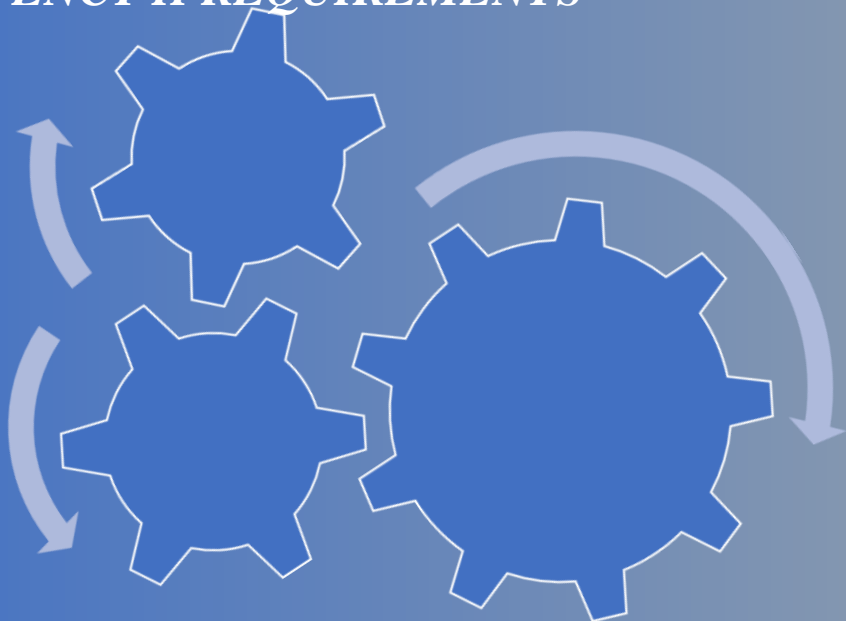


INSURANCE AGENCY OF REPUBLIC OF SRPSKA

Results of a survey on the topic:

***„DETERMINING THE DEVELOPMENT
LEVEL OF MANAGEMENT SYSTEM
FUNCTIONS ACCORDING TO THE
SOLVENCY II REQUIREMENTS“***



In order to determine the initial level of understanding of the Solvency II concept and the development level of functions from the Solvency II management system, the Insurance Agency of Republic of Srpska has conducted a research by submitting a survey questionnaire “Determining the development level of management system functions according to the Solvency II requirements” to insurance companies (hereinafter: the Questionnaire).

The aim of the research was for insurance companies to conduct a self-assessment of the state and development level in relation to the mentioned questions from the Questionnaire, but also to observe the future regulatory requirements and directions for establishing and/or improving key internal functions. In general, the purpose of the research was to gather information on understanding the importance and development level of management system functions according to the requirements of Solvency II. The results of this research will be the starting point for corresponding identification of needs for raising the level of knowledge in the insurance sector, but also for future regulatory activities.

The Questionnaire contained 86 questions and included, in addition to the basic questions of general knowledge of Solvency II, the questions about understanding and the development level of individual functions of the management system. The analysis of the answers from the Questionnaire was based on the assumption that the accountable persons of the insurance companies answered the questions honestly and objectively.

For the purpose of processing the research results, the insurance companies were divided by size, and the parameters for defining micro, small, medium and large companies were set, in such a way that the total calculated premium

in 2020 of the companies based in Republic of Srpska was taken as a relevant parameter.

Company size	Premium share	Number of companies
XS – micro	< 2%	2
S – small	2-8%	7
M – medium	8-15%	5
L – large	> 15%	0

The results of the research indicate a low level of comprehension of the qualitative requirements of Solvency II, including ORSA process, while in some cases the insurance companies overestimated their level of compliance (conclusion made by crossing answers to certain questions, but also being familiar with the processes in individual companies through supervisory activities). Although all insurance companies have stated that there is a certain degree of openness to accepting changes and understanding the concept and importance of risk management in business, independent and tangible activities do not exist yet. A larger number of insurance companies expect the positive effects of Solvency II, and as an explanation they state the identification and quantification of risks and consideration of their own capital needs. For functions established due to legal requirements (internal audit and actuarial function) it was pointed out that the limiting factor of their compliance with Solvency II requirements is the lack of methodologies, while for establishing risk management and compliance functions the limiting factor is available human resources and education. From the qualitative answers to the questions related to the development of risk management functions, internal acts and the risk identification process, it can be concluded that insurance companies do not recognize the concept of risk management



