

## Consultation Paper No. 66

# Draft CEIOPS' Advice for Level 2 Implementing Measures on Solvency II: Supervision of Groups with Centralised Risk Management

*CEIOPS welcomes comments from interested parties on the following consultation paper "Supervision of Groups with Centralised Risk Management".*

*Please send your comments to CEIOPS by email ([Secretariat@ceiops.eu](mailto:Secretariat@ceiops.eu)) by 11.12.2009 12:00 CET, indicating the reference "CEIOPS-CP-66-09".*

*Please note that comments submitted after the deadline or not submitted in the provided template format, cannot be processed.*

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# 1. Introduction

- 1.1. In its letter of 19 July 2007, the European Commission requested CEIOPS to provide final, fully consulted advice on Level 2 implementing measures by October 2009 and recommended CEIOPS to develop Level 3 guidance on certain areas to foster supervisory convergence. On 12 June 2009 the European Commission sent a letter with further guidance regarding the Solvency II project, including the list of implementing measures and timetable until implementation.
- 1.2. This Consultation Paper aims at providing advice for the Level 2 implementing measures referred to in Article 245 of the Solvency II Framework Directive (Level 1 text)<sup>1</sup>.
- 1.3. It is important to differentiate between centralised risk management on the one hand and group wide risk management including consistent implementation of the risk management in all undertakings forming part of a group on the other hand.
- 1.4. The requirement to establish an effective risk management on the level of the group as well as the requirement to implement risk management and internal control mechanism consistently in all undertakings included in the scope of group supervision (group wide risk management) as laid down in Article 250(1) of the Level 1 text are general in scope, and applicable to all (re)insurance undertakings in a group without exception.
- 1.5. Article 234 of the Level 1 text, however, deals with the implementation of a regime for supervising groups with centralised risk management where the risk management processes and internal control mechanism of the parent undertaking cover the subsidiary. Groups must submit an application to be made subject to the rules in Subsection 6, whereas Art. 250 will apply to all groups.
- 1.6. The implementation of centralised risk management may be linked to a transfer of tasks and responsibilities relating to risk management from one company to another within an insurance group. However, a subsidiary always remains responsible for the appropriateness of its governance system including risk management at solo level, even if part of a group. Therefore, centralisation of risk management can only rely on delegation of tasks but not of responsibilities.
- 1.7. The principles and requirements regarding the governance system on solo level including risk management processes and internal control mechanisms are tackled in Consultation Paper No. 33 on the System of Governance<sup>2</sup>. This Consultation Paper does not provide a conclusive advice on the group governance system, however some issues regarding group governance are considered.

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<sup>1</sup> See [Text adopted by the European Parliament on 22 April 2009](#).

<sup>2</sup> See CEIOPS Consultation Papers: <http://www.ceiops.eu/index.php?option=content&task=view&id=581>

- 1.8. It is important to note that Article 250 is not subject to a specific implementing measure. However, some issues and principles of group governance are included in this advice, in particular relating to group wide risk management and the differentiation between centralised risk management and group wide risk management.
- 1.9. The application according to Article 234 of the Level I text requires a stronger cooperation between supervisors in the Supervisory College. Therefore, the application and cooperation process is tackled in detail in this advice.
- 1.10. In order to make it clear what CEIOPS itself considers appropriate for Level 2 implementing measures, the relevant passages have been clearly identified by highlighting them along the text ("blue boxes"). All other comments are either views on the Level 1 text, background to proposed advice on Level 2 implementing measures or possible areas which future Level 3 guidance might cover.

## **2. Extract from Level 1 Text**

### *2.1. Article 43(1)*

*Insurance and reinsurance undertakings shall have in place an effective risk management system comprising strategies, processes and reporting procedures necessary to identify, measure, monitor, manage and report, on a continuous basis the risks, on an individual and aggregated level, to which they are or could be exposed, and their interdependencies.*

...

### *2.2. Article 234*

*Member States shall provide that the rules laid down in Articles 236 and 238 shall apply to any insurance or reinsurance undertaking which is the subsidiary of an insurance or reinsurance undertaking where all of the following conditions are satisfied:*

*(a) the subsidiary, in relation to which the group supervisor has not made any decision under Article 212(2), is included in the group supervision carried out by the group supervisor at the level of the parent undertaking in accordance with this Title;*

*(b) the risk management processes and internal control mechanisms of the parent undertaking cover the subsidiary and the parent undertaking satisfies the supervisory authorities concerned regarding the prudent management of the subsidiary;*

*(ba) the parent undertaking has received the agreement referred to in the third subparagraph of Article 250(4);*

*(bb) the parent undertaking has received the agreement referred to in Article 260(2);*

*(d) an application for permission to be subject to Articles 236 and 238 has been submitted by the parent undertaking and a favourable decision has been made on such application in accordance with the procedure set out in Article 235.*

### **2.3. Art. 250(1)**

*The requirements set out in TITLE 1, Chapter IV, Section 2 shall apply mutatis mutandis at the level of the group.*

*Without prejudice to the first subparagraph, the risk management and internal control systems and reporting procedures shall be implemented consistently in all the undertakings included in the scope of the group supervision pursuant to points (a) and (b) of Article 211(2) so that those systems and reporting procedures can be controlled at the level of the group.*

### **2.4. Article 250(4)**

*Member States shall require the participating insurance or reinsurance undertaking or the insurance holding company to undertake at the level of the group the assessment required by Article 44. The own risk and solvency assessment conducted at group level shall be subject to supervisory review by the group supervisor in accordance with Chapter III.*

*Where the calculation of the solvency at the level of the group is carried out in accordance with the accounting consolidation-based method referred to in Article 228, the participating insurance or reinsurance undertaking or the insurance holding company shall provide to the group supervisor a proper understanding of the difference between the sum of the Solvency Capital Requirements of all the related insurance or reinsurance undertakings of the group and the group consolidated Solvency Capital Requirement.*

*Where the participating insurance or reinsurance undertaking or the insurance holding company so decides, and subject to the agreement of the group supervisor, it may undertake any assessments required by Article 44 at the level of the group and at the level of any subsidiary in the group at the same time, and may produce a single document covering all the assessments.*

*Before granting the agreement in accordance with the third subparagraph, the group supervisor shall consult and duly take into account any views and reservations of the members of the college of supervisors referred to in Article 252.*

### **2.5. Article 260(2)**

*Where a participating insurance or reinsurance undertaking or an insurance holding company so decides, and subject to the agreement of the group supervisor, it may provide a single solvency and financial condition report which shall comprise the following:*

