

## **Statement of the Danish Financial Supervisory Authority's conclusions of the inspection conducted in Gefion Insurance A/S**

The Danish Financial Supervisory Authority has conducted an inspection in Gefion Insurance A/S.

On-site inspections were also carried out in several of the company's agents and claims handlers in collaboration with the local supervisory authorities.

At the inspection, the essential areas were reviewed on the basis of a risk based assessment. The inspection included, among other things, the company's business model, outsourcing, technical provisions, investment area, solvency, capital, capital plan, board of directors and management system.

### **Summary and risk assessment**

Gefion Insurance offers insurances through agents in Europe. The company primarily offers insurances to individuals and small and medium sized companies and focuses on specialty lines in the different countries. The agents are responsible for the underwriting and the administration of policies and claims. In some cases the claims administration is handled by a claims handling company. Gefion Insurance reinsures the main part of the written business to reinsurance companies.

At the inspection, the company's management system was reviewed, especially in relation to control of the outsourced activities. The Danish Financial Supervisory Authority assessed that the company did not have the necessary control of external agents and claims managers and that the company did not have a sufficiently effective compliance, risk management and internal audit function. Overall, the Danish Financial Supervisory Authority assessed that the company did not have effective forms of corporate governance.

The Danish Financial Supervisory Authority assessed that the company's management system deviated so significantly from the legal requirements that the company was subject to a capital add-on of DKK 39.2 million to the company's solvency capital requirement. The Danish Financial Supervisory Authority's decision on the capital add-on has been published separately in Danish.

Gefion Insurance had as of 31 May 2019 calculated its solvency ratio to 105 percent. The imposed capital add-on will entail that Gefion Insurance's solvency ratio as per 31 May 2019 decreases to 86 percent. Thus, Gefion Insurance does not have own funds sufficient to cover the solvency capital requirement.

Due to the company's solvency situation, the Danish Financial Supervisory Authority ordered the company not to expand its business volume. The Danish Financial Supervisory Authority's order has been published separately in Danish.

The company used loss ratio's for the underwriting year 2018 to calculate the premium provisions. The company had not documented that this is the best estimate to reflect the risks for the run-off risk periods. The company therefore received an order to calculate the best estimate for the premium provisions using all relevant data.

In addition, the Danish Financial Supervisory Authority concluded that the company did not adjust the amounts recoverables from reinsurance arrangements with the expected losses due to default of a counterparty. The company therefore received an order to do so.

At the inspection, the Danish Financial Supervisory Authority concluded further that Gefion Insurance uses a simplified method for calculation of the risk-mitigating effect of its reinsurance contracts. The Danish Financial Supervisory Authority assessed that the simplified method is not proportional to the complexity of the risks associated with the reinsurance contracts as Gefion Insurance relies intensively on reinsurance with several reinsurance companies and various forms of reinsurance. Therefore, the Danish Financial Supervisory Authority assessed overall that the company had not reasoned that the simplified method was in proportion to the nature, extent and complexity of the reinsurance contracts' risks. The company therefore received an order to make a complete calculation of the risk-mitigating effect of the reinsurance contracts.

Gefion Insurance's asset management is outsourced to two Danish asset managers. The Danish Financial Supervisory Authority concluded that the outsourcing contracts do not comply with the regulation. The company therefore received an order to bring their asset management contracts in line with the regulation. In addition, the company received an order to ensure that the reporting is in accordance with the company's investment policy and guidelines.

Furthermore, the Danish Financial Supervisory Authority noted that the company's assessment of its own risk and solvency does not include an assessment of the company's ability to comply with the solvency capital requirement and the minimum capital requirement, both within a time horizon of 12 months and for a period at least equal to the company's strategic planning period. Therefore the company received an order to do so.

The Danish Financial Supervisory Authority also found that Gefion Insurance does not calculate its premium provisions in homogeneous risk groups, where the calculation is based on grouped data. The company therefore received an order to do so.

The Danish Financial Supervisory Authority is in dialogue with the company regarding the company's provisions for internal costs in the technical provisions and the valuation of a reinsurance contract. The matters are therefore subject to further investigation.

The Danish Financial Supervisory Authority has informed the host national supervisory authorities via an European Insurance and Occupational Pensions Authority (EIOPA) Cross-Border Platform of Collaboration about the orders issued to Gefion Insurance.