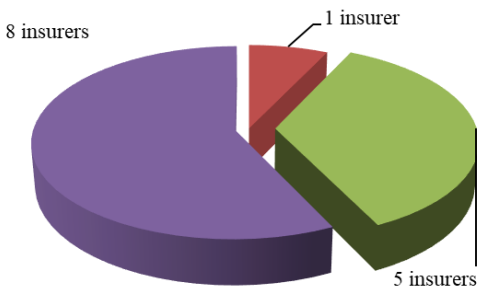
from the Solvency II requirements. Exceptions are companies operating within groups whose main activity is insurance, and from their answers can be recognized to some extent an understanding of the requirements of risk management according to Solvency II.

The answers also show that the need to comply with regulatory requirements and the development of human resources will stimulate the development of functions from the management system.

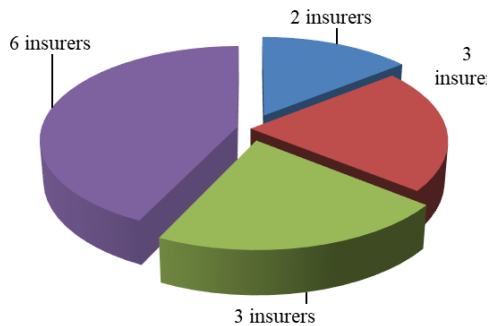
Below is a short excerpt from the results of the research, which contains representative questions and answers, and cross-answers to individual questions, observing the number of companies which gave feedback, or in relation to the size of the insurance company.

Question: How would you rate Your knowledge of Solvency II?

Director



Board of directors

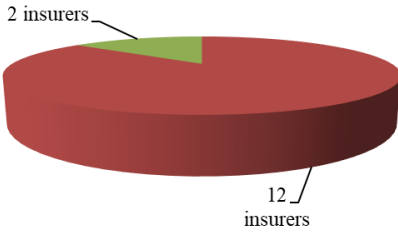


■ very good ■ good ■ moderate ■ superficial ■ not at all



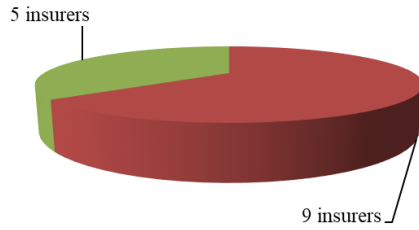
Question: How would you assess the position of Your company in relation to the following aspects?

Employee's awareness of Solvency II



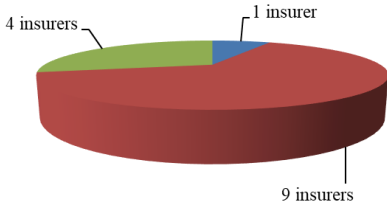
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Available resources for Solvency II implementation



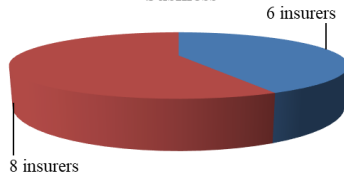
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Know-how for Solvency II implementation