*(a) the information at the level of the group which must be disclosed in accordance with paragraph 1;*

*(b) the information for any of the subsidiaries within the group which must be individually identifiable and disclosed in accordance with Articles 50 and 52 to 54.*

*Before granting the agreement in accordance with the first subparagraph, the group supervisor shall consult and duly take into account any views and reservations of the members of the college of supervisors referred to in Article 252.*

## 2.6. Article 245

Subsidiaries of an insurance or reinsurance undertaking: implementing measures

In order to ensure the uniform application of Articles 234, 235, 236, 238 and 242, the Commission shall adopt implementing measures relating to the following:

- a) specifying the criteria to be applied when assessing whether the conditions stated in Article 234 are satisfied;
- aa) specifying the criteria to be applied when assessing what should be considered emergency situations as stated in Art. 238;
- d) specifying the procedures to be followed by supervisory authorities when exchanging information, exercising their rights and fulfilling their duties in accordance with Articles 235, 236, 238 and 242.

Those measures designed to amend non-essential elements of this Directive by supplementing it shall be adopted in accordance with the regulatory procedure with scrutiny referred to in Article 304(3).

## 3. Advice

### **Explanatory Text**

3.1. The rules governing the supervision of group solvency with respect to the groups with centralised risk management can be applied by a group of insurance or reinsurance undertakings if the following conditions are fulfilled

- a) The subsidiaries concerned are included in the scope of group supervision.
- b) The two following conditions are met:
  - The risk management processes and internal control mechanisms of the parent undertaking cover the subsidiary.
  - Supervisory authorities concerned have been satisfied as far as the prudent management of the subsidiary is concerned by the parent undertaking.
- c) The Group supervisor has agreed on the preparation of a single document covering the ORSA on Solo and Group Level.
- d) The Group supervisor has agreed on the preparation of a single solvency and financial condition report for the whole group.

e) The permission to be subject to the supervisory regime pursuant to Articles 236 and 238 has been granted using the process laid out in Article 235.

3.2. In this draft advice only the conditions set out in point b) are tackled in detail. For Points a), c), d) and e) further guidance might be developed on Level III only or might be developed through other consultation papers.

### **3.1. General Principles of group-wide risk management**

3.3. In the Level I text two concepts of risk management approaches are introduced. On the one hand, there is a requirement for a consistent group wide risk management as stated in Article 250 (1). On the other hand, there is the concept of centralised risk management linked to the application of Article 234 of the Level I text.

3.4. CEIOPS considers the two concepts of consistent group wide risk management and centralised risk management not opposing but rather complementary. Consistent group wide risk management has to be applied by all members of a group. If the group subjects all or part of its subsidiaries under the regulations of article 236 and 238 of the Level 1 text requiring centralized risk management to be implemented, this clearly constitutes an additional requirement based upon a well functioning group wide risk management.

3.5. Furthermore, CEIOPS considers it crucial that only a well documented and transparent centralised risk management system may qualify for the application of article 236 and 238 of the Level 1 text. Implicit centralisation as often found in practise may therefore not qualify. In any case the decision of the supervisors on the application is considered to be a case by case decision. Therefore, additional requirements may be considered appropriate in certain cases.

3.6. CEIOPS points out that the impact on the policyholder and the supervisory review process is a crucial element when assessing the appropriateness of the organisation of risk management. Therefore, no decision taken shall harm interests of policyholders or should result in a breach of regulatory regulations.

3.7. A summary of the requirements of consistent group wide risk management and centralised risk management is attached in a table in Annex 1.

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3.8. CEIOPS considers the two concepts of consistent group wide risk management and centralised risk management not opposing but rather complementary. Consistent group wide risk management has to be applied by all members of a group. If the group subjects all or part of its subsidiaries under the regulations of article 236 and 238 of the Level 1 text requiring centralised risk management to be implemented, this clearly constitutes an additional requirement based upon a well functioning group wide risk management.

3.9. A thorough documentation and transparency of risk management constitute

the main pillars for an application to article 236 and 238 of the Level 1 text. The decision on the application is taken on a case by case basis, taking into account the specificities of the applicant. Therefore, additional requirements may be considered appropriate in certain cases.

3.10. CEIOPS points out that the impact on the policyholder and the supervisory review process is a crucial element when assessing the appropriateness of the organisation of risk management. Therefore, no decision taken shall harm interests of policyholders or should result in a breach of regulatory regulations.

## **3.2. Principles of Consistent Group Wide Risk Management**

3.11. According to Article 250(1) of the Level 1 text the governance requirements set out with respect to solo undertakings shall apply mutatis mutandis at the level of the group. This implies that the ultimate parent undertaking is – without prejudice to its proper obligation to have in place a robust governance system at solo level – required to establish an effective system of governance at the level of the group which provides for sound and prudent management of the group business. This section does not constitute a conclusive Level II advice on the requirements of a group governance system. Nevertheless the views mentioned consecutively outline CEIOPS general view on governance issues on group level.

3.12. In addition, Article 250(1) second subparagraph of the Level 1 text requires the risk management and internal control systems and reporting procedures to be implemented consistently in all undertakings included in the scope of group supervision pursuant to points (a) and (b) of Article 212 (2) so that those systems can be controlled at the level of the group.

3.13. A “consistent” implementation means that all relevant processes and procedures are implemented coherently within the whole group. This ensures a common understanding of the needs for functioning and reporting of risk management and enhances comparability and the quality of results.

3.14. Each insurance or reinsurance undertaking is required to have in place an adequate risk management system on solo level. This responsibility is not diminished by the fact, that an insurance or reinsurance undertaking is part of an insurance group according to Article 211.

3.15. It’s the responsibility of the ultimate parent undertaking to ensure consistent implementation and an on-going monitoring of the risk management systems in all individual undertakings of the group. This also implies that appropriate tools and procedures enabling the parent undertaking to oversee and steer the functioning of risk management systems at solo level are in place.

3.16. A risk management system on group level (group wide risk management system) has to be suitable, effective and proportionate to the nature, structure, scale and complexity of the group’s business and the risks inherent in this business.

