

Guidelines for Insurance Undertakings pursuant to section 71(1), nos. 1-8 of the Financial Business Act

Guidelines no. 10116 of 22 December 2006

Introduction, points 1)-8)

Part 1: General information regarding organisation, procedures and internal control, points 9)-19)

Part 2: Good accounting practices, points 20)-22)

Part 3: Work etc. of the board of directors and the board of management, points 23)-89)

3.1 General information, points 23)-36)

3.2 The rules of procedure of the board of directors, points 37)-40)

3.3 Participants in the meetings of the board of directors, points 41)-42)

3.4 Negotiations and minute book of the board of directors, points 43)-59)

3.5 Exposures with the board of management and members of the board of directors and intra-group exposures, points 60)-69)

3.6 The guidelines from the board of directors to the board of management, points 70)-85)

3.7 Reporting to the board of directors, points 86)-89)

Part 4: Insurance business, points 90)-103)

4.1 Organisation, points 90)-91)

4.2 Authorities and procedures, points 92)-96)

4.3 Risk assessment, point 97)

4.4 Procedures, points 98)-99)

4.5 Internal controls, points 100)-101)

4.6 Reporting, points 102)-103)

Part 5: Investments and investment decisions, points 104)-121)

5.1 Tasks of the investment function, points 104)-108)

5.2 Authorities and procedures, points 109)-114)

5.3 Procedures, points 115)-116)

5.4 Internal controls, points 117)-118)

5.5 Reporting, points 119)-121)

Part 6: Treatment of customers (Good business practice), point 122)

Annex 1: Section 56(7) of the Public Companies Act.

Guidelines for Insurance Undertakings pursuant to section 71(1), nos. 1-8 of the Financial Business Act

1) These guidelines are the Danish FSA's interpretation of section 71(1), nos. 1-8 of the Financial Business Act as well as the other provisions mentioned in these guidelines and may thus be regarded as a summary of the Danish FSA's practices for the areas covered by these guidelines. These guidelines only pertain to the circumstances of insurance undertakings.

2) The wording of these guidelines is in accordance with "Supervisory Standards on Derivatives" (October 1998), "Supervisory Standards on Asset Management by Insurance Companies" (December 1999) and "Supervisory Standards on the Evaluation of the Reinsurance Cover of Primary Insurers and the Security of their Reinsurers" (January 2002) prepared by the International Association of Insurance Supervisors. These guidelines also contain wording based on the Committee of European Banking Supervisors' "Guidelines on the Application of Supervisory Review Process under Pillar 2" and the technical criteria specified in Directive 2006/48/EC, annex V, to the extent that this wording is considered to be generally applicable for all types of undertakings.

3) If, for example, an on-site inspection ascertains that the instructions of these guidelines are not being followed by an undertaking, it is to be expected that the Danish FSA will take action against these violations and express criticism on the matter, in pursuance of the provisions in legislation. In the event of a violation of provisions subject to penalty, such matters will, in gross or repeated circumstances, be reported to the police.

4) Some of the points in these guidelines contain examples of how the relevant problem may be solved. If an undertaking can document that the problem has been solved in another manner, section 71 of the Financial Business Act will not have been violated.

5) These guidelines contain the minimum requirements in accordance with the Danish FSA's practice regarding undertakings under section 71(1), nos. 1-8 of the Financial Business Act. These guidelines apply to all insurance undertakings, but a few of the points are not necessarily relevant for all types of undertaking. The requirements the individual undertaking is subject to are to reflect the risk situation and capital strength of the undertaking, cf. section 54(3) of the Public Companies Act. In this connection, it is noted that the provisions of sections 54, 56 and 57 of the Public Companies Act apply for all undertakings covered by the Financial Business Act, including mutual companies and lateral pension funds.

6) The board of directors must ensure compliance with sections 71(1), nos. 1-8 as expressed in these guidelines.

7) The financial legislation applies to each individual undertaking licensed by the Danish FSA.

8) Guidelines for a group as a whole cannot replace the guidelines for the group's individual undertakings subject to supervision, which should be prepared in accordance with section 71(1), nos. 1-8 of the Financial Business Act. The board of directors of the individual group undertaking subject to supervision must lay down relevant guidelines.

