



Non-life and life insurance companies

Chief Executive Officer

Due to the COVID-19 pandemic, the past year was a highly exceptional one for the supervised entities and the supervisory authority as well. The year 2020 was characterised by unusually high uncertainty regarding economic developments and related expectations. This has required even more thorough assessment and monitoring of the economic operating environment and own operations as well as frequent reporting to the supervisory authority.

With this letter, the Financial Supervisory Authority wishes to point the companies' attention to certain issues that have arisen in supervision during 2020 and also give an indication on the supervisor's expectations for 2021.

1 Changes in the operating environment

The pandemic has caused disruptions in the real economy and thereby the financial markets, and will likely continue to do so going forward. This, as well as other changes in the operating environment in recent years are likely to affect, or may already have affected, insurance companies' earnings capacity and logic. Companies must take the evolved operating environment into account in setting assumptions concerning future business performance, while assessing their strategy both in the short and long term.

In the prevailing circumstances, particular attention must be paid to the selection and early updating of the assumptions that are applied, in addition to the assessment of strategy, for example in ORSA and the calculation of technical provisions.

2 Quality and extent of regular supervisory reports vary

Regular supervisory reports (RSR) prepared by the companies are a key tool for the supervisory authority. The report contains open and objective information reviewed by the board of directors affecting the company's future, which is not available in any other source. It is paramount that the report shows the key findings made by the company's internal control functions, deviation reports, related comments as well as measures taken by the company based on them.

The FIN-FSA will pay attention to the quality and extent of the regular supervisory reports next year. In the same context, the FIN-FSA will assess the frequency of submission of these reports on a company-specific basis.

The report in itself must provide the information required by regulation. It is also possible to make reference in the report to other key documents



of the company, such as ORSA. However, such a reference must be exact, and key issues must be recorded in the supervisory report itself.

The quality and extent of the regular supervisory reports vary. The FIN-FSA reminds that the board of directors of the company is responsible for ensuring that the content of the regular supervisory report complies with regulation.

3 EIOPA expects supervisory authorities to take climate risks into account

Next year, EIOPA is going to publish a statement addressed at supervisory authorities, setting expectations about the treatment of risks related to climate change in ORSA. The key parts of the statement are concerned with the regular generation of various climate scenarios and the implementation of their outcomes into insurance companies' short and long-term strategy process, concerning both the insurance and investment operations. The review period applied in the scenarios may be considerably longer than the current one.

The FIN-FSA will take the statement into account in its supervision and is therefore going to pay special attention to the analysis and management of climate risks. The supervision will be based on risks and reflect the principle of proportionality. Early on, the expectations are primarily concerned with the identification and qualitative assessment of climate risks, and later also on quantitative analysis.

4 Valuation of illiquid investments

This year, the FIN-FSA has paid attention to the market valuation of illiquid investments. The rapid decline of market prices in the first year-half surfaced concerns about the up-to-datedness of fair values, with particular attention on real estate investments made both directly and through investment funds. In this context, the FIN-FSA is currently preparing a thematic review of real estate valuations concerning all insurance institutions.

In valuing real estate investments, regional differences between the location of the assets must be taken into account. The real estate market in Finland is heavily polarised, which affects, in addition to sale times, also the reliability of different valuation methods. Visible changes in real estate values must be taken into account in an up-to-date manner as required by regulation.

5 Outsourcing of a public administrative task

The insurance sector is part of so-called indirect public administration when tending to its duties pertaining to public service. Such duties are related to the provision of statutory insurance and the management of related insurance cover. In a supervision release published at the beginning of December (77/2020, available in Finnish), the FIN-FSA, based on its supervisory findings, called attention to the limits of the

delegation of tasks related to public administration in the insurance sector.

6 Code of conduct issues

This year, EIOPA and the FIN-FSA have emphasised the importance of supervised entities' *appropriate product governance processes* and practical actions based on these processes. Supervised entities must ensure through ongoing oversight that clients' interests are taken into account and that products are consistent with the needs of the target markets throughout their lifecycle. EIOPA presented its views on the subject in the publication "EIOPA's approach to the supervision of product oversight and governance" in October 2020.

In its supervisory release (4/2020), the FIN-FSA expressed its view about what kind of policies may be used to offer insurance to groups. Such contracts include group insurance and self-funded group insurance policies. In the supervisory release, the FIN-FSA urged companies to review their group insurance arrangements and ensure that they comply with the Insurance Contracts Act.

As regards the *distribution channels of insurance products*, the FIN-FSA paid particular attention in 2020 to the provision of insurance policies through agents. If a non-life or life insurance company for example uses the same agents as a pension insurance company, each of these companies must ascertain the professional competence of their agents and supervision thereof. Meanwhile, the FIN-FSA supervises the appropriateness of the supervision of professional competence exercised by the insurance undertaking responsible for the agents. Confidence in the insurance markets requires reliable distribution channels, which are characterised by a register of insurance intermediaries that is reliable and open to the public. Shortcomings have been identified for example in information on the management and owners of ancillary insurance agencies.

The FIN-FSA has found overruns of the *maximum time allowed for the compensation process* in several statutory non-life insurance classes. These overruns have affected a large group of the insured. The companies must consider that, since the livelihood of the insured may be at stake, provisions on the processing times are indeed maximum times and not target times. The compensation processes and lead times should be monitored closely and statistics should be compiled on them in order that actions could be taken early enough, avoiding overruns of statutory deadlines.

7 Conclusion

The FIN-FSA will continue a more frequent dialogue with supervised entities also in 2021. At the same time, it requires that supervised entities continue preparatory actions to protect insured interests by developing risk management and ensuring strong solvency. Both supervised entities and the supervisory authority are now required to ensure adequate resources and attention for a continuous real-time prioritisation of tasks.

At the same time, the importance of supervised entities' own control functions is highlighted.

The FIN-FSA has noted in the past year that many companies have taken actions to strengthen their compliance function in accordance with the FIN-FSA's recommendations. As stated in our supervision release on the organisation of the compliance function (38/2020), a strong, independent and sufficiently resourced compliance function is in the common interest of both the company and the supervisory authority.

The FIN-FSA would like to thank supervised entities for smooth cooperation and wishes a Merry Christmas!

Teija Korpiaho

Marko Aarnio