

Life and non-life insurance companies

Chief Executive Officer

With this letter, the Financial Supervisory Authority (FIN-FSA) wishes to draw the insurance companies' attention to certain issues that have arisen in supervision during 2021 and to communicate the supervisor's expectations for 2022.

Despite the prevailing COVID-19 situation, 2021 was a year of economic recovery. Most companies in the sector strengthened their results, premiums written developed favourably, returns on investments in risky asset classes were robust and claims expenditure was moderate. SCR ratios are on a good level and, as a result of the combined effect of all of the above factors, the companies' solvency has improved.

Since the end of the financial crisis, returns on investments have been historically strong for nearly all asset classes, and notably so in 2021. That said, return expectations for the future are low across the board, and capital markets may, at the current juncture, be sensitive to rapid changes in economic expectations or the interest rate level. The inflation outlook, in particular, has changed clearly in the course of 2021, and future inflation developments may have a considerable effect also on the performance of the insurance sector. In line with the approach adopted by the European Supervisory Authorities, the FIN-FSA decided not to continue to restrict profit distributions but still urges insurance companies to take into account the risks related to the prolongation of the COVID-19 pandemic as well as the risks associated with its operations in the planning of profit distributions. Insurance companies are required to carefully assess capital needs and the sustainability of business models in the planning of profit distributions and payment of variable bonuses.

A sound, high-quality system of governance and well-functioning internal control and risk management systems, together with appropriate procedures, are naturally key to sustainable and effective operations. The FIN-FSA wishes to point out that implementation of administrative regulations and sound risk management practices into business processes is not only essential but also important from the business point of view to ensure strong performance in the long term.

1 Thematic evaluation of group solvency calculations

In its thematic evaluation, the FIN-FSA addressed a difficult-to-interpret topic, namely the regulations on group solvency calculations and their application in Finland. In its advice to the Commission related to the Solvency II reforms, the European Insurance and Occupational Pension Authority EIOPA also drew attention to this issue, and the thematic evaluation of the solvency calculations of the current reporters will serve as a good foundation for future reforms as well as providing more general information on the sector's understanding of the coverage of group regulations.

The errors and omissions identified in the thematic evaluation did not, in the FIN-FSA's view, have a significant impact on the groups' solvency ratios. However, the thematic evaluation highlighted the need to remind the groups of their responsibility to familiarise themselves with the regulations on group solvency, to be aware of their group structure and to act accordingly for reporting purposes. Special consideration should be given to ensure that companies acting as related undertakings comply with the regulation in their reporting and SCR calculations. Corrections of shortcomings identified in the thematic evaluation will be monitored on an institution by institution basis.

2 Findings on the internal governance system

In 2021, the FIN-FSA focused special attention on the quality of the minutes of board meetings. The FIN-FSA emphasises that board decisions must be documented appropriately to ensure that it will be possible to examine ex post how data from the risk management system has been considered in decision-making. The board should cooperate, for example, with those responsible for key functions, request information in advance and challenge this information where necessary. The essence of the dialogue underlying decision-making should also be documented in the minutes of board meetings or in their appendices.

The FIN-FSA would also like to draw the companies' attention to the assessment of the collective competence of the board in the context of the fit & proper declaration process. The board must possess the suitable collective qualifications, experience and knowledge necessary for the management of the company in at least five of the areas of competence defined in the regulations. In addition to the general skills required of all board members, at least one board member should possess the qualifications, skills, and professional experience in the defined area for each of the five areas of competence. We also draw attention to the fact that the supervised entities are obliged to see to it that the fit & proper declaration process is ongoing.

As regards the companies' compliance function, we wish to point out that the functioning of the compliance function as part of internal control, the sufficiency of resource allocation and the coverage of the internal control plan must be assessed on a regular basis, with due consideration given to the scope and complexity of the company's business. The longer-term internal control plans should take account of all the company's significant business areas including their risks on a rotational basis, including the control functions of the second line of defence.

In the case of official reporting to the authorities, we ask supervised entities to pay attention to the accuracy and quality assurance of the reports.

3 Digitalisation and cloud services in the insurance sector

In its supervisory work, the FIN-FSA observes EIOPA's Guidelines on outsourcing to cloud service providers. In respect of these, we point out that supervised entities must assess and, where necessary, adjust existing outsourcing arrangements to cloud service providers. At the same time, the companies must ensure by 31 December 2022 that the arrangements for essential or important operational tasks or measures are in compliance with the requirements laid down in EIOPA's Guidelines. The documentation requirements for outsourcing arrangements to cloud service providers related to essential or important operational tasks or measures must be fulfilled by 31 December 2022. The company's operating policies and internal processes were to be updated by 1 January 2021, if necessary.

4 Conduct of business issues

The FIN-FSA has on various occasions noticed that the indemnification procedure in the case of statutory lines of *non-life insurance* does not in all respects fulfil the regulatory requirements governing maximum processing times. We are undertaking a survey to assess the current situation and will communicate a more accurate picture of the situation in early 2022. We will also launch regular sector-specific reporting in early 2022 to support our supervisory work. At the same time, the sufficiency of staff and the operational reliability of critical systems should be ensured, as should satisfactory information sharing within the company to control any arising situation.

In the field of conduct of business supervision, EIOPA focuses on the key theme of *Value for Money* and use of the related product management system (POG). The FIN-FSA encourages *life insurance companies*, in particular, to apply POG actively and to design products with the objectives, interests and characteristics of the customers in mind. It must also be ensured that insurance products meet the needs, characteristics and objectives of target market customers and that insurance investment products are suitable and appropriate for the customer. These objectives should also be fulfilled in the distribution channel.

5 Closing remarks

The surrounding world is in a constant state of flux. In response to digitalisation and climate change, new business risks have emerged that supervised entities should provide for by further building up skills and risk management capacity in these areas. Digitalisation and sustainability risks also have a strong presence on the regulator's agenda, and the implementation of new regulations will in future call for development measures by both supervised entities and the supervisory authority. Digitalisation also offers new opportunities for broadening the supervisor's toolbox. Supervisory practices and the supervisory culture will be further harmonised at EU level under EIOPA's auspices. A sound supervisory culture is risk-based, forward-looking, challenging, comprehensive and conclusive. Hence, in the midst of an operating



environment marked by accelerating change, we are looking forward to a year of robust development both for the FIN-FSA and for the supervised entities.

We would like to thank supervised entities for your excellent cooperation in 2021 and wish everyone a Merry Christmas and a prosperous New Year 2022!

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