Part 1: General information regarding organisation, written procedures and internal control

9) Furthermore, section 71(1), nos. 1-8 of the Financial Business Act stipulates that the undertaking must have

1. efficient types of corporate governance,
2. a clear organisational structure with a well-defined, transparent and consistent division of responsibilities,
3. good administrative and accounting practices,
4. written procedures for all significant areas of activity,

5. effective procedures to identify, manage, monitor and report the risks, the undertaking is or can be exposed to,
6. the resources necessary for proper carrying out of its activities, and use these appropriately,
7. procedures with a view to separating functions in connection with handling and prevention of conflicts of interest,
8. full internal control procedures.

10) Cf. section 54(1), 2nd clause of the Public Companies Act, the board of directors must ensure proper organisation of the business of the undertaking.

11) The written procedures may help:

- a) to ensure that the guidelines adopted by the management are communicated to the employees
- b) to ensure implementation of effective procedures to identify, manage, monitor and report the risks, the undertaking is or can be exposed to
- c) to contribute to providing a good foundation for decision-making for employees
- d) to contribute to uniform case processing in matters of a uniform nature
- e) to contribute to rational and coordinated performance of work through minimisation of the risks of misunderstandings
- f) to support the introduction of new regulations
- g) to provide new employees with an efficient and swift introduction to their work.

12) The following overall requirements apply to the written procedures:

- a) they must be kept up to date on an ongoing basis
- b) they must be easy to read
- c) they must describe actual circumstances
- d) they may not leave any doubt as to who is responsible for each individual task
- e) they must be known by the relevant employees to an appropriate extent
- f) it must be clear who has completed each individual task
- g) they must contain control elements, ensuring uniform quality in case processing and compliance with the procedures.

13) The need to prepare written procedures will vary from undertaking to undertaking. As a consequence of the requirements in section 71 of the Financial Business Act on good administrative and accounting practices and written procedures for all significant areas of activity, most undertakings will have to draw up written procedures for the following areas:

- a) Division of responsibilities so that the division of responsibilities is clear, precise, well-defined and transparent
- b) Insurance business
- c) Investments
- d) Measures to prevent money laundering and financing of terrorism (although not non-life insurance companies), cf. section 25 of Act on Measures to Prevent Money Laundering and Terrorist Financing
- e) Capital adequacy statement
- f) Ongoing measurement and assessment of the undertaking's adequate base capital, cf. section 126(1) of the Financial Business Act

- g) Preparation and submission of financial statements, including registration of transactions (bookkeeping) concerning the most important financial items
- h) Good business practice
- i) User manuals for the IT system applied by the undertaking, and IT control and security measures, cf. the Danish FSA's guidelines no. 9074 of 23/01/2004, Guidelines on IT control and security measures.

14) The board of directors and board of management have overall responsibility for ensuring compliance with the procedures, cf. points 23 and 24.

15) The procedures and the internal controls must ensure sufficient segregation of personnel (segregation of duties) and that the undertaking does not become too dependent on individual key persons.

16) If complete segregation of duties is not possible, this must be taken into account in the preparation of guidelines and procedures and in the planning of internal control.

17) Employees who perform controls must have sufficient knowledge of the area to perform relevant control.

18) Use of non-integrated IT systems requires extra control systems, including establishment of independent controls of data, calculations and results.

19) The undertaking's reporting lines and division of responsibilities must be clear, precise, well-defined, transparent and coherent.

Part 2: Good accounting practice

20) Good accounting practice means that the undertaking is able to document that published annual reports and interim reports, including the individual financial items, either follow the international accounting standards (IAS/IFRS) and the IFRS Executive Order or the Financial Business Act and the Executive Order on Financial Reports for Insurance Companies and Lateral Pension Funds (Nationwide Occupational Pension Funds) (the executive order on financial statements).

21) Good accounting practice also means that information in the undertaking's published annual and interim reports must be both relevant and reliable, cf. section 187(3) of the Financial Business Act.

22) The information in the undertaking's annual and interim reports must therefore be based on underlying material, which is relevant and reliable. The assessment of whether recognition or adjustment is to be carried out of an asset or a liability in the undertaking's annual and/or interim report must therefore, as far as possible, be carried out on the basis of updated information on the specific condition(s).

Part 3: Work etc. of the board of directors and the board of management

3.1. General information

23) In conjunction with the board of management, the board of directors carries out the management of the undertaking.

24) The board of directors must attend to matters with great significance to the undertaking, cf. section 54(1) of the Public Companies Act. This must be taken into consideration in the determination of the limits in these guidelines (instructions) pursuant to section 70 of the Financial Business Act. The board of directors must ensure that the overall management tasks are given appropriate attention. The board of directors and the board of management must ensure that the administration of the undertaking is adequate in all respects.