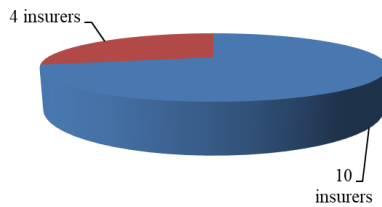
■ exists ■ partially ■ doesn't exist

Understanding the concept and importance of risk management in business



■ exists ■ partially ■ doesn't exist

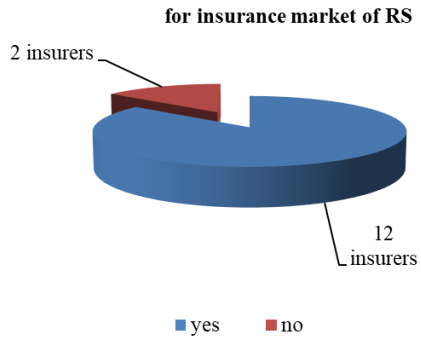
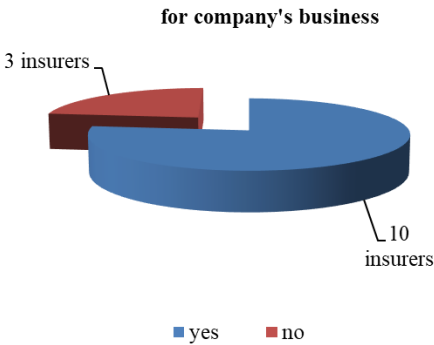
Openness to accept changes



■ exists ■ partially ■ doesn't exist

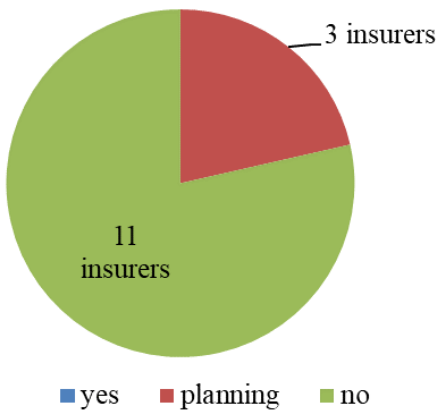


Question: Will the Solvency II have a positive effect?

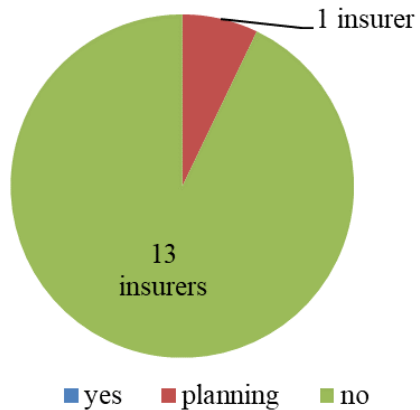


Question: Is there an organizational unit/function/person present in Your company in charge of studying/identifying Solvency II requirements, and has the Company adopted a plan that identifies some of the necessary activities for the preparation of the implementation of Solvency II?