- 3.17. Special focus must be given to group specific risks and interdependencies of risks, as well as to the impact of intra group transactions and risk concentrations.
- 3.18. Risk management is a continuous process that should be used in the implementation of the group's overall strategy and should allow an appropriate understanding of the nature and significance of the risks to which the group and its individual undertakings are exposed to.
- 3.19. Decisions taken by risk management on group level shall always consider the impact on the group's risk situation to ensure that group's solvency and financial are not jeopardized. Certainly, this applies to both, solo and group level at the same time.
- 3.20. In order to ensure the effectiveness and consistency of the group wide risk management, the processes and procedures should be regularly evaluated and if necessary adjusted. This is especially important if changes in the group structure take place. The set up as well as the regular evaluation of the group wide risk management should not only follow on a top down, but also a bottom up approach.
- 3.21. According to Article 250(1), the requirements for a system of governance shall apply mutatis mutandis at the level of the group. Consequently, the requirements for risk management (including the establishment of certain key functions) also apply mutatis mutandis at group level. In addition to that, an effective and consistent group wide risk management system should comprise at least the following:

#### **A. Risk Management Function**

- 3.22. The ultimate parent undertaking should provide for a risk management function at group level, which is equipped with competent personal resources and adequate systems. The establishment and tasks of the risk management function at group level should be in line with the solo requirements as referred to in CP 33.

#### **B. Risk Management Strategy**

- 3.23. The ultimate parent undertaking should have a comprehensive group wide risk management strategy, which lays out the objectives and key risk management principles of the group's risk management and has to be consistent with the group's overall business strategy. This group wide risk management strategy has to be properly documented and further specified via policies which should be distributed to all relevant undertakings to ensure their implementation in day-to-day business at solo level.
- 3.24. Although each individual undertaking is responsible for its risk management strategy at solo level, it's the responsibility of the ultimate parent company to ensure the alignment of the individual risk management strategies with the group wide risk management strategy.

#### **C. Adequate Written Policies**

3.25. The ultimate parent company should have written policies at group level that ensure that the definition, categorisation and assessment of material risks as well as the reporting procedures are harmonised within the group. These written policies should be the basis for the written policies used by the individual undertakings on solo level as referred to in Para 3.51 point b of CP 33.

3.26. Harmonised policies are necessary to ensure, that the assessment, management and reporting of risks is comparable within the group and that an effective control of the risk management systems can be carried out on group level.

#### **D. Processes and Procedures**

3.27. Appropriate processes and procedures which enable the ultimate parent undertaking to identify, assess, manage and monitor the risks the group is or might be exposed to need to provide for a sufficient link with corresponding reporting processes and procedures implemented on solo level.

#### **E. Internal Reporting**

3.28. In order to ensure consistent implementation of risk management systems, the ultimate parent undertaking has to have access to all relevant information. Therefore, appropriate reporting procedures and feedback loops that ensure that information on the risk management systems of the individual undertakings is collected and monitored on group level, have to be implemented. The reporting will in particular account for risk concentration and intra-group transactions.

#### **F. Group Own Risk and Solvency Assessment (ORSA)**

3.29. The ultimate parent undertaking should develop an appropriate own risk and solvency assessment (ORSA) process<sup>3</sup> at group level and undertake at the level of the group this assessment as required by Article 250(4) first subparagraph.

#### **G. Emergency Planning and business continuity management**

3.30. An important element of group wide risk management is adequate emergency **planning** and business continuity management. The main objective of emergency planning is to ensure, that essential business processes are not - even not temporarily - interrupted in the case of internal or external threats and that the economic existence and business continuity of the group is safeguarded. Emergency Planning includes well planned and organised procedures in order to enhance the stability and robustness of the system and allows for quick and effective action in case of emergency situations. A precondition for sound emergency planning is an in-depth analysis of all business processes that are essential for maintenance of operations and an analysis of any potential impact of a default (Business Impact Analysis). Emergency planning therefore at least

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<sup>3</sup> See CEIOPS' Issues Paper on the Own Risk and Solvency Assessment, CEIOPS-IGSRR-09/08, May 2008, [http://www.ceiops.eu/media/docman/public\\_files/consultations/IssuesPaperORSA.pdf](http://www.ceiops.eu/media/docman/public_files/consultations/IssuesPaperORSA.pdf).

includes a comprehensive description of potential threats, procedural standards and guidelines as well as control mechanisms.

## **H. Internal Control System on group level**

- 3.31. The group wide risk management system should be supported by a suitable, comprehensive and consistent internal control system. Internal control is a set of continually operating processes involving the administrative or management body and all level of personnel of the individual undertakings and the group.
- 3.32. According to Article 250(2) of the Level 1 text this group internal control mechanism shall include at least adequate mechanisms as regards group solvency to identify and measure all material risks incurred and to appropriately relate eligible own funds to risks as well as sound reporting and accounting procedures to monitor and manage the intra-group transactions and the risk concentration.
- 3.33. The requirements for internal control as stipulated in CP 33 Chapter 3.4 should also apply at group level. In order to ensure consistency at group level and the inclusion of all relevant business areas and functions, the ultimate parent undertaking should provide a general framework for the internal control system that takes into account the scale, nature and complexity of the group and its undertakings.
- 3.34. Appropriate and effective group internal control mechanisms have to ensure that in particular risk concentration and intra group transactions are adequately assessed, monitored and reported, also taking into account various interlinkages and interdependencies between group members.
- 3.35. In order to allow an efficient information flow and transparency of decision making processes within the group, compatible IT-systems and IT-interfaces are an important basis for group internal control mechanisms.
- 3.36. The ultimate parent undertaking shall strengthen the internal control awareness among group members by introducing a strong control culture and demonstrating to all levels of personnel the importance of internal control.

## **I. Group Internal Audit**

- 3.37. A group internal audit function should be established at the top level of the group. The group internal audit has to be objective and independent of all operational functions on solo and group level (including the risk management function).
- 3.38. The group internal audit should report any findings and recommendations to the administrative or management body of subsidiary as well as to the management board of the ultimate parent undertaking and the group respectively.
- 3.39. The principles for the internal audit at solo level as laid down in Chapter 3.5 of Consultation Paper 33 should also apply at group level. Furthermore, the tasks of the group internal audit should include the

harmonisation of the auditing standards within the insurance group and the examination and evaluation of the group internal control system. Moreover, the group internal audit should assess the proper functioning of the internal auditing units of the individual undertakings of the group.

## **J. Compliance Function**

3.40. At solo level, a compliance function has to be set up, that is the administrative capacity for ensuring that all the actions of the undertakings comply with applicable laws and regulatory requirements. The compliance with applicable laws and regulatory requirements also has to be guaranteed at group level (e.g. by establishing a group compliance function).

