

## **Guidelines on adequate base capital and individual solvency needs in pursuance of section 16 of the Executive Order on Solvency and Operating Plans for Insurance Companies**

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### **Guidelines no. 9451 of 20 June 2007**

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#### **Context**

1. The regulations on adequate base capital and individual solvency needs are laid down in the Danish Financial Business Act, and the relevant provisions have the following wording:

The following applies to insurance companies and lateral pension funds:

“Section 126. The board of directors and board of management of insurance companies and lateral pension funds undertake to ensure that the undertaking has adequate base capital and internal procedures for risk measurement and risk management for regular evaluations and maintenance of a base capital of a size, type and distribution adequate to cover the risks of the undertaking.

Section 126(8). The board of directors and board of management of insurance companies and lateral pension funds shall on the basis of the evaluation calculate the individual solvency need of the undertaking in pursuance of subsection (1)“.

2. The individual solvency need is calculated as an amount in the same manner as the solvency requirement and the minimum capital requirement. In calculating the solvency need, percentage amounts and actual DKK amounts, may however be included.
3. Pursuant to section 126(8) of the Financial Business Act, adequate base capital is the capital required in order to cover the greatest of the individual solvency need, and the capital requirement, cf. section 127 of the Financial Business Act.

#### **General conditions**

4. The board of directors and the board of management undertake to ensure that the relevant undertaking has adequate base capital and internal procedures for risk measurement and risk management. This applies to all undertakings even if the undertaking is part of a group. However, there is nothing to prevent the same principles from being applied as the basis for calculating the adequate base capital for all undertakings in a group, if documentation has been provided that it is relevant to apply these principles for all undertakings in a group.
5. In calculating adequate base capital, the undertaking must not merely consider the current risks but also future risks and the possibilities of raising capital.
6. The considerations that the board of directors and the board of management must make in this respect must result in an individual solvency need; cf. section 126(8) of the Financial Business Act.
7. In the assessment of the undertaking's adequate base capital, the board of directors and the board of management must take into account the undertaking's individual risk profile and social conditions in general according to which the undertaking carries out its business activities. The extent of risks of the undertaking compared with other undertakings is not a determining factor. An undertaking may thus not refrain from covering significant risks with capital because other undertakings incur similar risks.

8. Adequate base capital must not only be considered on the basis of the risks to which the undertaking is sensitive. Also, an assessment of the capital of the undertaking must be included, irrespective of whether this is equity capital or borrowed capital (e.g. subordinate loan capital). In connection with borrowed capital, the assessment must also include considerations about maturity.
9. In the assessment of the adequate capital, consideration must be taken of the type and size of the undertaking's business activities, and its complexity. The same applies to the scope of the process constituting the basis for the assessment.
10. In addition, the undertaking must have effective procedures to identify, manage, monitor and report the risks that the undertaking may be exposed to, as well as appropriate control mechanisms, including good administrative and accounting practices, and full internal control procedures. All these aspects are included in the general provision in section 71 of the Financial Business Act. Calculations of the adequate capital must thus be taken into account in connection with the general regulations on risk management etc. laid down in section 71 of the Financial Business Act and the guidelines issued on this matter.
11. Considerations about adequate base capital must be forward-thinking. This means that changes to the undertaking's strategy, business plans, societal conditions and other conditions that may influence the assumptions and methods that have previously been taking into account, must give rise to new considerations about the adequate base capital. This, furthermore, means that, when calculating the adequate base capital, the undertaking must place more emphasis on expectations for the future and less on historical experience.

### **Internal process**

12. The board of directors and board of management undertake to ensure that the undertaking has adequate base capital and internal procedures for risk measurement and risk management for regular evaluations and maintenance of base capital of a size, type and distribution adequate to cover the risks of the undertaking.
13. The board of directors and board of management are responsible for a decision being made as to how the undertaking determines the adequate base capital that forms the basis of the undertaking's solvency need.
14. The board of directors must as a minimum approve the general methods which the undertaking will be applying.
15. The board of directors and board of management must ensure that the decisions regarding the determination of adequate base capital are an integral part of the overall management of the undertaking. In this connection, they must ensure that capital planning and the general principles and procedures of this are communicated in a relevant manner within the undertaking so that the management of those units which can make decisions that could influence the size of the adequate capital, has the required information. The board of directors must, furthermore, ensure that there are adequate resources to make the calculation of the adequate capital in accordance with the provisions of the Financial Business Act and the Executive Order on Solvency and Operating Plans for Insurance Companies.
16. The undertaking must have a plan specially approved by the board of directors for raising capital; and a time frame for this. The plan must include general principles for capital planning as well as for who shall be responsible for this process. The plan must also take into account the expectations of the undertaking in relation to compliance with the capital requirements in the future. The plan must include an overall contingency plan for changes in the established expectations and take into account actions in the event of

unforeseen occurrences. The contingency plan may e.g. include plans for raising new capital, limitations of the activity areas or application of risk-reducing methods.

