

## **Procedure for determining the minimum time interval for regular review of elements referred to in Section 44 of the Insurance and Reinsurance Law and performing inspections of activities**

"Procedure for determining the minimum time interval for regular review of elements referred to in Section 44 of the Insurance and Reinsurance Law and performing inspections of activities" (hereinafter – Procedures) has been developed on the basis of Section 45 of the Insurance and Reinsurance Law (hereinafter – the IRL) and determines a minimum time interval for regular review of elements referred to in Section 44 of IRL and frequency of inspections of the activities of insurance undertakings.

### **Risk score**

Supervisory experts identify, analyse and assess the risks inherent in the activities of insurance undertaking and assess the quality of risk management based on the "Methodology for risk assessment and determination of risk score for insurance undertakings". The result of above process is a risk score determined for each insurance undertaking, which is the assessment of the insurance undertaking by the Financial and Capital Market Commission (hereinafter – the Commission), and used by the Commission to describe the risk score of the insurance undertaking's operational risk and the quality, adequacy and compliance of risk management system with the nature, scale and complexity of the activities of insurance undertaking.

The risk score shall be used to carry out effective supervision of insurance undertakings, including to set priorities and intensity of supervisory measures, and to plan inspections of insurance undertakings and their scope, goal and frequency.

The explanation of risk score:

**Risk score 1** – The activity of insurance undertaking is characterised by a low level of risks and the methods used for risk management are sufficient to comply with its risks, scope and complexity of its activity. The activity of the insurance undertaking is stable; risks are sufficiently identified, measured and controlled. There are likely certain shortcomings in the activities of an insurance undertaking, which are not relevant, do not threaten the further operation of the insurance undertaking and may be rectified in due time. Despite some shortcomings, the stability of this insurance undertaking does not raise concerns from a supervisory point of view.

**Risk score 2** – The activity of insurance undertaking is characterised by a moderate level of risks and/or the methods used for risk management are satisfactory but likely to be improved. The operation of the insurance undertaking in its core activities is stable and the risk management methods are sufficient to comply with the risks, scope and complexity of its activity. The insurance undertaking may be possibly involved in certain high-risk transactions, but the quality of risk management in these types of activity is satisfactory. The insurance undertaking may not sufficiently identify, measure and control the risks inherent in it, but it may not have a significant impact on the overall position of the insurance undertaking, and it is unlikely to have financial problems in the future. Since the activities of an insurance undertaking are unstable in any of the less important types of activity and cause concern from a supervisory point of view, greater supervisory attention should be given to this type of activity, including supervisory measures should be taken, in order to achieve a reduction in risks and/or improvement in the quality of risk management.

**Risk score 3** – The activity of insurance undertaking is characterised by an increased level of risk and/or the methods used for risk management by the insurance undertaking are

unsatisfactory because of the significant deficiencies. The activity of insurance undertaking in one of its main activities is volatile, including the possibility that an insurance undertaking may be involved in high-risk transactions and does not sufficiently identify, measure and control the risks inherent in those transactions. Taking increased risks and insufficient risk management may significantly impair the overall position of the insurance undertaking and there is a possibility that it may have financial problems. Since the activities of the insurance undertaking are unstable and cause concern from a supervisory point of view, this insurance undertaking should pay more attention to supervision, including supervisory measures, in order to achieve a reduction in the risks of the insurance undertaking and/or an improvement in the quality of risk management.

**Risk score 4** – The activity of insurance undertaking is characterised by a high level of risks and the methods used by the insurance undertaking for risk management are insufficient: they are inadequate to the risks, scope and complexity of its activities. The insurance undertaking enters in high-risk transactions and does not sufficiently identify, measure and control the risks inherent in its activities. Taking increased risks and insufficient risk management expose the insurance undertaking to serious financial problems and threaten its overall position. The activities and management of the insurance undertaking require continuous supervision and enhanced supervisory measures.

#### **Determination of the frequency and scope of supervisory measures depending on the risk score**

The Commission, performing supervision of the insurance activity, in order to verify compliance of the insurance undertaking with the requirements of the IRL, shall review the elements describing the activities of the insurance undertaking referred to in Section 44 of the IRL: operational strategy, organisational processes, system of the exchange of internal information, system of assessing major risks inherent in the activities, ability to assess risks, management system, establishing technical provisions, capital requirements, investment activities, own funds, internal model, appropriateness of the methods and procedures used for stress testing, as well as the ability to continue operation in accordance with the requirements of the law upon the occurrence of the adverse event evaluated in the stress test or the change to market conditions.