## **K. Actuarial Function**

3.41. In line with the requirements for solo undertakings, a group actuarial function should be established at group level. In line with the solo requirements as laid down in CP 33, the group actuarial function has to assess the general suitability of the methodologies or underlying models for the calculation of technical provisions used within the group and ensure consistency. Moreover, the consideration and treatment of group specific risks has to be accounted for by the group actuarial function.

## **L. Management of liquidity**

3.42. The group should have in place a framework for the group-wide management of liquidity, taking into consideration especially situations of financial disruption and their impact on group and solo undertakings.

3.43. The framework shall include clear agreements governing the usage of excess funds, supervision of each participant's financial status and regular stress and transferability testing. Furthermore the prudent person principle shall be adhered to in a system of pooling excess liquidity.

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3.44. According to Article 250(1) of the Level 1 text the governance requirements set out with respect to solo undertakings shall apply mutatis mutandis at the level of the group. This implies that the ultimate parent undertaking is – without prejudice to its proper obligation to have in place a robust governance system at solo level – required to establish an effective system of governance at the level of the group which provides for sound and prudent management of the group business. This section does not constitute a conclusive Level II advice on the requirements of a group governance system. Nevertheless the views mentioned consecutively outline CEIOPS general view on governance issues on group level.

3.45. Risk management and internal control systems have to be implemented consistently throughout the group. This means that all relevant processes and procedures are implemented coherently and uniformly within the whole group. This ensures a common understanding of the needs for functioning and reporting of risk management and enhances comparability

and the quality of results

- 3.46. The responsibility for an adequate risk management on solo level lies within the solo undertaking. The ultimate parent's responsibility is to ensure a consistent implementation and a constant monitoring of all relevant processes covering all individual undertakings of a group, including appropriate tools and procedures enabling the parent undertaking to oversee and steer the functioning of risk management.
- 3.47. Risk management is a continuous process that should be used in the implementation of the group's overall strategy and should allow an appropriate understanding of the nature and significance of the risks to which the group and its individual undertakings are exposed to. Special focus must be given to interdependencies, risk concentrations and intra-group transactions.
- 3.48. In order to ensure the effectiveness and consistency of the group wide risk management, the processes and procedures should be regularly evaluated and if necessary adjusted.
- 3.49. According to Article 250(1), the requirements for a system of governance shall apply mutatis mutandis at the level of the group. Specificities have to be taken into account regarding the group perspective:

#### **A. Risk Management Function**

- 3.50. The ultimate parent undertaking should provide for a risk management function at group level, which is equipped with competent personal resources and adequate systems. The establishment and tasks of the risk management function at group level should be in line with the solo requirements as referred to in CP 33.

#### **B. Risk Management Strategy**

- 3.51. The ultimate parent undertaking should have a comprehensive group wide risk management strategy in place and ensure the alignment of the individual risk management strategies with the group wide risk management strategy.

#### **C. Adequate Written Policies**

- 3.52. The ultimate parent company should have written policies at group level that ensure that the definition, categorisation and assessment of material risks as well as the reporting procedures are harmonised within the group.

#### **D. Processes and Procedures**

- 3.53. Appropriate processes and procedures which enable the ultimate parent undertaking to identify, assess, manage and monitor the risks the group is or might be exposed to need to provide for a sufficient link with corresponding reporting processes and procedures implemented on solo level.

#### **E. Internal Reporting**

3.54. In order to ensure consistent implementation of risk management systems, the ultimate parent undertaking has to have access to all relevant information.

#### **F. Own Risk and Solvency Assessment (ORSA)**

3.55. The ultimate parent undertaking should develop an appropriate own risk and solvency assessment (ORSA) process<sup>4</sup> at group level and undertake at the level of the group this assessment as required by Article 250(4) first subparagraph.

#### **G. Emergency Planning and business continuity management**

3.56. The main objective of emergency planning is to ensure, that essential business processes are not - even not temporarily - interrupted in the case of internal or external threats and that the economic existence and business continuity of the group is safeguarded.

#### **H. Internal Control System on group level**

3.57. The ultimate parent undertaking shall strengthen the internal control awareness among group members by introducing a strong control culture and demonstrating to all levels of personnel the importance of internal control. The group wide risk management system should be supported by a suitable, comprehensive and consistent internal control system.

#### **I. Group Internal Audit**

3.58. A group internal audit function should be established at the top level of the group. The group internal audit has to be objective and independent of all operational functions on solo and group level (including the risk management function). The group internal audit should report any findings and recommendations to the administrative or management body of subsidiary as well as to the management board of the ultimate parent undertaking and the group respectively.

#### **J. Compliance Function**

3.59. The compliance with applicable laws and regulatory requirements also has to be guaranteed at group level (e.g. by establishing a group compliance function).

#### **K. Actuarial Function**

3.60. In line with the requirements for solo undertakings, a group actuarial function should be established at group level. In line with the solo requirements as laid down in CP 33, the group actuarial function has to assess the general suitability of the methodologies or underlying models for the calculation of technical provisions used within the group and ensure consistency. Moreover, the consideration and treatment of group specific

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<sup>4</sup> See CEIOPS' Issues Paper on the Own Risk and Solvency Assessment, CEIOPS-IGSRR-09/08, May 2008, [http://www.ceiops.eu/media/docman/public\\_files/consultations/IssuesPaperORSA.pdf](http://www.ceiops.eu/media/docman/public_files/consultations/IssuesPaperORSA.pdf).

risks has to be accounted for by the group actuarial function.

#### **L. Management of Liquidity**

3.61. The group should have in place a framework for the group-wide management of liquidity, taking into consideration especially situations of financial disruption and their impact on group and solo undertakings. The framework shall include clear agreements governing the usage of excess funds, emergency plans, supervision of each participants financial status and regular stress and transferability testing. Furthermore the prudent person principle shall be adhered to in a system of pooling excess liquidity.