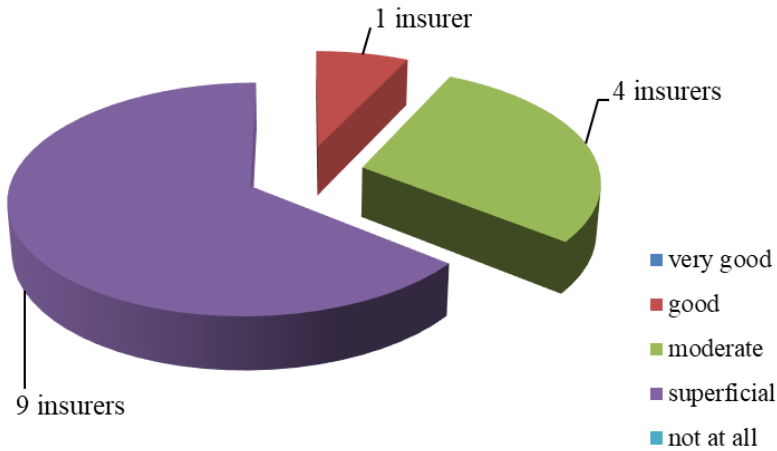
organizational unit/function/person



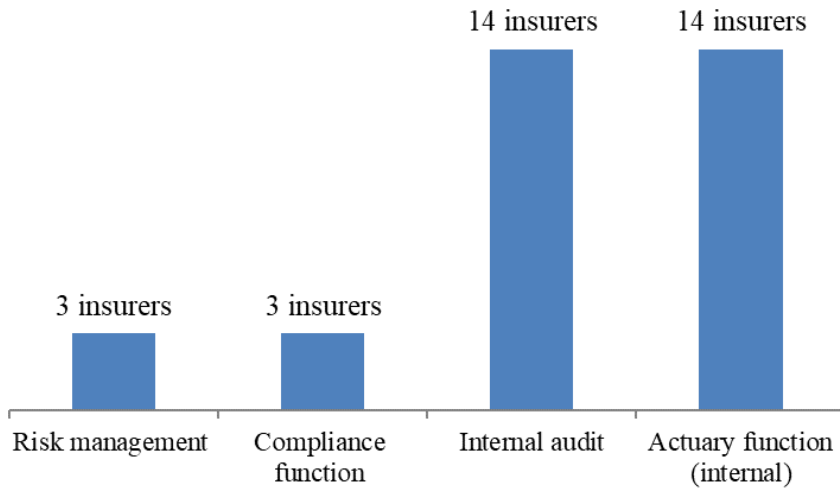
plan of activities



Question: How would you rate Your knowledge of the scope and interrelationship of the Solvency II management system functions?



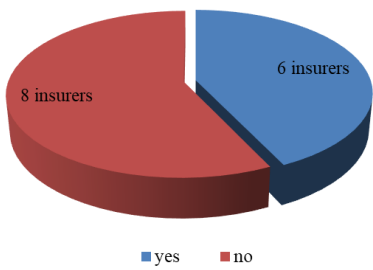
Question: Which of the following "key functions" are established in Your company?



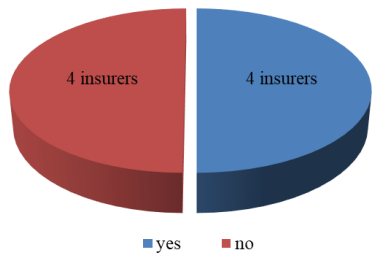
Question: In Your opinion, what are the biggest problems in the establishment of “key functions” in accordance with the pillar II of Solvency II? (rank from 1-large to 5-small problem)

Average rank	Risk management function	Compliance function	Internal audit	Actuary function
1.	human resources	human resources	methodology	methodology
2.	financial resources	education	human resources	financial resources
3.	education	financial resources	financial resources	human resources
4.	methodology	methodology	preparation time	preparation time
5.	preparation time	preparation time	education	education

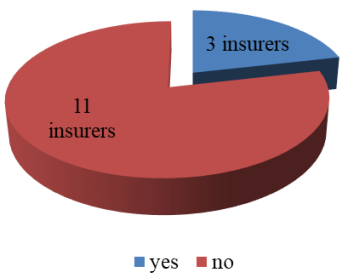
Does Your company have internal acts on risk management rules, they are exposed to in business?



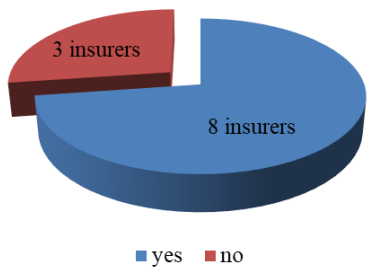
If not, are there any internal acts that identify the risks in certain business segment and/or ways of minimize them?



Is there a sector/person in Your company that is in charge/responsible for risk management process?

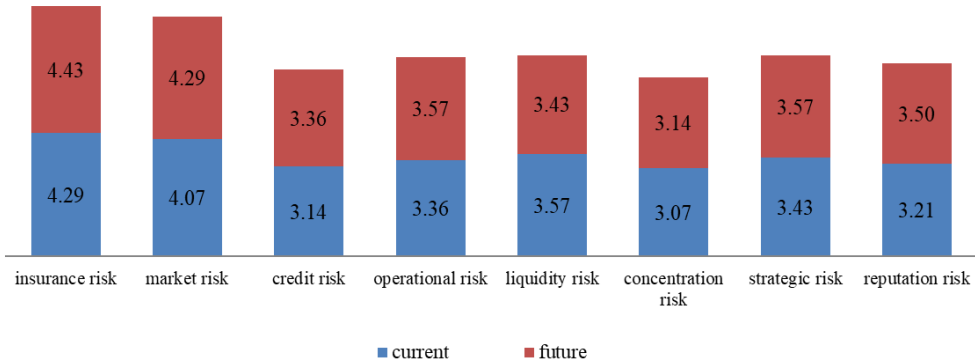


If not, is there at least one business segment/area for which risk is identified and reduction measures taken?



