

# Procedure for determining the minimum time interval for regular review of elements referred to in Section 44 of the Insurance and Reinsurance Law and conducting inspections of activities of insurance undertakings

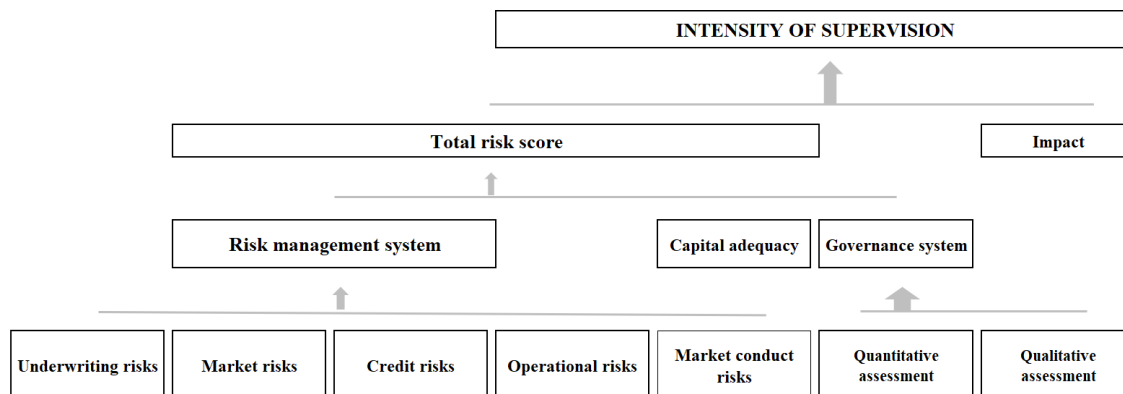
This Procedure has been developed on the basis of Section 45 of the Insurance and Reinsurance Law (hereinafter the "IRL").

## Risk scoring and tailoring the level of supervision intensity

Supervisory experts shall determine the risk scores and tailor the level of supervision intensity with regard to insurance undertakings based on Latvian Banka's regulatory document "Methodology for risk assessment and determination of the level of supervision intensity for insurance undertakings".

The process of risk scoring and tailoring the level of supervision intensity shall include an impact indicator assessment, a quantitative and a qualitative assessment of an insurance undertaking's inherent risks as well as an assessment of the elements of its internal control system (see the Chart).

*Chart. Risk scoring and tailoring the intensity of supervision for insurance undertakings*



The impact indicator shall be scored on a scale of "1" to "4" as follows:

low impact	medium-low impact	medium-high impact	high impact
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The assessment of the quantitative and qualitative indicators characterising the inherent risks of an insurance undertaking alongside the assessment of the internal control system's elements and the management of individual risks shall result in a score on a scale of "1" to "4" as follows:

low risk	medium-low risk	medium-high risk	high risk
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The scores shall be combined and the level of supervision intensity for the respective insurance undertaking shall be tailored accordingly.

This established level of supervision intensity shall be used when subsequently prioritising the supervisory measures, planning the inspections of insurance undertaking activities and determining the scope, objective, and frequency of inspections, thereby ensuring risk-based supervision.

The risk scores and the level of supervision intensity shall be updated on an annual basis.

## Determining supervisory measures based on the level of supervision intensity

When conducting supervision to gain assurance of an insurance undertaking's compliance with the IRL requirements, Latvijas Banka shall assess the elements characterising the activity of an insurance undertaking referred to in Section 44 of the IRL, based on the supervisory tasks listed in Table 1.

*Table 1. Supervisory tasks for the elements characterising the activity of insurance undertakings*

<b>Elements referred to in Section 44 of the IRL</b>	<b>Supervisory tasks</b>
1. Operational strategy	Assess the ability of the insurance undertaking to achieve the strategic objectives and the strategy's compliance with the provisions of Section 65 of the IRL, and discuss the strategy with the management of the insurance undertaking.
2. Organisational processes	Assess the compliance of the organisational structure of the insurance undertaking with the provisions of Sections 53 and 64 of the IRL and Regulation (EU) 2015/35.
3. System for the exchange of internal information	Assess the compliance of the insurance undertaking's internal information exchange system with the approved internal policies and procedures, the compliance of the information exchange procedure with the provisions of Sections 53, 64, 66, and 220 of the IRL and Regulation (EU) 2015/35.
4. System for the assessment of the risks significant to the activity to which the undertaking is or may be exposed	Assess the compliance of the insurance undertaking's approved risk management system with the internal policies and procedures specified in the provisions of Sections 53, 64, and 220 of the IRL and Regulation (EU) 2015/35.