### **3.3. Principles of Centralised Risk Management**

- 3.62. The application of the rules laid down in Subsection 6 implies certain benefits for insurance undertakings. According to CEIOPS' view, a strengthened cooperation between supervisors and a more transparent decision making process are the main benefits. Furthermore, insurance undertakings benefit through an ease while applying for an internal group model as stipulated in the relevant consultation papers (e.g. scope of the use test). Overall, a well documented and approved risk management system has a positive effect regarding the groups' standing on the market.
- 3.63. The principal condition for obtaining the permission to be subject to the supervisory regime pursuant to Articles 236 and 238 is that risk management processes and internal control mechanisms of the parent undertaking cover the subsidiary. This is a more specific requirement than the general requirement to establish an effective risk management mechanism at the level of the group as well as the requirement to implement risk management, internal control mechanism and reporting procedures consistently in all undertakings of a group as laid down in Article 250(1) of the Level 1 text.
- 3.64. Consequently, the establishment of centralised risk management goes beyond the requirement of Article 250(1) of the Level 1 text according to which the risk management, internal control systems and reporting procedures must be implemented consistently so that those systems can be controlled at the level of the group. Therefore, the implementation of centralised risk management is only applicable for subsidiaries (in line with the definition of subsidiaries according to Article 13 (13) of the Level I text).
- 3.65. In CEIOPS' view, the condition laid down in Article 234 point b of the Level 1 text is met if material tasks in relation to risk management and internal control are transferred substantially from the subsidiary to the ultimate parent undertaking. However, this explicitly does not mean, that any kind of responsibility is removed from the subsidiary.
- 3.66. All requirements set out in this advice must be adhered to on application and on a continuous basis while applying the relevant articles. Any significant changes have to be reported immediately to all supervisors concerned. The supervisors concerned include the group supervisor as well as the relevant competent solo supervisors.
- 3.67. In addition to the principles of group wide risk management, the following requirements for centralised risk management system should be fulfilled:

#### **A. Risk Management Function**

- 3.68. The scope of the risk management function at group level under subsection 6 is enlarged by those tasks related to risk management that are transferred from the subsidiary to the parent undertaking.

## **B. Risk Management Strategy**

3.69. The development and implementation of a comprehensive risk management strategy at group and solo level should lie with the ultimate parent undertaking.

## **C. Adequate Written Policies**

3.70. The ultimate parent undertaking has to set up comprehensive written policies that illustrate the risk management strategy and its implementation on group and solo level, also considering national specificities of the subsidiaries involved.

## **D. Processes and Procedures**

3.71. The ultimate parent undertaking has to implement appropriate processes and procedures which enable it to identify, assess, manage, monitor and report the risks the group and its individual undertakings are or might be exposed to. These processes should also take into account specificities of individual solo undertakings and their impact on the solo and group risk profiles.

## **E. Internal Reporting**

3.72. The ultimate parent undertaking should implement adequate reporting procedures to ensure a regular exchange of information with the solo insurance undertakings on all relevant issues regarding risk management. Information asymmetries between group and solo level should be avoided.

## **F. Own Risk and Solvency Assessment (ORSA)**

3.73. The ultimate parent undertaking shall undertake the ORSA at the level of the group and at the level of all subsidiaries forming part of a group with centralised risk management at the same time, and shall produce a single document covering all the assessments as indicated in Article 250(4) third subparagraph of the Level 1 text.

## **G. Emergency Planning and business continuity management**

3.74. Emergency Planning routines as stipulated under 3.30 have to be set up covering all solo entities subject to the subsection and the group as a whole.

## **H. Internal Control System on group level**

3.75. According to Article 234 point b of the Level 1 text, the internal control mechanisms of the parent undertaking have to cover the subsidiary. The centralisation of risk management has an impact on the general internal control framework because of a shift of tasks. Therefore, the design and implementation of the internal control mechanism have to be adapted accordingly in order to ensure their effectiveness and well functioning.

## **I. Group Internal Audit**

3.76. The same requirements as set out in 3.37 to 3.39 apply.

## **J. Compliance Function**

3.77. The ultimate parent undertaking has to implement appropriate processes and procedures in order to manage the risk of non-compliance of the group and its individual undertakings. Each subsidiary should nominate a person, who is in charge of the relations with the group compliance function.

## **K. Actuarial Function**

3.78. The same requirements as set in 3.41 have to be adhered to. Under centralized risk management tasks related to actuarial issues associated with the solo undertaking might be carried out by the group actuarial function. However, adequate actuarial skills have to be maintained at solo-level, as technical provisions and methodologies used are very closely linked to local market conditions.

## **L. Management of Liquidity**

3.79. The same requirements as set in 3.42 and 3.43 have to be adhered to. It has to be emphasised, that the disposition over its funds must be guaranteed by the parent company for every single undertaking applying subsection 6 in case of business continuity disruption.

## **CEIOPS' Advice**

3.80. The establishment of centralised risk management goes beyond the requirement of Article 250(1) of the Level 1 text according to which the risk management, internal control systems and reporting procedures must be implemented consistently so that those systems can be controlled at the level of the group. Therefore, the implementation of centralised risk management is only applicable for subsidiaries (in line with the definition of subsidiaries according to Article 13 (13) of the Level I text).

3.81. In CEIOPS' view, the condition laid down in Article 234 point b of the Level 1 text is met if material tasks in relation to risk management and internal control are transferred substantially from the subsidiary to the ultimate parent undertaking. However, in line with paragraph 1.4., this explicitly does not mean, that any kind of responsibility is removed from the subsidiary.

3.82. All requirements set out in this advice must be adhered to on application and on a continuous basis while applying the relevant articles. Any significant changes have to be reported immediately to all supervisors concerned. The supervisors concerned include the group supervisor as well as the relevant competent solo supervisors.

3.83. In addition to the principles of group wide risk management, the following requirements for a risk management system should be fulfilled:

#### **A. Risk Management Function**

3.84. The scope of the risk management function at group level under subsection 6 is enlarged by those tasks related to risk management that are transferred from the subsidiary to the parent undertaking.

#### **B. Risk Management Strategy**

3.85. The development and implementation of a comprehensive risk management strategy on group and solo level should lie with the ultimate parent undertaking.

#### **C. Adequate Written Policies**

3.86. The ultimate parent undertaking has to set up comprehensive written policies that illustrate the risk management strategy and its implementation on group and solo level, also considering national specificities of the subsidiaries involved.

#### **D. Processes and Procedures**

3.87. The ultimate parent undertaking has to implement appropriate processes and procedures which enable it to identify, assess, manage, monitor and report the risks the group and its individual undertakings are or might be exposed to. These processes should also take into account specificities of individual solo undertakings and their impact on the solo and group risk profiles.

#### **E. Internal Reporting**

3.88. The ultimate parent undertaking should implement adequate reporting procedures to ensure a regular exchange of information with the solo insurance undertakings on all relevant issues regarding risk management. Information asymmetries between group and solo level should be avoided.