Question: Assess how significant at the moment are, and what level of importance in the future will have, the following risk groups in your company?

average grades

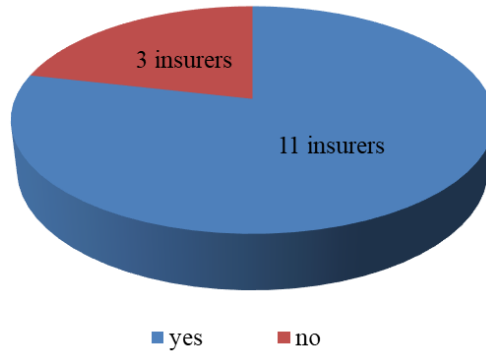


Question: In Your opinion, which factors will have the greatest impact on the future development and improvement of the risk management process in Your company?

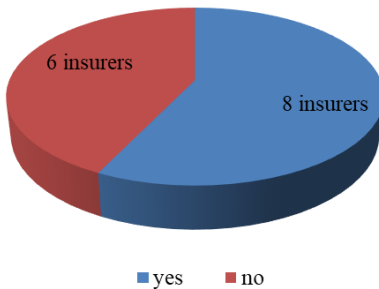
Company size	Compliance with regulatory requirements	Compliance with owner's requirements	Compliance with market requirements	Business requirements	Business losses of the company	Losses of other companies	Being first in risk management	Reputation
XS – micro	2		2	2	1			1
S – small	7	1	6	4				
M – medium	5	3	5	5		1	1	1
Total	14	4	13	11	1	1	1	2



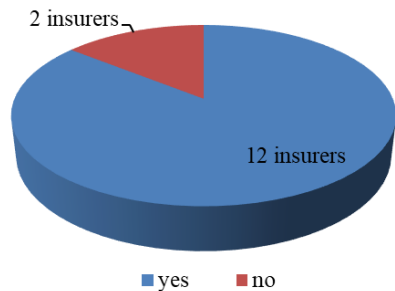
Does Your company have an identified way and possibility of additional capital raising in the case of extraordinary circumstances?



Is the annual internal audit plan based on a documented risk estimation?



Does the internal act ensure that all areas of the insurance company are subject to internal audit within a reasonable period of time?

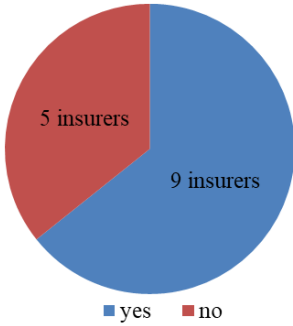


⇒ All companies have internal acts which have regulate the establishment and operation of internal audit.

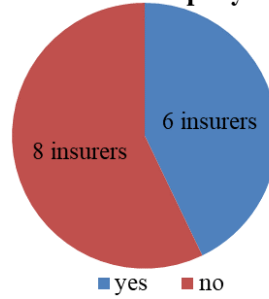


Question: Does any of your internal acts in the company regulate the following:

Scope of work and jurisdiction of internal actuarial function



Obligation, scope and schedule of reporting to the competent body of Your company

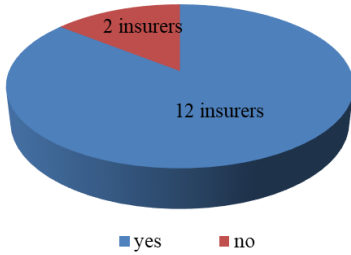


Question: Does the internal actuarial function report to the competent body of Your company about:

