinsurance policy and the reinsurance program for the group as a whole.

Coordination of the calculation of technical provisions

50. (1) The authorised undertaking should require the actuarial function to identify any inconsistency with the requirements set out in Article 18E of the Act and paragraphs 5.3.1 to 5.3.45 of Chapter 5 in Part B of these Insurance Rules, for the calculation of technical provisions and propose corrections as appropriate.

(2) The authorised undertaking should require the actuarial function to explain any material effect of changes in data, methodologies or assumptions between valuation dates on the amount of technical provisions.

Data quality

51. The authorised undertaking should require the actuarial function to assess the consistency of the internal and external data used in the calculation of technical provisions against the data quality standards as set in the Solvency II Directive. Where relevant, the actuarial function should provide recommendations on internal procedures to improve data quality so as to ensure that the undertaking is in a position to comply with the Solvency II framework.

Testing against experience

52. The authorised undertaking should ensure that the actuarial function reports any material deviations from actual experience to the best estimate to the Board of Directors. The report should investigate the causes of the deviations and, where applicable, propose changes in the assumptions and modifications to the valuation model in order to improve the best estimate calculation.

Underwriting policy and reinsurance arrangements

53. The authorised undertaking should require the actuarial function, when providing its opinion on the underwriting policy and the reinsurance arrangements, to take into consideration the interrelations between these and the technical provisions.

The actuarial function of an undertaking using an internal model

54. The authorised undertaking should require the actuarial function to specify which risks within their domain of expertise are covered by the internal model. The actuarial function should also contribute to how dependencies between these risks and dependencies between these risks and other risks are derived. This contribution should be based on a technical analysis and should reflect the experience and expertise of the function.

Section 10: Valuation of assets and liabilities other than technical provisions

Valuation of assets and liabilities other than technical provisions

55. In its policy and procedures for valuation of assets and liabilities the authorised undertaking should cover at least the following:

(a) the methodology and criteria to be used for the assessment of active and non-active markets;

(b) the requirements to ensure adequate documentation of the valuation process and of the accompanying controls, including those for data quality;

(c) the requirements on the documentation of the valuation approaches used regarding:

(i) their designs and the way they are implemented;

(ii) the adequacy of data, parameters and assumptions;

(d) the process for the independent review and verification of the valuation approaches;

(e) the requirements for the regular reporting to the Board of Directors on matters that are relevant for its governance on valuation.

Data quality control procedures

56. (1) The authorised undertaking should implement data quality control procedures to identify deficiencies and to measure, monitor, manage and document their data quality. These procedures should include:

(a) completeness of data;

(b) appropriateness of data, both from internal and external sources;

(c) independent review and verification of data quality.

(2) The policies and procedures implemented by the authorised undertaking should address the need to periodically review market data and inputs against alternative sources and experience.

Documentation when using alternative valuation methods

57. Where alternative methods for valuation are used, the authorised undertaking should document:

(a) a description of the method, purpose, key assumptions, limitations and output;

(b) the circumstances under which the method would not work effectively;

(c) description and analysis of the valuation process, and the controls linked with the method;

(d) an analysis of valuation uncertainty linked with the method;

(e) a description of back-testing procedures performed on the results and, where possible, a comparison against comparable models or other benchmarks, which should be carried out when the valuation method is first introduced and regularly thereafter;

(f) a description of the tools or programs used.

Independent review and verification of valuation methods

58. (1) The authorised undertaking should ensure that an independent review of the valuation method, pursuant to Article 267(4)(b) of the EU Commission Delegated Regulation, takes place before the implementation of a new method or a major change, and on a regular basis thereafter.

(2) The authorised undertaking should determine the frequency of the review in line with the significance of the method for the decision-making and risk management processes.

(3) The authorised undertaking should apply the same principles for the independent review and verification of both internally developed valuation methods or models and for vendor provided valuation methods or models.

(4) The authorised undertaking should have processes in place to report the results of the independent review and verification, as well as the recommendations for remedial actions to the appropriate management level of the undertaking.

Oversight by the Board of Directors and other persons who effectively run the undertaking

59. The Board of Directors and other persons who effectively run the authorised undertaking should be able to demonstrate an overall understanding of the valuation approaches and the uncertainties involved in the valuation process to allow a proper oversight of the risk management process concerning valuation.

Request to the authorised undertaking by the competent authority, for an external independent valuation or verification

60. An independent valuation or verification from an authorised undertaking, may be requested by the competent authority, at least when there is a risk of misstatements in the valuation of material assets or liabilities, with possible material consequences for the undertaking's solvency situation.