25) Section 70 of the Financial Business Act stipulates that the board of directors of a financial undertaking is to prepare written guidelines on the most significant areas of activity of the relevant financial undertaking, specifying the distribution of responsibilities between the board of directors and the board of management.

26) In circumstances where the board of directors decides to transfer part of the most significant areas of activity of the undertaking such as asset management, accounting, IT functions, etc. to external suppliers (outsourcing), the board of directors must ensure that there are guidelines for carrying out these activities. These guidelines must ensure appropriate performance of the activities, including in situations where the management of the undertaking does not have a daily overview of how the activities are being carried out.

27) Outsourcing important areas of activity must be decided by the board of directors. Outsourcing also includes situations where one or more undertakings in a group carry out activities for other undertakings in the group.

28) There must be regular reports to the board of directors so that they can check that the guidelines are being followed, and the board of directors must assess regularly whether activities are being carried out satisfactorily. It should be noted that the board's responsibility for carrying out the activities cannot be outsourced. With regard to portfolio management, refer to points 31, 32, 107 and 114.

29) The board of directors must carry out an annual review of the principles for the measurement and valuation of assets, cf. section 54(3), 2nd clause of the Public Companies Act, and of the risk situation of the insurance function with a view to an assessment of the need for amended guidelines for risk assumption, adaptation of tariffs or provision principles. It must be clear from the minute book that the review has been carried out, what has been reviewed and the conclusions hereto.

30) The board of directors must carry out an annual review of whether the reinsurance cover is adequate. It must follow from the minute book that the review has been carried out and the conclusions of the review must be stated.

31) If the assets are managed by portfolio managers, it is the responsibility of the board of directors that funds are placed within the guidelines laid down by the board of directors and in accordance with legislation. The reporting procedures must be adequate so that the reporting is suitable for ensuring that the guidelines, and thus also legislation, are being met.

32) Responsibility for the determination of the criteria to be applied when engaging and terminating portfolio managers also rests upon the board of directors.

33) Members of the board of directors and the board of management are under an obligation to contact the Danish FSA if they suspect that the undertaking does not meet the solvency requirement and the minimum capital requirement of section 75(3) of the Financial Business Act.

34) The board of directors and the board of management must draw up a policy stating the efforts to be initiated, if a key employee leaves the undertaking.

35) The undertaking must draw up an emergency plan for approval by the board of directors, ensuring that the undertaking continues operation and limits its losses in the event of serious operational failures.

36) The board of directors and the board of management must work towards open communication, so the board of directors is provided with all relevant information.

3.2. The rules of procedure of the board of directors

37) The board of directors must lay down more detailed directions with regard to the performance of its duties by means of rules of procedure, cf. section 65 of the Financial Business Act.

38) There is no general legislative requirement for the contents of such rules of procedure. Section 56(7) of the Public Companies Act, cf. Consolidated Act no. 649 of 15 October 2006, does, however, lay down minimum requirements for the rules of procedure of listed companies. These regulations may be applied as a guide for other undertakings. The content of section 56(7) of the Public Companies Act appears in the annex to these guidelines.

39) A member of the board of directors, a member of the board of management, an external auditor, the chief internal auditor and - in life-assurance companies and pension funds - the appointed actuary may demand that the board of directors convene, cf. section 74(1) of the Financial Business Act. Thus, the rules of procedure may not contain provisions stipulating that several of the persons mentioned are required to convene the board of directors.

40) The rules of procedure must be signed by all the members of the board of directors. This means that new members of the board of directors are required to sign for the receipt of the current rules of procedure. This ensures that all members of the board of directors have knowledge about the rules of procedure.

3.3. Participants in the meetings of the board of directors

41) No unauthorised persons may be present at meetings of the board of directors if matters are being addressed which include customer information that cannot legally be divulged in accordance with the regulations in section 117(1) of the Financial Business Act (confidentiality provisions). Employees may participate in meetings of the board of directors to the extent that the board of directors decides in favour of this. The chairperson of any shareholder committee or persons employed in other companies within the group, eg. in the parent company of the group, will not be allowed to participate on a regular basis in the meetings of the board of directors.