#### **F. Own Risk and Solvency Assessment (ORSA)**

3.89. The ultimate parent undertaking shall undertake the ORSA at the level of the group and at the level of all subsidiaries forming part of a group with centralised risk management at the same time, and shall produce a single document covering all the assessments as indicated in Article 250(4) third subparagraph of the Level 1 text.

#### **G. Emergency Planning and business continuity management**

3.90. Emergency Planning routines as stipulated under 3.56. have to be set up covering also all solo entities subject to the subsection and the group as a whole.

#### **H. Internal Control System on group level**

3.91. According to Article 234 point b of the Level 1 text, the internal control mechanisms of the parent undertaking have to cover the subsidiary. The centralisation of risk management has an impact on the general internal

control framework because of a shift of tasks. Therefore, the design and implementation of the internal control mechanism have to be adapted accordingly in order to ensure their effectiveness and well functioning.

### **I. Group Internal Audit**

3.92. The same requirements as set out in 3.58 apply.

### **J. Compliance Function**

3.93. The ultimate parent undertaking has to implement appropriate processes and procedures in order to manage the risk of non-compliance of the group and its individual undertakings. Each subsidiary should nominate a person, who is in charge of the relations with the group compliance function.

### **K. Actuarial Function**

3.94. All requirements set in 3.60 have to be adhered to. Under centralized risk management tasks related to actuarial issues associated with the solo undertaking might be carried out by the group actuarial function. However, adequate actuarial skills have to be maintained at solo-level, as technical provisions and methodologies used are very closely linked to local market conditions.

### **L. Management of Liquidity**

3.95. The same requirements as set in 3.61 have to be adhered to. The Framework has to provide for clear procedures in case of business continuity disruption on the level of the subsidiary.

## **3.4. Organisational forms:**

3.96. There exists a broad range of instruments through which centralisation of risk management tasks can be achieved. Two approaches are presented below. However, all approaches regarding the application of article 236 and 238 are assessed on a case by case basis, taking into account the characteristics and specificities of each applicant.

### **Outsourcing**

3.97. In general, outsourcing refers to the concept as stipulated in Consultation Paper 33. The (re)insurance undertaking ultimately remains responsible for all outsourced functions and activities, having to ensure an effective control of the outsourced activities. These concepts also apply when tasks are delegated within a group.

3.98. Under subsection 6 the function and tasks of risk management is primarily expected to be outsourced to the parent undertaking. However, risk management can also be outsourced to another service provider being part of the group. In CEIOPS' view, this procedure could be allowed provided that all conditions linked to the outsourcing of the critical or important functions or activities are met.

3.99. Risk management is defined as a critical and important function. In line with Article 48 (2) of the Level 1 text, outsourcing must not lead to an impaired quality of the governance system of the subsidiary concerned, an increase of its operational risk, an impairment of the supervisor's ability to monitor the compliance of the subsidiary with its obligations or an impairment of a continuous and satisfactory service to policyholders.

3.100. In case of a centralisation of risk management by outsourcing, the following requirements, additional to the ones set out in CP 33, have to be fulfilled:

- a. It has to be stipulated how and in which way, and to what extent the parent undertaking will manage and monitor the risks of the group and its individual entities (comprehensive control).
- b. The group wide risk management strategy should be illustrated and it should be explained how the solo risk management strategy is covered by the group wide risk management strategy.
- c. Intervention rights and processes have to be defined to ensure that the subsidiary is able to avoid decisions having a negative impact on its policy holders or the solvency or financial position of the solo undertaking.

3.101. In accordance with the general principles on outsourcing, the outsourcing agreement should clearly state that the subsidiary has the right to terminate the outsourcing agreement within a reasonable period of notice if for any reason the services rendered should prove to be inadequate. The parent undertaking or a third party service provider can only terminate the contract with a period sufficiently long to enable the subsidiary to find an alternative solution. In case of a termination of any of the outsourcing contracts regarding centralised risk management, the supervisory authorities concerned shall be informed without delay.

### **Example of group arrangements**

3.102. The level 1 text does not foresee any special group arrangements. One example of group arrangements that are used in some jurisdictions are domination agreements. As the instrument of domination agreements is only allowed in some jurisdictions, their use for centralized risk management may be limited to some subsidiaries of a group where those regulations exist. There might be other forms of group arrangements possible, which cover the requirements of a centralized risk management.

3.103. If groups are organised stringently via domination agreements (including transfer of profit/loss agreements), material tasks are transferred from the subsidiary to the parent undertaking. This may also include tasks regarding risk management. Such a structure would also fall under the scope of Article 234 on centralised risk management.

3.104. The impact of domination agreements is limited in so far, as rights and interests of policyholders are not jeopardised. Therefore, it should include a declaration of the parent undertaking stating that no decisions will be taken, that would result in a violation of rights and interests of policyholders of the subsidiary or the breach of regulatory requirements to be observed by the subsidiary.

3.105.If a domination agreement also covers centralised risk management, it has to be emphasised that the responsibility for all issues related to risk management remains with the subsidiary.

3.106.In case of a termination of the domination agreement, the supervisory authorities concerned shall be informed without delay.

### **CEIOPS' Advice**

There exists a broad range of instruments through which centralization of risk management tasks can be achieved. Two approaches are presented below. However, all approaches regarding the application of article 236 and 238 are assessed on a case by case basis, taking into account the characteristics and specificities of each applicant.

#### **Outsourcing**

3.107.In general outsourcing refers to the concept as stipulated in Consultation paper 33. The (re)insurance undertaking ultimately remains responsible for all outsourced functions and activities, having to ensure an effective control of the outsourced activities. These concepts also apply when tasks are delegated within a group.

3.108.Under subsection 6 the function and tasks of risk management is primarily expected to be outsourced to the parent undertaking. However, risk management can also be outsourced to another service provider being part of the group. In CEIOPS' view, this procedure could be allowed provided that all conditions linked to the outsourcing of the critical or important functions or activities are met.

3.109.In case of a centralisation of risk management by outsourcing, the following requirements, additional to the ones set out in CP 33, have to be fulfilled:

- a. It has to be stipulated how and in which way, and to what extent the parent undertaking will manage and monitor the risks of the group and its individual entities (comprehensive control).
- b. The group wide risk management strategy should be illustrated and it should be explained how the solo risk management strategy is covered by the group wide risk management strategy.
- c. Intervention rights and processes have to be defined to ensure that the subsidiary is able to avoid decisions having a negative impact on its policy holders or the solvency or financial position of the solo undertaking.