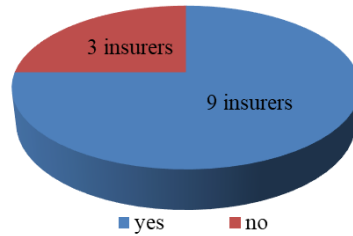
Company size	changes in extent and other changes related to data used for actuarial valuations/calculations?		changes in methodology or premises used in actuarial valuations/calculations?		the impact of changes in methodologies, premises, data on actuarial valuations/ calculations?	
	yes	no	yes	no	yes	no
XS – micro	2		2		2	
S – small	5	2	5	2	5	2
M – medium	5		5		4	1
Total	12	2	12	2	11	3



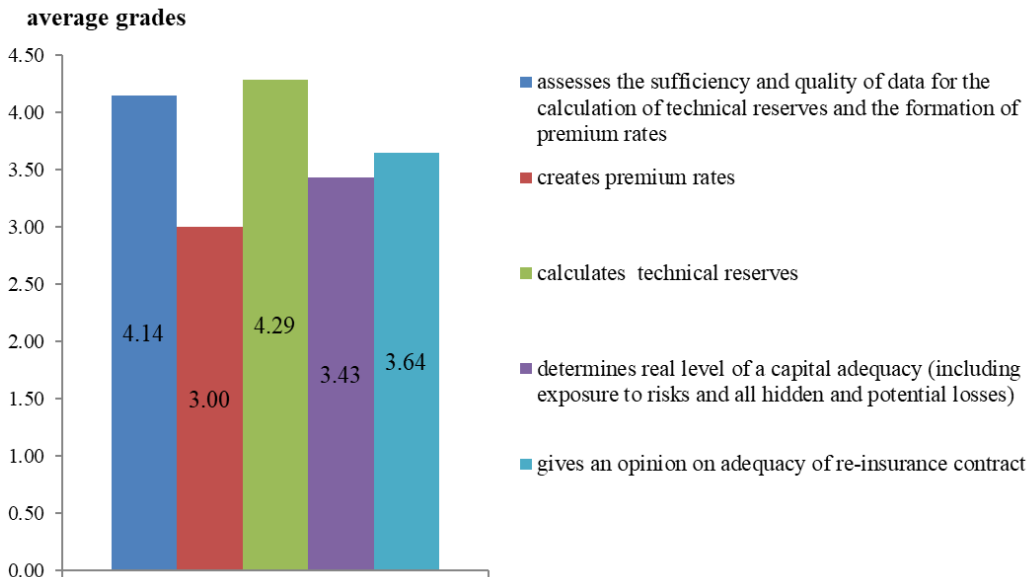
Do the employees within actuarial function also perform other tasks?



If they perform other tasks, has the potential conflict of interest been taken into consideration when assigning those tasks?



Question: How would you assess the level of Your company's internal actuarial function capability to independently: (rank by number from 1 – low to 5 – high level of capability)



⇒ It can be noticed that medium-sized companies, on average, rated the level of capability of the actuarial function higher than small-sized companies.

	assesses the sufficiency and quality of data for the calculation of technical reserves and the formation of premium rates	creates premium rates	calculates technical reserves	determines real level of a capital adequacy (including exposure to risks and all hidden and potential losses)	gives an opinion on adequacy of re-insurance contract
Medium companies (M)	4,80	3,80	4,60	3,20	4,00
Small companies (S)	3,71	2,71	4,00	3,29	3,29

Question: Does Your company have a developed electronical data-bases necessary for determining own premium tariffs?

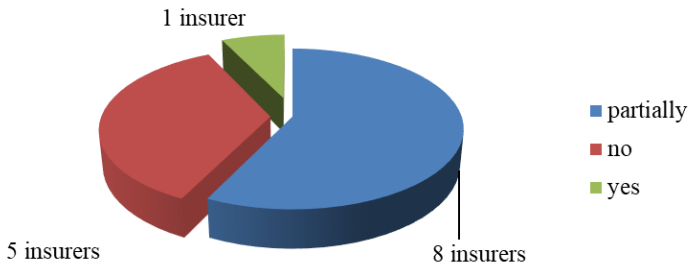
Company size	Non-mandatory types of insurance?		Motor third party liability insurance?	
	yes	no	yes	no
XS – micro	1	1	2	
S – small	3	4	7	
M – medium	1	4	3	2
Total	5	9	12	2