42) The external auditors, the chief internal auditor and the appointed actuary must participate in meetings of the board of directors if requested by a member of the board of directors. The external auditors and the chief internal auditor are always entitled to attend meetings of the board of directors when matters relevant to auditing or the presentation of accounts are addressed, cf. section 74(1) of the Financial Business Act.

3.4. Negotiations and minute book of the board of directors

43) The board of directors may make no decisions unless all members have, as far as possible, had access to participating in consideration of the business, cf. section 57(1), 2nd clause of the Public Companies Act.

44) The chairman of the board of directors must ensure that the board of directors convenes when necessary, cf. section 74(1) of the Financial Business Act.

45) Therefore, the board of directors cannot legally delegate its decision-making competence to eg. an executive committee. This does not include processing standardised matters which, in accordance with the articles of association or similar, must be processed by the board of directors. Matters of this type may be delegated for processing and decision by a sub-committee under the board of directors, provided the full board of directors has stipulated guidelines in advance for processing the matter. These guidelines, as well as the work of the sub-committee on the relevant matters, should be regularly reassessed by the board of directors. It should be noted that responsibility for processing the matters cannot be delegated.

46) In some undertakings, the regulations mentioned above may be supplemented by further requirements under the articles of association as to the validity of decisions of the board of directors. Such further requirements must be respected and, to the extent necessary, documented.

47) Decisions must, as a general rule, be made at the meetings of the board of directors. Meetings of the board of directors may also be held using electronic media (electronic meeting of the board of directors), and, following a prior decision by the board of directors, certain clearly demarcated matters of the board of directors may be processed in writing (written meeting of the board of directors), cf. section 56(3) and (4) of the Public Companies Act.

48) If a decision is made by the board of directors without the board of directors having convened, a minimum requirement is that each individual member of the board of directors has given actual consent to this effect and the relevant consent must be registered in the minute book. Omission to react to material received is not sufficient. As with other decisions of the board of directors, decisions may be made when more than half the board of directors agrees.

49) If decisions are made at electronic meetings of the board of directors or through written procedures (written meetings of the board of directors), this must follow from the minute book. The minute book must, in the same manner as for physical meetings of the board of directors, contain a description of discussions at meetings.

50) Conditions for electronic meetings of the board of directors:

- a) The board of directors must carefully consider which matters are suitable for processing at an electronic meeting of the board of directors. This will primarily be routine matters or urgent matters which do not require a new decision of principle by the board of directors.
- b) The decisions of the board of directors as to which matters are suitable for electronic procedure must be clear from minutes of meetings of the board of directors.
- c) Electronic meetings must be compatible with the performance of the duties. Amongst other things, this means that electronic meetings may not entail that the board of directors does not achieve the required insight into the matters of the undertaking as would otherwise be achieved by personal attendance and discussion.
- d) All participants must be present electronically at the same time.
- e) Any member of the board of directors or board of management is entitled to require a physical meeting of the board of directors to be held at any time.

51) The Danish FSA interprets electronic meetings of the board of directors as meetings of the board of directors that take place through the use of electronic media without the members of the board of directors being physically present, eg. via telephone, Internet or any other medium with similar functionality. Thus, if the majority of the members of the board of directors are physically present, the meeting is not regarded as an electronic meeting of the board of directors.

52) Conditions for written processing of matters by the board of directors (written meetings of the board of directors):

- 1) The board of directors must have decided in advance which types of subject are to be regarded as suitable for written procedures, and this must be indicated in the minute book.
- b) The cases must be of a standard or urgent nature, which do not require decisions to be taken regarding significant or extraordinary matters and where a plenary discussion is not required.
- c) A time limit must be fixed for finalisation of the case so that it is not unduly protracted.
- d) Any member of the board of directors or board of management is entitled to require a physical meeting of the board of directors to be held at any time.

53) With regard to the quorum of the board of directors, please refer to section 57 of the Public Companies Act. The board of directors must generally ensure appropriate organisation of the tasks of the board of directors.

54) The duty of the board of directors to carry out supervision of the board of management may not be exercised through written meetings of the board of directors. The board of directors' responsibility for supervision is ongoing and not just something effected at meetings of the board of directors.

55) A minute book, to be signed by all the members present, must be kept of the matters discussed by the board of directors, cf. section 74(3) of the Financial Business Act. The minute book must contain a description of discussions at meetings.

56) Decisions made without the board of management or employees of the undertaking being present ("closed meetings") must also be recorded in the minute book.