3.110.In accordance with the general principles on outsourcing, the outsourcing agreement should clearly state that the subsidiary has the right to terminate the outsourcing agreement within a reasonable period of notice if for any reason the services rendered should prove to be inadequate. The parent undertaking or a third party service provider can only terminate the contract with a period sufficiently long to enable the subsidiary to find an alternative solution. In case of a termination of any of the outsourcing contracts regarding centralised risk management, the supervisory

authorities concerned shall be informed without delay.

### **Example of group arrangements**

- 3.111. The level 1 text does not foresee any special group arrangement. One example of group arrangements that are used in some jurisdictions are domination agreements. As the instrument of domination agreements is only allowed in some jurisdictions, their use for centralized risk management may be limited to some subsidiaries of a group where those regulations exist. There might be other forms of group arrangements possible, which cover the requirements of a centralized risk management.
- 3.112. If groups are organised stringently via e.g. domination agreements (including transfer of profit/loss agreements), material tasks are transferred from the subsidiary to the parent undertaking. This may also include tasks regarding risk management. Such a structure would also fall under the scope of Article 234 on centralised risk management.
- 3.113. The impact of e.g. domination agreements is limited in so far, as rights and interests of policyholders are not jeopardised. Therefore, it should include a declaration of the parent undertaking stating that no decisions will be taken, that would result in a violation of rights and interests of policyholders of the subsidiary or the breach of regulatory requirements to be observed by the subsidiary.
- 3.114. If a group arrangement also covers centralised risk management, it has to be emphasized that the responsibility for all issues related to risk management remains with the subsidiary.
- 3.115. In case of a termination of a group arrangement, the supervisory authorities concerned shall be informed without delay.

## **3.5. Prudent Management of the Subsidiary**

- 3.116. One of the major conditions for prudent management of the subsidiary by the parent company is the implementation of an effective system of governance on solo and group level as defined by Articles 41 ff. as well as Article 250 the Level I text respectively.
- 3.117. In case of centralised risk management, the ultimate parent undertaking has to demonstrate that the subsidiary has an effective governance system in place, even if certain key functions are covered by the ultimate parent undertaking. The requirement of a sound and prudent management of the subsidiary implies also, that the ultimate parent undertaking has to demonstrate, that an effective governance system also exists on group level.
- 3.118. A key issue regarding a prudent management of a subsidiary are transparent and comprehensible decision making processes. This is important, as any kind of centralisation shall not influence the prudent management of the solo undertakings in an adverse way (e.g. policyholder's interests, regulatory requirements).

## **CEIOPS' Advice**

- 3.119. CEIOPS considers one of the major conditions for prudent management of the subsidiary being the existence of an effective system of governance on solo and group level as defined by Articles 41 ff and Article 250 of the Level I text respectively.
- 3.120. In case of centralised risk management, the ultimate parent undertaking has to demonstrate that the subsidiary has an effective governance system in place, even if certain key functions are covered by the ultimate parent undertaking.
- 3.121. A key issue regarding a prudent management of a subsidiary are transparent and comprehensible decision making processes.

## **3.6. Application Process and Supervisory Colleges**

### **Application Process**

- 3.122. The application process to be subjected under the article 236 and 238 of the Level 1 text is stipulated in article 235. This application process is different regarding the submission and approval of the application compared to the general process explained in CP 62 para 3.13-3.16.
- 3.123. The parent undertaking submits the application for its subsidiary, including all relevant information, to the solo supervisor having authorized the subsidiary concerned. CEIOPS expects the solo supervisor to inform the group supervisor promptly after having received all relevant data.
- 3.124. CEIOPS strongly recommends that all applications submitted within a group shall be presented in a consistent and comparable form to the supervisory authorities concerned.
- 3.125. Nevertheless CEIOPS expects the parent undertaking to submit a comprehensive overview of all the applications of the undertakings it chooses to subject under the regulations of article 236 and 238. Simultaneously, they shall submit an overall view to the group supervisor.
- 3.126. Upon receipt of all applications plus all relevant information the group supervisor will discuss the application within the college and try to reach a joint decision within 3 months. In those cases where several applications have been made, the College shall discuss them jointly. In case of diverging views on the application the group supervisor or any of the other supervisory authorities concerned may consult the CEIOPS. In this case, the period of three months will be extended by one month. The supervisory authority having authorised the subsidiary, shall provide to the applicant the joint decision in a document containing the fully reasoned decision and an explanation of any significant deviation from the positions of CEIOPS, where it has been consulted. In the absence of a joint decision between the supervisory authorities concerned, the group supervisor shall make its own decision on the application.

### **Cooperation in the Supervisory College**

- 3.127. The cooperation within the college of supervisors shall enable supervisors to develop a common understanding of the risk profile of the group which is essential for the assessment of the functioning of centralised risk management.
- 3.128. In this context, details on the groups' system of governance, including risk management and capital management, as well as the key group risks that could affect solo undertakings in the future are essential information of the group report to supervisors (RTS).
- 3.129. The group supervisor who produces an overview of the group through a general top down approach shall especially attach importance to the overall standard of corporate governance of the group and an assessment of its adequacy for the risk profile of the group and the overall risk profile as well as the strategies for centralised risk management.
- 3.130. If a supervisory authority becomes aware of the emergence of a potentially serious financial disturbance or is aware of facts or events that may give rise to significant problems for an insurance group will inform as soon as possible the group supervisor. The group supervisor or the mentioned supervisory authority should ensure that the information is shared within the supervisory college as soon as practicable. After a crisis alert, the group supervisor should as soon as practicable assess the nature of the crisis and its implications for the relevant insurance group, including identification of possible sources of systemic risk, implications to the risk strategy of the group and the influence on the centralised risk management with effects on solo undertaking.
- 3.131. Further guidance on the cooperation process regarding group supervision issues, in particular related to Articles 236 and 238, may be provided at Level 3.

## **CEIOPS' Advice**

### **Application Process**

- 3.132. The application process to be subjected under the article 236 and 238 of the Level 1 text is stipulated in article 235. This application process is different regarding the submission and approval of the application compared to the general process explained in CP 62 para 3.13-3.16.
- 3.133. The parent undertaking submits the application for its subsidiary, including all relevant information, to the solo supervisor having authorised the subsidiary concerned. CEIOPS expects the solo supervisor to inform the group supervisor promptly after having received all relevant data.
- 3.134. CEIOPS strongly recommends that all applications submitted within a group shall be presented in a consistent and comparable form to the supervisory authorities concerned.
- 3.135. Nevertheless CEIOPS expects the parent undertaking to submit a comprehensive overview of all the applications of the undertakings it chooses to subject under the regulations of article 236 and 238.
- 3.136. Upon receipt of all applications plus all relevant information the group supervisor will discuss the application within the college and try to reach a joint decision within 3 months. In those cases where several applications have been made, the College shall discuss them jointly.