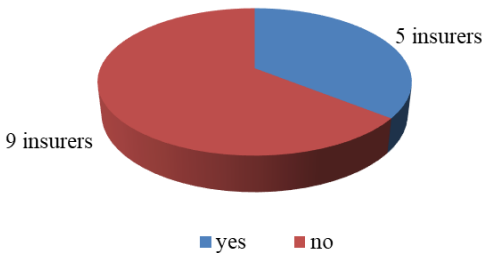
Question: In your opinion, what is the level of understanding the importance of internal control system at all organizational levels in Your company?

Company size	very high	high	satisfactory	moderate	low
XS – micro				1	1
S – small			2	5	
M – medium		1	3	1	
Total	0	1	5	7	1

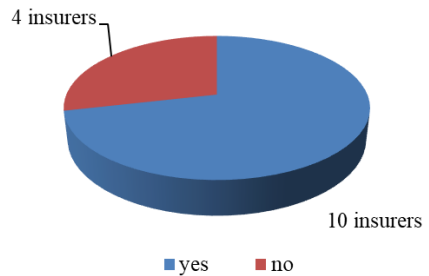
Is the internal control system in Your company based on written procedured and documented businesses and actions



Is there an information system in the company that covers all activities related to the company's business and supports conducting internal controls?



Is there a possibility in information system for subsequent control and monitoring of the changes made?



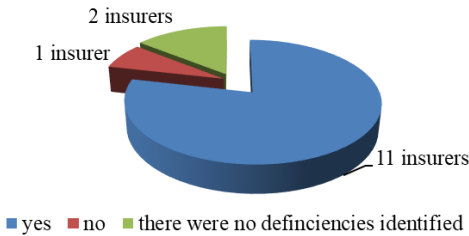
Question: Does Your company regularly/currently conduct::

Company size	assessment of achieved business results in relation to the company's plans		analysis of business results by types of insurance		analysis of achieved business costs in relation to the planned costs		analysis of costs incurred by intermediary/insurance agents sales network		monitoring of receivables collection	
	yes	no	yes	no	yes	no	yes	no	yes	no
XS – micro	1	1	2		1	1	1	1	2	
S – small	7		7		7		7		7	
M – medium	5		5		5		5		5	
Total	13	1	14	0	13	1	13	1	14	0

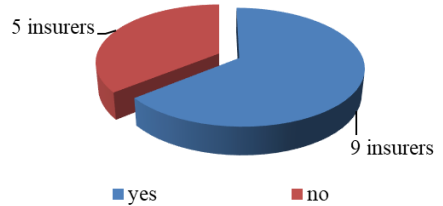
Company size	assessment of business acts adequacy including insurance terms and tariffs		checks related to the process of settlement and payment of claims/indemnities under insurance contracts		monitoring of decision-making system on certain issues and transfer of authority, implementation of decisions and incompatibility of tasks and functions		control of the reliability and up to date of the accounting system and its reports	
	yes	no	yes	no	yes	no	yes	no
XS – micro		2	2		2		1	1
S – small	6	1	6	1	4	3	5	2
M – medium	5		5		5		5	
Total	11	3	13	1	11	3	11	3



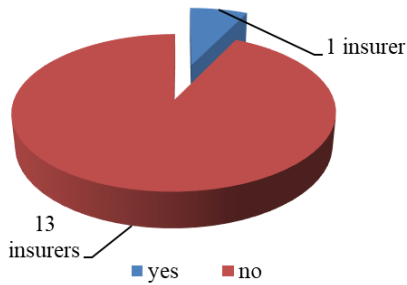
Are the deficiencies identified in the internal control procedure forwarded to the persons assigned for undertaking corrective activities?



Does the company continuously monitor and evaluate internal control systems depending on changes in internal and external conditions, and improve these systems for the purpose of maintaining their efficiency?



Has a compliance function been established within the internal control system?



Is there a person and/or organizational unit(s) in your company that monitors compliance with laws and other regulations?