57) It must appear clearly from the minute book which members have been present at a meeting and which members have not been present.

58) The minute book must be designed so that the risk of subsequent additions, corrections or omissions is as small as possible. If the minute book is kept as a loose-leaf system, this may be done by having the initials of the chairperson or another member of the board of directors on each page.

59) Each page of the minute book must be numbered in succession.

3.5. Exposures with the board of management and members of the board of directors and intra-group exposures

60) Section 78(1) of the Financial Business Act stipulates that, without the consent of the board of directors, no exposure may be established with members of the board of directors or members of the board of management of the undertaking or with companies in which the persons mentioned are members of the board of management or members of the board of directors. This also applies to close links and relations of members of the board of management and to companies in which such persons are members of the board of management, cf. section 78(4) of the Financial Business Act. The relevant consent must be given in advance.

61) Section 78(1) and (4) of the Financial Business Act and the provision in section 58 of the Public Companies Act together entail that members of the board of directors and members of the board of management are required to leave the room when their own or related exposures are being addressed by the board of directors.

62) When exposures covered by section 78(1) and (4) of the Financial Business Act are being addressed, it must be noted explicitly in the minute book, and it must also be noted that the members mentioned above have not been present during consideration of the matter.

63) This provision does not prevent a member of the board of directors or a member of the board of management who also participates in the management of a parent company owning the entire capital of the undertaking or a fully-owned fellow subsidiary company or subsidiary from participating in the processing of issues regarding or exposures in the relevant company, cf. point 43.

64) Exposures with members of the board of directors and members of the board of management are subject to approval in accordance with the undertaking's usual business terms and on terms based on market conditions, cf. section 78(2) of the Financial Business Act.

65) Financial information must be available about the group of persons mentioned in section 78(1) and (4) of the Financial Business Act, since the board of directors is required to monitor these exposures in particular, cf. section 78(3) of the Financial Business Act. This does not apply, however, to fully secured exposures or exposures of entirely insignificant size. Thus, it is not sufficient to make only an assessment at the time of establishment of the exposure.

66) At least once annually, the board of directors must review the exposures with the persons and companies mentioned, eg. in connection with the annual review of assets. It must follow from the minute book that the review has been carried out and the conclusions of the review must be stated.

67) General guidelines and procedures must be laid down for intra-group transactions within the framework of section 181 of the Financial Business Act, cf. sections 5 and 6 of Danish FSA Executive Order no. 904 of 1 September 2004 on Intra-Group Transactions.

68) In accordance with section 182 of the Financial Business Act a financial undertaking may not, without a license from the Danish FSA, have exposures within the same group except for exposures with subsidiary undertakings. The Danish FSA has issued Guidelines no. 9084 of 20 February 2004 on practice for authorisation of intra-group exposures.

69) Intra-group exposures must be granted in accordance with the guidelines on intra-group transactions, cf. point 67.

3.6 The guidelines from the board of directors to the board of management

70) In accordance with section 70(1) of the Financial Business Act, the board of directors is required to prepare written guidelines on the most significant areas of activity of the undertaking, including the risk profile of the undertaking. Furthermore, the division of work between the board of directors and the board of management must be determined, cf. also section 54 of the Public Companies Act. The required degree of detail will vary from undertaking to undertaking, but the guidelines of most undertakings are required to contain information about the following as a minimum:

- a) The insurance function
- b) The reinsurance cover
- c) Investments
- d) Registration of assets
- e) Information and communication to customers (to the extent that this is relevant for the relevant type of insurance business).

71) The board of directors must assess and bring up to date the written guidelines when necessary and at least once a year.

72) The guidelines should contain a framework for risk assumption in the insurance function. The guidelines must stipulate which types of insurance may be written, acceptance rules, tariffs and insurance sums, including regulations about acceptance of insurance that may only be taken out on the basis of individual offers ("offers to large customers").

73) A reinsurance strategy must be laid down. This should indicate the reinsurance cover and how retention amounts are determined in relation to the company's capital strength as well as the choice of reinsurers, including assessment of the credit risk hereof, the maximum exposure to be placed at individual reinsurers and any collateralisation. Furthermore, the reinsurance strategy must consider the operational risk that will occur if the reinsurance contracts are not signed at the beginning of the contract period.

74) The limits of the guidelines must be laid down in such a manner that the provisions regarding the placement of funds laid down in sections 158-169 of part 11 of the Financial Business Act are met on the date of investment.