Determination of minimum time interval for the regular review of the elements referred to in Article 44 of the IRL shall be part of the risk assessment-based supervisory review process and shall be one of its stages. The minimum time interval for the regular review of the elements referred to in Article 44 of the IRL shall be determined based on the risk score of the insurance undertaking, which describes the intensity of supervisory measures for each insurance undertaking. The supervisory measures applicable to the insurance undertaking and their frequency and scope shall be selected and planned on the basis of the risk score.

Procedure ensures that insurance undertakings with a higher risk score, i.e. undertakings with high risk inherent and/or potential deterioration of their financial condition, have a greater impact on the financial and capital market and policyholders, the insured and the persons who have the right to claim the insurance indemnity under the insurance contract concluded are subject to supervision of higher intensity. Higher intensity supervision means, for example, performing inspections more frequently.

On the other hand, lower supervisory intensity is applicable to insurance undertakings with low risk score and whose impact on the financial and capital markets and policyholders, the insured and the persons who have the right to claim the insurance indemnity under the insurance contract concluded is insignificant, and, accordingly, individual supervisory measures applicable to the undertaking will be less frequent.

In order to ensure that the frequency and scope of supervisory measures are determined according to the nature, scale and complexity of the activities of insurance undertaking and the degree of impact of the insurance undertaking on the financial and capital market and on policyholders, the insured and the persons who have the right to claim the insurance indemnity under the insurance contract concluded, the minimum time interval for the regular review of the elements referred to in Article 44 of the IRL shall be determined in accordance with Table 1 “Frequency and scope supervision measures depending on the risk score”, Table 2 “Supervisory measures for the activities of insurance undertakings”. The list of supervisory measures presented in Tables 1 and 2 is not exhaustive. The Commission may, where necessary, apply a supervisory measure appropriate to another supervisory level or apply other supervisory measures not listed in the tables.

**Table 1 "Frequency and scope supervision measures depending on the risk score "**

Risk score	Intensity of supervision	Supervisory measures	Frequency of inspections
1	Low	<ul style="list-style-type: none"> <li>Standard supervision.</li> </ul>	At least every 6 years
2	Moderate	The supervisory measures mentioned above, and: <ul style="list-style-type: none"> <li>monitoring of problem areas;</li> <li>additional meetings with the management.</li> </ul>	At least every 5 years
3	Medium	The supervisory measures mentioned above, and: <ul style="list-style-type: none"> <li>enhanced supervision;</li> <li>in-depth inspections of activities.</li> </ul>	At least every 4 years
4	High	The supervisory measures mentioned above, and: <ul style="list-style-type: none"> <li>meetings with shareholders' representatives;</li> <li>emergency measures.</li> </ul>	At least every 3 years

The Commission takes supervisory measures and assesses the activities of an insurance undertaking in accordance with Article 44 of the IRL, where necessary, and in accordance with the internal regulatory documents and other regulatory enactments of the Commission, but not less than as specified in the table “Frequency and scope of supervisory measures depending on the degree of risk”.

**Table 2 "Supervisory measures for the activities of insurance undertakings "**

Elements referred to in Section 44 of IRL	Supervisory measures
1 Operational strategy	To assess the ability of insurance undertaking to achieve strategic objectives, conformity of strategy with requirements laid down in Section 65 of IRL and the Commission Delegated Regulation (EU) 2015/35 and to discuss the strategy with the management of the insurance undertaking.