## **Methods**

17. The adequate base capital must be calculated on the basis of the undertaking's risk profile. The individual solvency need determined must thus be in compliance with the undertaking's risk profile and the social conditions according to which the undertaking carries out its business activities. However, the undertaking may take other conditions into account, such as a desire to obtain a certain rating, the undertaking's market reputation and strategic goals. If these conditions are included in the calculation, the undertaking must be able to prove how these conditions have affected the calculation of adequate capital. These conditions cannot entail that the undertaking obtains a lower individual solvency need than that indicated on the basis of the risk profile of the undertaking.
18. Undertakings have great freedom of choice as to the method of calculation of the adequate base capital. Undertakings may use more, or less, advanced methods as their starting point. There are no requirements that the calculation must be performed using advanced economic methods. However, it is expected that the methods will be more advanced for larger undertakings than for smaller ones.
19. Moreover, it is important that the board of directors and the board of management consider the extent to which risks and potential risks are to be covered by capital. It may be more appropriate to cover some risks with better procedures and better controls.
20. Methods for the calculation of economic capital which are e.g. based on mathematical/statistical treatment of historical returns are based on the capital required to be able to withstand unforeseen losses within a time frame of, typically, one year. The starting point for models for calculations of economic capital is, notwithstanding the statutory capital requirement, to calculate the capital necessary to afford the customers etc. a high degree of probability that they will not suffer losses. The models must as far as possible take current regulations and agreements into account. The necessary validation of the model must have been carried out irrespective of whether Value-at-Risk (VaR) models or more long-term Asset Liability Management (ALM) models are applied.
21. For the undertakings which do not wish to develop an actual economic capital model, it will also be possible to employ a simpler model, based on the same ideas.

This may be achieved on the basis of the (negative) accounting result that a stress test of the undertaking's financial statements would entail. A stress test is an attempt to stress the undertaking on the basis of a number of assumptions.

The choice of stress level influences the probability that customers etc. will not suffer losses. The stress test measures how the individual undertaking responds to unlikely but not completely unthinkable conditions. It is up to the individual undertaking to define this on the basis of the risks of the undertaking. The occurrences that might be included are major increases in lifetime, raising disability intensities, increases in the frequency of claims and average claims, natural and man-made disasters, major changes in interest-rates, major changes in share prices, major changes in property prices, major changes in currency prices.
22. The Danish FSA is of the opinion that the capital requirement under the red risk scenario covers the risks of the risk types included in the risk scenario. In addition to the stress test, it will be necessary to make modifications for conditions not covered by the stress test.
23. Regardless of the method applied, the undertaking must regularly make a stress test relevant to the undertaking in which the individual assumptions are stressed. In assessing which conditions to include in such a stress test, the undertaking must

consider which changes in the assumptions to include in the stress test. The undertaking may also take into account special circumstances in the areas where the undertaking carries out its activities, including in particular the position of the undertaking in its economic cycle. Conditions such as new legislation that affects the business area and the competitive situation of the undertaking may also be part of such considerations. The purpose of the stress tests is to determine the changes in the assumptions the undertaking can survive. If the undertaking has developed its model so that the stress test is an integral part of the model, taking into account the conditions above, the undertaking is not required to take further action.

24. Regardless of which method is applied, the board of directors and board of management must assess whether the method provides a reasonable result.

### **Conditions that must be included in the assessment of the adequate base capital and the individual solvency need**

#### *General information*

25. In assessing the adequate base capital, all significant risks to which the undertaking might be exposed must be included. The undertaking must therefore assess the significant risks to which it is exposed.
26. Some risks can be difficult to quantify. In relation to such risks the undertaking may choose to limit the risks by means of the measures covered by section 71 of the Financial Business Act. But an undertaking cannot refrain from including significant risks in its calculation of adequate base capital merely because it is necessary to estimate the influence of the risk on the adequate base capital. Thus, in some areas it will be necessary for the board of directors and the board of management to make an estimate, establishing the amount/percent to be allocated for risks that cannot be specifically quantified.
27. The calculation of adequate base capital could be based on the individual areas of business activity. The business areas can then be assessed individually in relation to their relative size (and thus the significance of the area); and an assessment can be made of how risky the individual business area is. Furthermore, management and organisation of the individual business areas will be of material importance in the assessment.
28. For insurance companies, a number of business areas could be the most significant business area. For life assurance companies and lateral pension funds, market risks and biometrical risks will typically be the most important areas, whereas insurance-related risks (see point 36) will typically be the most important area for non-life insurance.
29. Reinsurance and other risk management instruments may lead to a deduction when calculating the individual solvency need. This deduction is not limited by the regulations applicable when calculating the solvency need.
30. The strategic plans of the undertaking, and how these relate to the general financial conditions must be included in the considerations about adequate base capital.