75) In the guidelines, specific limits must annually be laid down for the access of the board of management to place funds in investment assets, cf. sections 162-164 of the Financial Business Act, and in derivative financial instruments within the framework of section 158 of the Financial Business Act, ie. taking into account the capital strength and the commitments to members. In the guidelines, principles must be laid down annually for the measurement and

valuation of risks of assets and liabilities in relation to the limits laid down, including principles stipulating whether some transactions - eg. in derivative financial instruments - are to be included applying stricter principles than those of sections 160 and 164 of the Financial Business Act as well as targets and standards of reference for the purpose of assessment of the return obtained.

76) Limits must be laid down annually for the access of the board of management to place funds in holdings jointly and in one single company within the framework of sections 158-169 of part 11 of the Financial Business Act. The guidelines must indicate whether it is to be permitted to take up share positions in derivative financial instruments, and if so, which type. If these are permitted, it must be clear from the guidelines how they are to be included in the limits.

77) Limits must be laid down annually for the access of the board of management to place funds in bonds within the framework of sections 158-169 of part 11 of the Financial Business Act and a target interest-rate risk must be laid down by the board of directors. The guidelines must indicate whether it is to be permitted to take up share positions in derivative financial instruments, and if so, which type. If these are permitted, it must be clear from the guidelines how they are to be included in the limits.

78) Guidelines must be laid down annually for the access of the board of management to place funds in credit institutions and stipulating which counterparties may be used in securities transactions (lines and limits). The guidelines must lay down the limits used for the maximum amounts outstanding from the credit institutions and counterparties. This may be done through the board of directors approving the principles the undertaking applies as a basis herefor.

79) Guidelines must be laid down annually for the total foreign-exchange risk the board of management is permitted to impose on the undertaking, including the board of management's access to making use of derivative instruments to hedge this foreign-exchange risk. Moreover, limits may be laid down for individual currencies or groups of currencies. The guidelines must be laid down in accordance with the currency-matching regulations of section 165 of the Financial Business Act.

80) Limits must be laid down annually for the access of the board of management to use derivative financial instruments to hedge the risk of the insurance business within the framework of sections 24, 25, 26 and 29 and sections 158-169 of part 11 of the Financial Business Act. The guidelines must indicate how these instruments are included in the risk targets and limits laid down as well as targets and standards of reference for the purpose of assessment of the return obtained.

81) If the undertaking can accept the special risks related to structured products, options etc. limits must be laid down for these risks.

82) Guidelines must be laid down regarding entering into and termination of - as well as follow-up to - portfolio management agreements, regardless of whether the agreements are with group companies or external managers.

83) In groups where the parent undertaking is a financial undertaking or a financial holding company, there must be guidelines for both the individual undertaking and the group.

84) The board of directors and the board of management are responsible for the undertaking only accepting risks, the consequences of which the undertaking can assess to the extent necessary. When laying down the guidelines, the board of directors and the board of management must therefore ensure that authority is only delegated and further delegated to employees with the necessary knowledge, insight and experience to be able to use the authority properly.

85) Guidelines must be laid down for information and communication to customers in life assurance companies and pension funds, including the extent to which customers are to be informed of e.g. bonus prospects.

3.7 Reporting to the board of directors

86) Reporting to the board of directors must be effected for all the areas for which limits for the board of management have been laid down or where legislation stipulates limits.

87) Reporting must explain the utilisation of the framework or placement limits (risk targets).

88) The board of directors must lay down provisions as to how often reporting is to be carried out and the extent of this reporting.

89) The board of directors must lay down targets and standards of reference for the purpose of assessment of results achieved, including the returns obtained.

Part 4: Insurance business

4.1. Organisation

90) It must be ensured that the part of the undertaking's organisation attending to insurance administration is arranged so that there are clearly defined areas of responsibility and work so that the performance of tasks is separated from the control of these tasks.

91) As far as possible, there must be segregation of duties between insurance writing, processing of claims and insurance-related payments.

4.2 Authorities and procedures

92) If the board of management can further delegate authority originally delegated to the board of management by the board of directors, written authorities must be prepared and they must be known by the employees to whom this authority is delegated.

93) The guidelines must, as a minimum, be signed/approved by the person surrendering the authority.

94) There must be guidelines for regular reporting pertaining to the utilisation of delegated authorities to make decisions.

95) It must be possible for employees with such authority to ascertain whether the decisions they intend to make lie within their authority. This also applies when several persons have identical authority or share one authority.