<p>5. Ability to assess risks in the environment in which the insurance undertaking operates</p>	<p>Assess the compliance of the insurance undertaking's ability to evaluate risks in the environment in which it operates with the provisions specified in Sections 55, 64, and 65 of the IRL and Regulation (EU) 2015/35.</p>
<p>6. Compliance of the management system, including of the established risk and solvency own assessment, with the provisions of Sections 53–74 of the IRL</p>	<p>Assess the compliance of the established internal control policies and procedures of the insurance undertaking, internal audit policies and procedures, outsourcing policies and procedures as well as the management system and the self-assessment of risks and solvency with the provisions of Sections 53–74 and Section 220 of the IRL and Regulation (EU) 2015/35.</p>
<p>7. Compliance of the constitution of technical provisions with the provisions of Sections 98–115 of the IRL</p>	<p>Assess the compliance of the presentation of information on technical provisions in the quantitative reports submitted by the insurance undertaking with the provisions of Regulation (EU) 2023/894. Additionally, assess the compliance of the constitution of technical provisions with the policies and procedures approved by the insurance undertaking, ensuring the compliance with Sections 98–115 of the IRL and Latvijas Banka's Regulation No 325 "Principles for establishing insurance and reinsurance contracts boundaries and core principles for calculating technical provisions" of 21 October 2024.</p>

<p>8. Compliance of the capital requirement with the provisions of Sections 116–130 of the IRL</p>	<p>Assess the compliance of insurance undertaking's capital requirement with the provisions of Sections 116 and 117 of the IRL, the compliance of the presentation of the information on the capital requirement in the quantitative reports with Regulation (EU) 2023/894, the compliance of the calculation of the capital requirement with the policies and procedures approved by the insurance undertaking with the provisions of Sections 116–130 of the IRL, Regulation (EU) 2023/894, and Latvijas Banka's Regulation No 376 "Regulation on calculating the insolvency capital requirement and own funds of insurance undertakings, reinsurance undertakings and branches of foreign insurance undertakings" of 16 December 2024.</p>
<p>9. Compliance of the investing activities with the provisions of Sections 131–138 of the IRL</p>	<p>Assess the compliance of the presentation of information on investments in the quantitative reports submitted by the insurance undertaking with the provisions of Regulation (EU) 2023/894. Assess the compliance of the insurance undertaking's investment formation procedure with the provisions of Section 132 of the IRL. Assess the compliance of the insurance undertaking's investing activities with the policies and procedures approved by the insurance undertaking, the provisions of Sections 131–138 of the IRL, and Regulation (EU) 2015/35.</p>

<p>10. Compliance of the own funds with the provisions of Section 116 of the IRL</p>	<p>Assess the compliance of the presentation of information on the own funds in the quantitative reports submitted by the insurance undertaking with the provisions of Regulation (EU) No 2023/894. Additionally, assess the compliance of the own funds with the policies and procedures approved by the insurance undertaking, ensuring the conformity with Section 116 of the IRL, Regulation (EU) 2015/35, and Latvijas Banka's Regulation No 376 "Regulation on calculating the insolvency capital requirement and own funds of insurance undertakings, reinsurance undertakings and branches of foreign insurance undertakings" of 16 December 2024.</p>
<p>11. Continuous compliance of the partial or full internal model with the provisions of Sections 121–129 of the IRL</p>	<p>Where Latvijas Banka has received an application for an authorisation to use a full or partial internal model, the compliance of the documents submitted with the provisions of Regulation (EU) 2015/35 and Latvijas Banka's Regulation No 379 "Regulation on the internal models of insurers and reinsurers" of 16 December 2024 shall be assessed. Assess the compliance of a full or partial internal model with the policies and procedures approved by the insurance undertaking, the provisions of Sections 121–129 of the IRL, Regulation (EU) 2015/35, and Latvijas Banka's Regulation No 379 "Regulation on the internal models of insurers and reinsurers" of 16 December 2024.</p>
<p>12. Suitability of the methods and procedures used to carry out stress tests</p>	<p>Assess the results of the stress tests of an insurance undertaking, the suitability of the methods and procedures used to carry out stress tests, and the decisions taken regarding the actions to be performed upon the occurrence of the events or a change to market conditions referred to in the stress test.</p>