Independence of the external expert

61. The authorised undertaking should be able to demonstrate to the competent authority that the external valuation or verification has been performed by independent experts who possess the relevant professional competence, due care and relevant experience.

Information to be provided to the competent authority on the external valuation or verification

62. The authorised undertaking should provide the competent authority with all relevant information requested on external valuation or verification. The authorised undertaking should include in this information, at least, the experts' written opinion on the valuation of the relevant asset or liability.

Section 11: Outsourcing

Critical or important operational functions and activities

63. The authorised undertaking should determine and document whether the outsourced function or activity is a critical or important function or activity on the basis of whether this function or activity is essential to the operation of the undertaking as it would be unable to deliver its services to policyholders without the function or activity.

Underwriting

64. When an insurance intermediary, who is not an employee of the authorised undertaking, is given authority to underwrite business or settle claims in the name and on account of the authorised undertaking, the undertaking should ensure that the activity of this intermediary is subject to the outsourcing requirements.

Intra-group outsourcing

65. If critical or important functions or activities are outsourced within the group, the participating insurance or reinsurance undertaking, the insurance holding company or the mixed financial holding company should document which functions relate to which legal entity and ensure that the performance of the critical or important functions or activities concerned at the level of the undertaking is not impaired by such arrangements.

Outsourcing written policy

66. The authorised undertaking that outsources or considers outsourcing should cover in its policy the undertaking's approach and processes for outsourcing from the inception to the end of the contract. This in particular should include:

(a) the process for determining whether a function or activity is critical or important;

(b) how a service provider of suitable quality is selected and how and how often its performance and results are assessed;

(c) the details to be included in the written agreement with the service provider taking into consideration the requirements laid down in the EU Commission Delegated Regulation;

(d) business contingency plans, including exit strategies for outsourced critical or important functions or activities.

Written notification to the competent authority

67. In its written notification to the competent authority of any outsourcing of critical or important functions or activities the authorised undertaking should include a description of the scope and the rationale for the outsourcing and the service provider's name. When outsourcing concerns a key function, the information should also include the name of the person in charge of the outsourced function or activities at the service provider.

Chapter II: Group governance specific requirements

Responsibilities for setting internal governance requirements

68. (1) The participating insurance or reinsurance undertaking, the insurance holding company or the mixed financial holding company should set adequate internal governance requirements across the group appropriate to the structure, business model and risks of the group and of its related entities, and should consider the appropriate structure and organization for risk management at group level, setting a clear allocation of responsibilities at all entities that are part of the group.

(2) The participating insurance or reinsurance undertaking, the insurance holding company or the mixed financial holding company should not impair the responsibilities of the Board of Directors of each entity in the group when setting up its own system of governance.

System of governance at group level

69. The participating insurance or reinsurance undertaking, the insurance holding company or the mixed financial holding company should:

(a) have in place appropriate and effective tools, procedures and lines of responsibility and accountability enabling it to oversee and steer the functioning of the risk management and internal control systems at individual level;

(b) have in place reporting lines within the group and effective systems for ensuring information flows in the group bottom up and top-down;

(c) document and inform all the entities that are part of the group about the tools used to identify, measure, monitor, manage and report all risks to which the group is exposed;

(d) take into account the interests of all the entities belonging to the group and how these interests contribute to the common purpose of the group as a whole over the long term.

Risks with significant impact at group level

70. The participating insurance or reinsurance undertaking, the insurance holding company or the mixed financial holding company should consider in its risk management system the risks both at individual and group level and their interdependencies, in particular:

(a) reputational risk and risks arising from intra-group transactions and risk concentrations, including contagion risk, at the group level;

(b) interdependencies between risks stemming from conducting business through different entities and in different jurisdictions;

(c) risks arising from third-country entities;

(d) risks arising from non-regulated entities;

(e) risks arising from other regulated entities.

Risk concentrations at group level

71. The participating insurance or reinsurance undertaking, the insurance holding company or the mixed financial holding company should ensure that there are processes and procedures in place to identify, measure, manage, monitor and report risk concentrations.

Intra-group transactions

72. The participating insurance or reinsurance undertaking, the insurance holding company or the mixed financial holding company should ensure that the risk management system of the group and the individual undertakings include processes and reporting procedures for identifying, measuring, monitoring, managing and reporting of intra-group transactions, including significant and very significant intra-group transactions as referred in the Solvency II Directive.

Group risk management

73. (1) The participating insurance or reinsurance undertaking, the insurance holding company or the mixed financial holding company should support its risk management at

group level by appropriate processes and procedures to identify, measure, manage, monitor and report the risks that the group and each individual entity are or might be exposed to.