96) Procedures must be laid down for introduction of new products.

4.3 Risk assessment

97) The board of directors and board of management must ensure that the total risk of the undertaking is regularly measured fully and prudently. In this regard, it must be considered which assets and liabilities are important for the undertaking.

4.4 Procedures

98) The procedures must clearly describe matters of significance for adequate management of each risk-bearing activity in the area.

99) There must be updated procedures for all the undertaking's significant risk-bearing activities in the area. The procedures may pertain to:

- a) Accepting risks and underwriting of insurance policies
- b) Procedures for notification of technical bases, etc. for life-assurance activities
- c) Health assessment when underwriting insurances

- d) Management of incoming and outgoing payments
- e) Processing of cases related to surrender and termination
- f) Processing of claims
- g) Lodging of claims with reinsurers
- h) Control of payments from reinsurers
- i) Principles and methods when calculating technical provisions

4.5 Internal controls

100) There must be internal controls to ensure that procedures are being followed.

101) If no internal controls can be introduced with full segregation of duties in relation to employees with authority to take decisions on behalf of the undertaking, the undertaking's, procedures and practises will become subject to stricter requirements.

4.6 Reporting

102) Regular written reports must be prepared for the board of directors, the board of management and other senior employees. Reporting to the relevant persons must be effected for the limits of risk assumption these persons have delegated to others in the organisation. Within this area, the reports may pertain to:

- a) Accepting insurance policies
- b) Large risks
- c) Extent of surrenders
- d) Claims trends
- e) The run-off profit/loss from technical provisions
- f) Necessary amendments in the technical basis for life-assurance activities
- g) Result of reinsurance cover.

103) The frequency of reporting must reflect the extent and character of the risk-bearing activities as well as the recipient's organisational level and thus the degree of involvement in daily decisions.

Part 5: Investments and investment decisions

5.1 Tasks of the investment function

104) It must be ensured that the organisation of the investment function is arranged so that there are clearly defined areas of responsibility and work, and so that the performance of tasks is separated from the control of these tasks.

105) Thus, employees involved in trading and risk assumption may not, as a general rule, participate in the completion of business activities, performance of internal controls, calculation of results and risks, or the preparation of management reporting, etc.

106) Furthermore, units with authority to take decisions on behalf of the undertaking may not, as a general rule, refer to an employee who is a manager responsible for completion, control, calculation of results and risks, and management reporting.

107) In cases where the undertaking's management of assets is fully or partially left to portfolio managers, the organisation and internal control is required to reflect this. Amongst other things, this requires that there must always be adequate monitoring procedures.

108) It must be ensured that risk assessment always takes as its starting point the total risk attached to the investment assets, including derivative financial instruments, as well as the connection between the risks attached to the assets on the one hand and the liabilities and own funds on the other hand, cf. sections 158 and 160 of the Financial Business Act.

5.2 Authorities and procedures

109) If authority which the board of directors has granted to the board of management is further delegated, cf. section 70 of the Financial Business Act, authorities must be prepared for the individual units/employees with authority to take decisions on behalf of the undertaking or for portfolio managers.

110) Furthermore, the authorities must:

- a) be in writing and, as a minimum, approved or signed by the person delegating the authority
- b) contain checkable limits with regard to risk assumption which must clearly identify the authority of the unit, employee or portfolio manager to take decisions on behalf of the undertaking
- c) contain a description of the principles applied in the calculation of risks, including in the calculation of risks related to derivative financial instruments, and
- d) contain requirements for reporting entailing that the frequency of reporting reflects the risk profile and extent of the activities.

111) It must be possible for employees with authority to take decisions on behalf of the undertaking and for portfolio managers to ascertain whether the transactions they intend to enter into lie within their authorities. This also applies to any collective authorities where several employees together can enter into commitments within a limit as well as when there are common authorities for several portfolio managers.

112) The sum of the individual authorities and collective authorities where several employees jointly can make decisions may not exceed the authorities the board of directors has surrendered to the board of management.

113) If portfolio managers are used, the board of management must approve the authorities assigned to the individual portfolio managers on the basis of authorities laid down by the board of directors.

114) Written procedures must be prepared which lay down guidelines as to the requirements for monitoring of the individual portfolio managers and depositaries as well as the requirements made to ensure that the portfolio managers as a group comply with the overall placement framework.

