



Preparations for Solvency II begin with the 9th amendment of the Insurance Supervision Act (VAG) and MaRisk (VA) for insurance

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How insurance companies in Germany can efficiently meet the new requirements

Solvency II, with its impending supervisory regulations, is already casting a shadow. Solvency II represents a challenge for corporate risk management. To this end, resolutions taken by the German Bundestag are encouraging companies to begin commensurate preparations at an early stage. Dr. Jörg von Fürstenwerth CEO of the German Insurance Association (GDV)

The starting signal for preparations ahead of Solvency II sounded in Germany on 1 January 2008 when, on the basis of the 9th amendment of the Insurance Supervision Act (VAG), Section 64a VAG (Business organisation) and Section 55c (Auditing and risk reports) entered into effect. These provisions codify supervisory law requirements pertaining to risk management and reporting in insurance companies and pension funds. The regulations are substantiated by the supervisory law provisions contained within the Minimum Requirements for Risk Management in Insurance Companies (MaRisk (VA)). The communiqué based on Sections 64a and 104s VAG was published at the end of April 2008 in draft form and, following the consultation phase, is expected to appear in its final form in October. As such, this provides an insight into the essential qualitative requirements of Pillar 2 of Solvency II at national level.

Incorporation of the new solvency regulations into national law and effective introduction of the national provisions is expected by 2012. The MaRisk (VA) requirements will be effected well ahead of Solvency II given that the supervisory authority wishes to encourage the German insurance industry to ensure early preparations for the advent of supervisory standards contained within the Solvency II rules. Consequently, insurance companies should already be making preparations in order that they may benefit at an early stage from opportunities presented by the new regulations.

□ Content of the new requirements

Section 64a VAG expressly states that the management is responsible for ensuring due and proper organisation of the business and establishing an adequate risk management system; whereby this also includes formulation of a risk strategy in line with the corporate strategy, establishment of a risk-bearing capability concept and the introduction of a limit system. The obligation to introduce an appropriate organisational structure allowing for management and monitoring of corporate risks and business processes is also expressly stated. In addition, adequate processes for identification,



The four areas of the ifb risk management framework serve as a tool to divide the new regulations into thematic elements and categories.



assessment, management and monitoring of essential risks are also to be introduced. As such, risk management in insurance companies will be effected on a broader basis in future and will also be linked to management processes within the company – a move that greatly surpasses current risk management requirements (e.g. Corporate Sector Supervision and Transparency Act (KonTraG)).

□ Not all regulations represent a new move

At first glance the new requirements appear to be extremely extensive. However, a closer look clearly reveals that elements of the new requirements are already standard practice. For example, effective qualitative risk management processes are often already in place and contingency plans documented. Although such requirements have not been put in concrete terms to date, the establishment of a risk management system has been necessary from both a regulatory and business point of view. The main task ahead now lies in partially expanding the existing risk management system to include any missing elements, refining existing rules and methods, and incorporating risk management into the overall corporate management structure. In turn, this provides an opportunity to update, modernise and progressively realign outmoded risk management methods and procedures. The subsequent aim should be to intelligently link individual risk management modules and bring these into line with planning and management processes. In this respect, the focus does not purely centre on fulfilling the requirements of future supervisory law, but, above all, lies in the added value that can be created with a well-grounded corporate risk management system. This includes qualitative effects, such as enhanced risk awareness or improved process quality, but also extends to the creation of competitive advantages.

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□ Opportunities to reduce the cost of implementation

Prior to implementing the new regulations, the first step is to create a clear overview of the required action, before then planning the individual implementation stages in a structured manner. The initial move is to divide the new regulations into thematic elements and categories, for example, by allocating them to the four areas of the ifb risk management framework. The next step is to examine whether any MaRisk (VA) requirements are already covered and/or whether there are methods, tools or processes already in place that can be used as a basis. A comparison of the existing risk management system with the new MaRisk requirements will elucidate the action that needs to be taken; this can then be focused on and an appropriate conception worked out.

□ Not too early to begin implementation

On this basis, the new requirements can be efficiently implemented and associated opportunities swiftly exploited. Even at this early stage, attention should be focussing on a number of individual themes, such as the formulation of business and risk strategies or the documentation of the risk management organisation and processes, thereby allowing the company to prepare for the upcoming changes. Simultaneously, the process of ongoing analysis and updating of strategies and documentation can also be carefully implemented and integrated into existing practices. As a consequence, the Solvency II mindset is also established within the company at an early stage.