(2) The participating insurance or reinsurance undertaking, the insurance holding company or the mixed financial holding company should ensure that the structure and organization of the group risk management do not impair the undertaking's legal ability to fulfil its legal, regulatory and contractual obligations.

Part II - Guidelines on Own Risk and Solvency Assessment (“ORSA”)

Definitions

1. For the purpose of Part II of this Annex the following definitions apply:-

“group level” means a coherent economic entity (holistic view) comprising all entities that are part of the group as referred to in Part I of this Annex;

“group ORSA” means the ORSA undertaken at group level;

“single ORSA document” means a single document (supervisory report of the ORSA) which covers ORSA undertaken at the level of the group and at the level of some subsidiaries in the group on the same reference date and period, subject to supervisory approval, as referred to in regulations 34(7) and (9)(c) of the Insurance Business (Supervision of Insurance and Reinsurance Undertakings in a Group) Regulations, 2015.

and if not defined in Part II of this Annex, the terms have the meaning defined in the Act, regulations or Insurance Rules issued thereunder, or in the EU Commission Delegated Regulation.

General approach

2. The authorised undertaking should develop for the ORSA its own processes with appropriate and adequate techniques, tailored to fit into its organisational structure and risk-management system and taking into consideration the nature, scale and complexity of the risks inherent to the undertaking’s business.

Role of the Board of Directors: top-down approach

3. The Board of Directors should take an active part in the ORSA, including steering, how the assessment is to be performed and challenging the results.

Documentation

4. The authorised undertaking should have at least the following documentation:

- (a) the policy for the ORSA;
- (b) record of each ORSA;
- (c) an internal report on each ORSA;
- (d) a supervisory report of the ORSA.

Policy for the ORSA

5. The Board of Directors of the authorised undertaking should approve the policy for the ORSA. This policy should include at least a description of:

- (a) the processes and procedures in place to conduct the ORSA;
- (b) the link between the risk profile, the approved risk tolerance limits and the overall solvency needs;
- (c) the methods and methodologies including information on:
 - (i) how and how often stress tests, sensitivity analyses, reverse stress tests or other relevant analyses are to be performed;
 - (ii) data quality standards;
 - (iii) the frequency of the assessment itself and the justification of its adequacy particularly taking into account the undertaking's risk profile and the volatility of its overall solvency needs relative to its capital position;
 - (iv) the timing for the performance of the ORSA and the circumstances which would trigger the need for an ORSA outside of the regular time-scales.

Record of each ORSA

6. The authorised undertaking should evidence and document each ORSA and its outcome.

Internal reporting on the ORSA

7. The authorised undertaking should communicate to all relevant staff at least the results and conclusions of the ORSA, once the process and the results have been approved by the Board of Directors.

Assessment of the overall solvency needs

8. (1) The authorised undertaking should provide a quantification of the capital needs and a description of other means needed to address all material risks irrespective of whether the risks are quantifiable or not.

(2) Where appropriate, the authorised undertaking should subject the identified material risks to a sufficiently wide range of stress tests or scenario analyses in order to provide an adequate basis for the assessment of the overall solvency needs.

Forward-looking perspective of the overall solvency needs assessment

9. The authorised undertaking should ensure that its assessment of the overall solvency needs is forward-looking, including a medium term or long term perspective as appropriate.

Valuation and recognition bases of the overall solvency needs

10. (1) The authorised undertaking should, if it uses recognition and valuation bases that are different from the Solvency II bases in the assessment of its overall solvency needs, explain how the use of such different recognition and valuation bases ensures better consideration of the specific risk profile, approved risk tolerance limits and business strategy of the undertaking, while complying with the requirement for a sound and prudent management of the business.

(2) The authorised undertaking should quantitatively estimate the impact on the overall solvency needs assessment of the different recognition and valuation bases in those cases where recognition and valuation bases that are different from the Solvency II bases have been used in the assessment of its overall solvency needs.

Continuous compliance with regulatory capital requirements

11. The authorised undertaking should analyse whether it complies on a continuous basis with the regulatory capital requirements as set out in Part IV of the Act on Conditions for Carrying on Business of Insurance and Insurance Rules issued thereunder, and as part of this assessment it should include at least:

- (a) the potential future material changes in its risk profile;
- (b) the quantity and quality of its own funds over the whole of its business planning period;
- (c) the composition of own funds across tiers and how this composition may change as a result of redemption, repayment and maturity dates during its business planning period.

Continuous compliance with technical provisions

12. The authorised undertaking should require the actuarial function of the undertaking to:

- (a) provide input as to whether the undertaking would comply continuously with the requirements regarding the calculation of technical provisions;

(b) identify potential risks arising from the uncertainties connected to this calculation.