<p>13. Ability to continue activity in accordance with the requirements of the law upon occurrence of an adverse event or changes in market conditions evaluated in the stress test.</p>	<p>Taking into account the results of the stress tests and the decisions regarding the actions to be taken, assess the ability of the insurance undertaking to continue activity in accordance with the requirements of the law upon occurrence of an adverse event or changes in market conditions evaluated in the stress test. Assess the ability of the insurance undertaking to continue activity, in view of the information submitted in accordance with Sections 139, 141, 142, or 146 of the IRL.</p>
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The elements characterising activity of insurance undertakings referred to in Section 44 of the IRL shall be regularly assessed by:

- analysing the information presented by the insurance undertaking in its quantitative and qualitative supervisory reports;
- evaluating the information disclosed in various reports and publications by the insurance undertaking;
- evaluating the sworn auditors' reports on the audited financial statements and assessing the information contained in the financial statements;
- analysing the results of stress test evaluations;
- examining the policies and procedures of the insurance undertaking;
- examining the reports prepared by the actuarial function for the management of the insurance undertaking;
- examining the reports prepared by the internal audit function for the council of the insurance undertaking and the internal audit's action plans;
- analysing the planned actions of the compliance function in the insurance undertaking;
- evaluating other information about the insurance undertaking submitted by it and available about it.

In compliance with a risk-based approach, the need for an additional or an in-depth assessment of the elements referred to in Section 44 of the IRL as well as the respective minimum time interval for those supervisory measures shall be determined on the basis of the level of supervision intensity established for the respective insurance undertaking.

An additional or an in-depth assessment of those elements may include, for example:

- in-depth on-site or off-site inspections of the problem areas;
- thematic horizontal reviews;

- additional meetings with the management of the insurance undertaking;
- meetings with the persons responsible for core functions;
- enhanced supervision of individual risks or management elements;
- corrective measures;
- meetings with shareholder representatives.

This procedure shall ensure that higher intensity supervision is applied to insurance undertakings with a high inherent risk or those where a potential deterioration in their financial condition has a greater impact on the financial market and policyholders, the insured and the persons having the right to claim the insurance indemnity under the insurance contract concluded. Consequently, higher intensity supervision means, for example, more frequent application of individual in-depth assessment measures. At the same time, in the case of insurance undertakings with a lower established intensity of supervision, individual supervisory measures will be less frequent.

The minimum time interval for the in-depth review of the elements referred to in Section 44 of the IRL shall be determined in accordance with Table 2.

*Table 2. Determining supervisory measures based on the level of supervision intensity*

Level of supervision intensity	Assessment of the elements referred to in Section 44 of the IRL	
	Regular assessment	In-depth assessment
<b>Low</b>	On an annual basis, as part of the supervisory cycle	As required
<b>Moderate</b>	On an annual basis, as part of the supervisory cycle	As required
<b>Medium</b>	On an annual basis, as part of the supervisory cycle	At least once every three years
<b>High</b>	On an annual basis, as part of the supervisory cycle	Annually

Latvijas Banka shall take supervisory measures and assess the activities of an insurance undertaking in accordance with Section 44 of the IRL, where necessary, and in accordance with the internal regulatory documents of Latvijas Banka and other laws and regulations, but at least within the timeframe specified in Table 2.



The list of supervisory measures and assessments presented in this Procedure is not exhaustive. Latvijas Banka may, where necessary, apply a supervisory measure appropriate to another level of supervision intensity or apply other supervisory measures not listed in the tables of this Procedure or conduct in-depth assessments.