#### *Earnings*

31. The undertaking's ability to generate a profit will be a natural part of the undertaking's assessment of the adequate base capital. The expected earnings in non-life insurance must be calculated as an insurance technical profit or loss and an investment profit or loss. The insurance technical profit or loss must be broken down into the most important sectors, gross and net. If the undertaking generates high earnings, the undertaking will be better able to absorb future losses. If the undertaking has low earnings, it must consider whether this gives rise to an increase of the adequate base capital.

32. The stability of the earnings will also influence the way in which the undertaking must assess its adequate base capital. The application of simple sensitivity analyses (stress tests) could contribute to quantifying the level and stability of the earnings.
33. The undertaking's earning capacity must also be assessed in relation to its bonus and dividend policy, and its ability to raise capital. In this connection, it must be taken into consideration that in a situation where the undertaking needs further capital because of losses, it is likely to be more difficult than usual to raise capital.

#### *Growth*

34. The expected future growth must be part of the assessment of the adequate base capital. Thus, the undertaking must assess whether the consolidation of capital is growing at a corresponding rate. If this is not the case, the calculation of adequate base capital must take into account the expected growth exceeding the "normal consolidation of capital", including its ability to raise capital.
35. Increases in risk-weighted items in themselves also give rise to a need for capital. Furthermore, growth may require capital as a consequence of the direct resources (e.g. new employees, etc.) necessary to produce growth.

#### *Risks for insurance companies*

36. For non-life insurance activities, uncertainty will typically relate to the products, the acceptance, the pricing, and the risk of convergence of insurance policies, the claim process and provisions.
  - a) The uncertainty regarding the products is linked to the diversification or lack of diversification between classes of insurance, and thus the ability to level out profit or loss.
  - b) The uncertainty regarding acceptance is linked to pricing (tariffing) so that this does not essentially reflect the actual risks
  - c) The uncertainty regarding tariffing is linked to the lack of claims experience or the lack of inclusion of the actual risk factors.
  - d) The uncertainty regarding the risk of convergence of insurance policies is linked to the concentration of risks; storms, fires or other types of danger, such as insurance covering buildings under construction, supplied by the same developer.
  - e) The uncertainty regarding claims processing and provisions is linked to the assessments, the date for bookkeeping, and the time passing before the damage or injury is remedied and thus the claim completed.
37. At undertakings carrying out life-assurance activities, the return on equity capital (the return on risk) is based on the risks of the equity capital in assets and liabilities cf. the Executive Order on the Contribution Principle. The considerations behind fixing the return on risk must be taken into account when establishing the individual solvency need.
38. Insurance companies are also exposed to risks in connection with the development and content of the contracts concluded. This type of risk is also called a legal risk.

#### *Biometrical risk*

39. In relation to biometrical risks, the degree of uncertainty about the future benefits will have to be taken into account when considering the individual solvency need. For example, a rather great uncertainty regarding the determination of insurance benefits payable will at a given probability give rise to a higher individual solvency need. The

uncertainty about the future benefits payable will typically depend on the risks involved in the calculation of lifetimes and disability intensities. For contracts with positive mortality risk this involves increases in mortality intensities. For contracts with a negative mortality risk, the risk of a reduction in the mortality intensities must be assessed. For contracts covering disability, the risk of an increase of disability intensities must be assessed. Certain risks when calculating lifetimes may be included in the best estimate and the risk margin when calculating the life-assurance provisions cf. the Executive Order on notification of the technical basis etc. for life-assurance activities. Such risks may be omitted when calculating the individual solvency need.