### **Cooperation in the Supervisory College**

- 3.137. The cooperation within the college of supervisors shall enable supervisors to develop a common understanding of the risk profile of the group which is essential for the assessment of the functioning of centralised risk management.
- 3.138. In this context, details on the groups' system of governance, including risk management and capital management, as well as the key group risks that could affect solo undertakings in the future are essential information of the group report to supervisors (RTS).
- 3.139. The group supervisor who produces an overview of the group through a general top down approach shall especially attach importance to the overall standard of corporate governance of the group and an assessment of its adequacy for the risk profile of the group and the overall risk profile as well as the strategies for centralised risk management.
- 3.140. If a supervisory authority becomes aware of the emergence of a potentially serious financial disturbance or is aware of facts or events that may give rise to significant problems for an insurance group will inform as soon as possible the group supervisor.

# Annex 1 – Comparison of requirements between consistent group wide risk management and centralised risk management

	Consistent group wide risk management	Centralized risk management
<b>A. Risk management function</b>	The ultimate parent undertaking should provide for a risk management function at group level, which is equipped with competent personal resources and adequate systems	The scope of the risk management function at group level under subsection 6 is enlarged by those tasks related to risk management that are transferred from the subsidiary to the parent undertaking.
<b>B. Risk management strategy</b>	Although each individual undertaking is responsible for its risk management strategy at solo level, it's the responsibility of the ultimate parent company to ensure the alignment of the individual risk management strategies with the group wide risk management strategy.	The development and implementation of a comprehensive risk management strategy at group and solo level should lie with the ultimate parent undertaking.
<b>C. Adequate written policies</b>	The ultimate parent company should have written policies at group level that ensure that the definition, categorisation and assessment of material risks as well as the reporting procedures are harmonised within the group. These written policies should be the basis for the written policies used by the individual undertakings on solo level as referred to in Para 3.51 point b of CP 33.	The ultimate parent undertaking has to set up comprehensive written policies that illustrate the risk management strategy and its implementation on group and solo level, also considering national specificities of the subsidiaries involved.
<b>D. Process and procedures</b>	Appropriate processes and procedures which enable the ultimate parent undertaking to identify, assess, manage and monitor the risks the group is or might be exposed to need to provide for a sufficient link with corresponding reporting processes and procedures implemented on solo level.	These processes should also take into account specificities of individual solo undertakings and their impact on the solo and group risk profiles.
<b>E. Internal Reporting</b>	Appropriate reporting procedures and feedback loops that ensure that information on the risk management systems of the individual undertakings is collected and monitored on group level, have to be implemented. The reporting will in particular account for risk concentration and intra-group transactions.	The ultimate parent undertaking should implement adequate reporting procedures to ensure a regular exchange of information with the solo insurance undertakings on all relevant issues regarding risk management. Information asymmetries between group and solo level should be avoided.

<p><b>F. Own risk and solvency assessment</b></p>	<p>The ultimate parent undertaking should develop an appropriate own risk and solvency assessment (ORSA) process at group level and undertake at the level of the group this assessment as required by Article 250(4) first subparagraph.</p>	<p>The ultimate parent undertaking shall undertake the ORSA at the level of the group and at the level of all subsidiaries forming part of a group with centralised risk management at the same time, and shall produce a single document covering all the assessments as indicated in Article 250(4) third subparagraph of the Level 1 text.</p>
<p><b>G. Emergency planning and business continuity management</b></p>	<p>The main objective of emergency planning is to ensure, that essential business processes are not - even not temporarily - interrupted in the case of internal or external threats and that the economic existence and business continuity of the group is safeguarded.</p>	<p>Emergency Planning routines as stipulated under 3.2.7. have to be set up covering all solo entities subject to the subsection and the group as a whole.</p>
<p><b>H. Internal control System</b></p>	<p>The group wide risk management system should be supported by a suitable, comprehensive and consistent internal control system.</p>	<p>The centralisation of risk management has an impact on the general internal control framework because of a shift of tasks. Therefore, the design and implementation of the internal control mechanism have to be adapted accordingly in order to ensure their effectiveness and well functioning.</p>
<p><b>I. Group internal Audit</b></p>	<p>A group internal audit function should be established at the top level of the group. The group internal audit has to be objective and independent of all operational functions on solo and group level (including the risk management function).</p>	<p>The same requirements as set out in 3.2.7. apply.</p>
<p><b>J. Compliance function</b></p>	<p>At solo level, a compliance function has to be set up, that is the administrative capacity for ensuring that all the actions of the undertakings comply with applicable laws and regulatory requirements. The compliance with applicable laws and regulatory requirements also has to be guaranteed at group level (e.g. by establishing a group compliance function).</p>	<p>The ultimate parent undertaking has to implement appropriate processes and procedures in order to manage the risk of non-compliance of the group and its individual undertakings. Each subsidiary should nominate a person, who is in charge of the relations with the group compliance function.</p>
<p><b>K. Actuarial Function</b></p>	<p>In line with the solo requirements as laid down in CP 33, the group actuarial function has to assess the general suitability of the methodologies or underlying models for the calculation of technical provisions used within the group and ensure consistency. Moreover, the consideration and treatment of group specific risks has to be accounted for by the group actuarial function.</p>	<p>The same requirements as set in 3.41 have to be adhered to. Under centralized risk management tasks related to actuarial issues associated with the solo undertaking might be carried out by the group actuarial function. However, adequate actuarial skills have to be maintained at solo-level, as technical provisions and methodologies used are very closely linked to local market conditions.</p>

<p><b>L. Management of Liquidity</b></p>	<p>The group should have in place a framework for the group-wide management of liquidity, taking into consideration especially situations of financial disruption and their impact on group and solo undertakings. The framework shall include clear agreements governing the usage of excess funds, emergency plans, supervision of each participants financial status and regular stress and transferability testing. Furthermore the prudent person principle shall be adhered to in a system of pooling excess liquidity.</p>	<p>The same requirements as set in 3.61 have to be adhered to. The Framework has to provide for clear procedures in case of business continuity disruption on the level of the subsidiary</p>
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# Annex 2 – Application and decision process