Deviations from assumptions underlying the SCR calculation

13. The authorised undertaking should assess whether its risk profile deviates from the assumptions underlying the SCR calculation and whether these deviations are significant. The authorised undertaking may as a first step perform a qualitative analysis and if that indicates that the deviation is not significant, a quantitative assessment is not required.

Link to the strategic management process and decision-making framework

14. The authorised undertaking should take into account the results of the ORSA and the insights gained during the process of this assessment in at least:

- (a) its capital management;
- (b) its business planning;
- (c) its product development and design.

Frequency

15. An authorised undertaking should perform the ORSA at least annually, and in any case in the circumstances which would trigger the need for an ORSA outside the regular time-scales.

Scope of group ORSA

16. The participating insurance or reinsurance undertaking, the insurance holding company or the mixed financial holding company should design the group ORSA to reflect the nature of the group structure and its risk profile. They should cover in the group ORSA the material risks arising from all the entities that are part of the group.

Reporting to the supervisory authorities

17. (1) The participating insurance or reinsurance undertaking, the insurance holding company or the mixed financial holding company should send to the group supervisor the group supervisory ORSA report. The document sent to the group supervisor with the outcome of the group ORSA should be in the same language as the group Regular Supervisory Reporting.

(2) If a single ORSA document has been performed, the participating insurance or reinsurance undertaking, the insurance holding company or the mixed financial holding company should ensure that, if a request is made by the competent authority as a member or a

new member of the college of supervisors, for a translation of the part of the ORSA information concerning the related undertaking, in the English language, such a translation is to be provided to the competent authority, in a timely manner.

Group specificities on overall solvency needs

18. (1) The participating insurance or reinsurance undertaking, the insurance holding company or the mixed financial holding company should adequately assess the impact of all group specific risks and interdependencies within the group and the impact of these risks and interdependencies on the overall solvency needs. They should take into consideration the specificities of the group and the fact that some risks may be scaled up at the level of the group.

(2) In accordance with paragraph 6 on the record of each ORSA, the participating insurance or reinsurance undertaking, the insurance holding company or the mixed financial holding company should include in the record of the group ORSA at least a description on how the following factors were taken into consideration for the assessment of overall solvency needs:

- (a) the identification of the possible sources of capital within the group and identification of potential needs for additional capital;
- (b) the assessment of availability, transferability or fungibility of capital;
- (c) references to any envisaged transfer of capital within the group, which would have a material impact on any entity of the group, and its consequences;
- (d) alignment of individual strategies with the ones established at the level of the group;
- (e) specific risks the group could be exposed to.

Group specificities on the continuous compliance with regulatory capital requirements

19. In accordance with paragraph 6 on the record of each ORSA, the participating insurance or reinsurance undertaking, the insurance holding company or the mixed financial holding company should include in the record of the group ORSA at least a description on how the following factors were taken into consideration for the assessment of continuous compliance with regulatory requirements:

- (a) the identification of the sources of own funds within the group and if there is a need for additional own funds;
- (b) the assessment of availability, transferability or fungibility of own funds;

(c) references to any planned transfer of own funds within the group, which would have a material impact on any entity of the group, and its consequences;

(d) alignment of individual strategies with the ones established at the level of the group;

(e) specific risks the group could be exposed to.

Specific requirements for a single ORSA document

20. In case of application to undertake the ORSA at the level of the group and at the level of the subsidiary, according to regulations 34(7) and 34(9)(c) of the Insurance Business (Supervision of Insurance and Reinsurance Undertakings in a Group) Regulations, 2015, the participating insurance or reinsurance undertaking, the insurance holding company or the mixed financial holding company should provide to the group supervisor:

(a) a list of the undertakings for which the individual assessments required by Article 18I (2)(c) of the Act and Section 6.4 of Chapter 6 in Part B of the Insurance Rules, are covered in the single ORSA document including the reason of the choice made;

(b) a description of how the governance requirements are met at the level of these undertakings and in particular how the Board of Directors of the subsidiaries are involved in the assessment process and approval of the outcome;

(c) a description of how the single ORSA document is organised in order to allow the group supervisor to separate individual assessments for the other supervisors in the college;

(d) where necessary, a specific indication on required translations, with specific attention to timing and content.

Integration of related third-country insurance and reinsurance undertakings

21. In the assessment of the group overall solvency needs, the participating insurance or reinsurance undertaking, the insurance holding company or the mixed financial holding company should include the risks of the business in third countries in a consistent manner as it does for the European Economic Area-business with special attention to the assessment of transferability and fungibility of capital.