

The Danish Financial Supervisory Authority

19 March 2020

Statement on inspection at Danica Pension, Livsforsikringsaktieselskab

1. Introduction

In the period from May to June 2019, the Danish Financial Supervisory Authority (the FSA) conducted an inspection at Danica Pension, Livsforsikringsaktieselskab (Danica Pension).

The inspection was an ordinary inspection to review all significant areas in terms of risk with a focus on the areas associated with the largest risk. The inspection looked at areas such as management and organisation, investment, risk management, solvency, insurance business and outsourcing. Valuation of technical provisions in accordance with the Solvency II framework was not part of the inspection since the area formed part of a themed review across the entire sector.

2. Summary and risk assessment

Danica Pension has about 700,000 customers and is one of Denmark's largest market-oriented life insurance companies with provisions for insurance and investment contracts of approximately DKK 410 billion in mid-2019.

The company offers mainly pension schemes to business customers and, to a certain extent, to personal customers. The vast majority of the company's new customers choose a market-based product.

Board of Directors work

The company was ordered to ensure that its capital structure policy contains strategic targets for its capital structure, including the identification and definition of the risks that the company wants to assume.

Management system

The company was ordered to classify the outsourcing of its compliance function as significant/critical. Moreover, the FSA observed that the outsourcing agreement for the compliance function did not ensure that Danica Pension had sufficient resources to maintain an effective compliance function. As a result, the company was ordered to ensure that it has sufficient resources for its compliance function.

The company was also ordered to handle and classify the tasks performed by Danske Bank Group's internal audit department as internal auditors for Danica Pension as significant/critical outsourcing.

Risk management

The FSA observed that no overall risk assessment was made in relation to group risks. Group risk assessments are included as constituent elements in the risk assessments made by Danica Pension and the parent company, Forsikringssselskabet Danica, respectively. As a result, the company was ordered to ensure that an overall risk assessment of group risks is made.

The company was also ordered to ensure that its capital planning includes capital requirement and total capital projections that also comprise exercises to stress the significant risks to which the company is or may be exposed.

Investment

The FSA observed that the company's investment guidelines for one of the company's funds allowed too wide investment limits, thus giving rise to a risk that customers receive a product with a risk profile other than that suggested to customers. As a result, the company was ordered to determine the fund's risk profile in specific terms.

Alternative investments

The FSA assessed that the company's ongoing valuation of unlisted debt instruments was performed in accordance with a method that meant that market fluctuations had to be large for the valuation to be changed. As a result, the company was ordered to ensure that the ongoing valuation is performed on the basis of processes and methods that use as little company-specific input as possible and as much relevant market input as possible.

Documentation

The company was ordered to document the choice of assumptions as well as the choice and use of actuarial and statistical methods to calculate technical provisions.

Moreover, the company was ordered to document the assessments of the assumptions associated with the method applied by the company to calculate its risk allowance.

As regards the use of simplifications to calculate the solvency capital requirement, the company was ordered to document that the conditions for using the simplifications have been met.

Finally, the company was ordered to document that the risk reduction methods applied in the form of derivatives and reinsurance meet legislative requirements for the purpose of being recognisable in the solvency capital requirement statement.

Solvency

Danica Pension's solvency capital requirement amounted to approximately DKK 10.8 billion at the end of 2018, while the recognised amount of total capital to meet the solvency capital requirement was about DKK 27.2 billion. This corresponds to a solvency coverage ratio of about 251%.