5.3 Procedures

115) The procedures must clearly describe matters of significance for adequate management of each investment-risk-bearing activity.

116) There must be updated written procedures for all the undertaking's significant investment-risk-bearing activities, including procedures regarding:

- a) Entering, control, registration, bookkeeping and settlement of transactions involving securities, derivative financial instruments and other investment assets
- b) Ongoing calculation and monitoring of risks, etc.
- c) Ongoing calculation and compliance with lines and limits for risk assumption included in the authorities for all organisational levels as well as dealing with non-compliance

- d) Management of registered assets
- e) Ongoing and periodical reporting to the board of directors, the board of management and the management of the departments carrying out investment tasks
- f) How to deal with the introduction of new investment products, including derivative financial instruments.

5.4 Internal controls

117) There must be efficient internal controls and reliable information systems, such that all significant investment-risk-bearing activities are controlled, including:

- a) Registration, bookkeeping and settlement of transactions
- b) Calculation and reporting of positions, results and risks, etc.
- c) Compliance with the limits of the authorities for risk assumption, etc. at all organisational levels, including portfolio managers
- d) Prices of transactions involving securities, currency and derivative financial instruments (price control)
- e) Interim yield (gain/loss), including yield in relation to targets and benchmarks determined, and
- f) Compliance with section 165 of the Financial Business Act on matching and localisation and limits for investments in asset categories and individual assets.

118) If no internal controls can be introduced with full segregation of duties between units/employees with authority to take decisions on behalf of the undertaking and units/employees performing tasks, the undertaking's delegated authorities, procedures, practices and reporting will become subject to stricter requirements, cf. paragraphs 5.2, 5.3 and 5.5.

5.5 Reporting

119) Written reporting must be effected to the undertaking's board of directors and board of management regarding all limits for risk assumption, etc. contained in the guidelines.

120) The frequency of reporting must reflect the extent and character of the investment-risk-bearing activities as well as the recipient's organisational level and thus the degree of involvement in daily decisions.

121) The reporting must, to the greatest possible extent, be prepared by organisational units/persons not involved in the investment decisions of the undertaking. If complete segregation of duties is not possible, the undertaking's internal control procedures and system application in particular will become subject to stricter requirements, cf. paragraph 5.4.

Part 6: Treatment of customers (Good business practice)

122) There must be updated written procedures, guidelines or similar describing:

- a) The contracts with private customers that are so important that they must be in writing or in some other durable medium and the terms for termination
- b) The notice to be given to customers in continuing customer relationships in connection with changes in premiums, fees, contributions or other charges to the detriment of the customer and for non-life insurance and individual life-assurance schemes
- c) Employees' possible obligations regarding giving advice, including the extent and nature of the information to be obtained to ensure good advice

- d) The duty of employees to inform the customer if the undertaking/employee when providing advice has a special interest in the result of the advice beyond income.

Section 56(7) of the Public Companies Act

(7) By means of rules of procedure, the board of directors shall make more detailed decisions with regard to the performance of its duties. In companies whose shares are quoted on a stock exchange, see section 7 (1), no. 1 of the Act on Securities Trading etc., and in state-owned companies, the rules of procedure shall contain provisions which at least

- 1) set out the specific offices of the members of the board of directors and the board of directors' competence to pass resolutions, as well as the intervals at which meetings shall be held;
- 2) set out the directions for delegation of duties, including procedures, powers and instructions, between the board of directors and the management board or other established organs;
- 3) set out how the board of directors shall monitor the management board's running of the business of the company and supervise subsidiary undertakings;
- 4) set out guidelines as to the establishment and keeping of books, lists and registers under this Act;
- 5) impose on the board of directors the obligation to consider the organisation of the company, including the accounts function, internal controls, computer organisation and budgeting;
- 6) impose on the board of directors the obligation to procure any information required to perform the duties of their office;
- 7) impose on the board of directors the obligation to follow up on plans, budgets, etc., and to consider reports on the liquidity of the company, the volume of orders, major transactions, the general overall insurance coverage, financing, cash flows and special risks;
- 8) impose on the board of directors the obligation to consider the contents of the audit records prior to the signing thereof;
- 9) impose on the board of directors the obligation to go through the company's interim accounts etc. in the course of each accounting reference period, and also to evaluate the budget and deviations therefrom; and
- 10) impose on the board of directors the obligation to secure the necessary basis for the audit, including a consideration as to whether there is a requirement for internal audit.