2 Organisational processes	To assess the compliance of the organisational structure of insurance undertaking with requirements laid down in Sections 53 and 64 of IRL and the Commission Delegated Regulation (EU) 2015/35.
3 System of the exchange of internal information	To assess the compliance of the insurance undertaking's internal information exchange system with approved internal policies and procedures, the compliance of the information exchange procedure with requirements laid down in Sections 53, 64, 66 and 220 of IRL and the Commission Delegated Regulation (EU) 2015/35.
4 System of assessing major risks for the activity, to which it is exposed or may be exposed	To assess the compliance of the approved risk management system of insurance undertaking with internal policies and procedures, Sections 53, 64 and 220 of IRL and the Commission Delegated Regulation (EU) 2015/35.
5 Ability to assess risks in the environment in which the insurance undertaking operates	To assess compliance of the ability of insurance undertaking to assess risks in the environment in which it operates with requirements laid down in Sections 55, 64 and 65 of IRL and the Commission Delegated Regulation (EU) 2015/35.
6 Compliance of the management system, including compliance of the established own risk and solvency assessment with requirements laid down in Sections 53 -74 of IRL	To assess compliance of established internal control policies and procedures of insurance undertaking, internal audit policies and procedures, outsourcing policies and procedures, as well as the management system and the own risk and solvency assessment with requirements laid down in Sections 53 - 74 and Section 220 of IRL and the Commission Delegated Regulation (EU) 2015/35.
7 Compliance of the establishment of provisions with requirements laid down in Sections 98 -115 of IRL	To assess compliance of information on the establishment of technical provisions presented in the quantitative statements submitted by the insurance undertaking with requirements laid down in the Regulation (EU) No 2015/2450 and compliance of the establishment of technical provisions with the policies and procedures approved by the insurance undertaking, Sections 98 – 115 of IRL and the Commission Delegated Regulation (EU) 2015/35 and the Commission's Regulations No 87 "Regulations on the underlying principles of calculation of the technical provisions" of 14.07.2020.
8 Compliance with the capital requirement laid down in Sections 116 – 130 of IRL	To assess compliance of insurance undertaking's capital requirement performance with requirements laid down in Sections 116 and 117 of IRL and compliance of the information submitted regarding the presentation of capital requirements in the quantitative statements with requirements laid down in the Regulation (EU) No 2015/2450 and appropriateness of the calculation of the capital requirement with the policies and procedures approved by the insurance undertaking, Sections 116 – 130 of IRL and Commission Delegated Regulation (EU) 2015/35 and the Commission's Regulations No 248 "Regulations on the calculation of solvency capital requirement and own funds for insurers and reinsurers" of 22.12.2020.
9 Compliance of the investing activity with requirements laid down in Sections 131 – 138 of IRL	To assess compliance of the information submitted by the insurance undertaking with requirements laid down in the Regulation (EU) No 2015/32450. To assess compliance of the insurance undertaking's investment procedure with requirements laid down in Section 132 of IRL. To assess compliance of investment activities with policies and procedures approved by the insurance undertaking, Sections 131 - 138 of IRL and the Commission Delegated Regulation (EU) 2015/35.

<p>10 Compliance of own funds with requirements laid down in Section 116 of the IRL</p>	<p>To assess compliance of the information submitted by the insurance undertaking regarding presentation of own funds in the quantitative statements with requirements laid down in the Regulation (EU) No 2015/2450 and compliance of own funds with the policies and procedures approved by the insurance undertaking, Section 116 of IRL and the Commission Delegated Regulation (EU) 2015/35 and the Commission's Regulations No 248 "Regulations on the calculation of solvency capital requirement and own funds for insurers and reinsurers" of 22.12.2020</p>
<p>11 Continuous compliance of the partial or full internal model with requirements laid down in Sections 121, 122, 123, 124, 125, 126, 127, 128 and 129 of IRL</p>	<p>Where the Commission has received an application for an authorisation to use a full or partial internal model, compliance of the documents submitted with requirements laid down in the Commission Delegated Regulation (EU) 2015/35 and the Commission's Regulations No 249 "Regulations on the internal models of insurers and reinsurers" of 22.12.2020 shall be assessed. To assess compliance of a full or partial internal model with the policies and procedures approved by the insurance undertaking, Sections 121, 122, 123, 125, 126, 127, 128 and 129 of IRL, the Commission Delegated Regulation (EU) 2015/35 and the Commission's Regulations No 249 "Regulations on the internal models of insurers and reinsurers" of 22.12.2020.</p>
<p>12 Appropriateness of the methods and procedure used for the performance of stress tests</p>	<p>To assess the results of the stress tests of insurance undertaking, the appropriateness of the methods and procedures used for carrying out stress tests and the decisions taken regarding the actions to be performed upon the occurrence of the events or a change to market conditions referred to in the stress test.</p>
<p>13 Ability to continue the activity pursuant to the requirements of the law upon the occurrence of an adverse event or a change to market conditions assessed in the stress test</p>	<p>Taking into account the results of the stress tests and the decisions regarding the actions to be taken therefore, the ability of insurance undertaking to continue operations in accordance with the requirements of the law shall be assessed upon the occurrence of an adverse event assessed in the stress test or a change to market conditions. To assess the ability of insurance undertaking to continue operations, in view of the information submitted in accordance with Sections 139, 141, 142 or 146 of IRL.</p>