#### *Market risk*

40. As regards market risks, the relative size of the area will be assessed, i.e. to which product types, etc. the undertaking is exposed. Moreover, an assessment must be made of the risks attached to individual assets, liabilities and off-balance-sheet items. All items with market risks must be assessed.
41. Market risks must be assessed with special reference to interest rate risks, share risks, property risks and exchange rate risks. Market risks include all exposures that include market risks. Small and medium-sized undertakings with uncomplicated transactions - for instance, where adequate and valid statistical material exists, will be able to apply relatively simple sensitivity analyses, e.g. traffic light scenarios, when assessing the adequate base capital.
42. An undertaking which applies a more complex quantitative model for market risks, e.g. a Value-at-Risk (VaR) model, must include the effect of risks not covered by the model when assessing the individual solvency need.
43. The extent to which the investment policy corresponds with the requirement to have sufficient base capital to take account of any future risks must be considered.
44. The interest rate risks are linked to assets and liabilities, including derivative financial instruments. The calculation of interest rate risks may be based on methods involving exposures and terms but may also be based on more sophisticated quantitative methods.
45. Larger undertakings or more complex undertakings are expected to use more sophisticated quantitative methods, taking into consideration e.g. changes in the interest rate structure and changes in interest spreads.
46. For all insurance companies and pension funds it may be relevant to assess the extent of the special risks in the area, including placements in bonds with conversion risk or other option elements. There may be option elements for assets and liabilities.
47. Undertakings often have part of their assets in shares and share-related derivative financial instruments. In relation to the calculation of the adequate base capital, it is therefore also relevant to take this risk area into account.
48. Where relevant, the other market risks, e.g. property risks and exchange-rate risks must be included in the assessment of the adequate base capital.

#### *Credit and counterparty risk*

49. The extent of credit and counterparty risks must be assessed. The credit risks may e.g. be that the market value of a position changes due to conditions relative to the individual issuer of the debt instrument. Counterparty risk is the risk that the undertaking suffers a loss because a counterparty to a contract for a derivative financial instrument is unable to meet its obligations to the undertaking. All items with credit and counterparty risks must be assessed.

### *Concentration risk*

50. When assessing the adequate base capital, the concentration risks that the undertaking has assumed and is expected to assume in the future must be taken into consideration. When assessing how concentration risks are included in the calculation of the adequate base capital, judgement may be required. Thus, it is not a requirement that precise calculations of the risk be made. Sensitivity analyses/simple stress tests must be included in the assessment of these risks.
51. Examples of concentration risk:
- a) If an undertaking has many large exposures, e.g. large holdings of individual shares, this concentration in itself will, irrespective of the quality of the exposures in general, give rise to considerations as to whether the concentration requires extra capital. Conversely, a large diversification of exposures may give rise to considerations as to whether the undertaking is able to reduce the adequate base capital.
  - b) If an undertaking has a large part of its insurance policies and investments concentrated within a small geographical area, this constitutes a geographical concentration risk. Such concentration must give rise to considerations regarding an increased individual solvency need.
  - c) If an undertaking has a large part of its insurance policies and investments concentrated in one or a few sectors, this constitutes a business sector concentration risk. Such concentration must give rise to considerations regarding an increased individual solvency need. Whether or not a business sector is risky must be subject to continuous assessment. The risk profile for the various business sectors may change over time. Moreover, the individual sectors' cyclicity is an important element. In addition, the undertaking must assess whether it needs to allocate further capital to cover future losses suffered as a consequence of "bubbles".
  - d) For many financial instruments collateral have been provided. If this collateral is considerably concentrated in the individual issuers or counterparties, the board of directors and the board of management must consider whether the concentration of the collateral (irrespective of its value in general) is a concentration risk that must be considered. This assessment must consider the volatility of the prices of collateral. The concentration of collateral must be significant before the undertaking is to consider making an addition to the individual solvency need. Considerable diversification of collateral cannot result in a reduced solvency need.
  - e) The concentration of other market risks is also relevant to consider in the calculation of the individual solvency need. If, for example, the investment policy is relatively one-sided, this may give rise to considerations as to whether such a concentration risk must lead to an increased individual solvency need. Furthermore, it may be relevant to assess whether assets are concentrated within few companies or counterparties. It may be relevant to assess whether the exchange rate risk is concentrated in few and possibly particularly risky currencies. A particularly high concentration of exchange rate risk must be covered by the undertaking's assessment of concentration risk.
  - f) Risks regarding risk hedging are linked to the extent of the cover (whether there is proportional/non-proportional cover, including the number of reinstatements, or ART-products), convergence between the cover in the policies and the reinsurance agreement, the reinsurer's ability to pay (security) and the diversification between the number of reinsurers.

### *Group risk*

52. The risks linked to the undertaking owning one or more subsidiary undertakings and associated undertakings must be taken into account. How these subsidiary undertakings and associated undertakings must be weighted depends on the number and size of the undertakings. If subsidiary undertakings and associated undertakings make up a significant risk factor, this must be taken into account.

### *Liquidity risk*

53. The undertaking must consider whether liquidity risks are to be included when calculating the adequate base capital. Liquidity risks are risks as a consequence of time-related differences between incoming and outgoing cash flows. However, these risks will often be covered through measures other than increasing capital. A low level of capital may however make it more difficult to borrow capital on the money markets.

### *Operational risk*

54. The undertaking must consider whether adequate base capital has been allocated to cover operational risks. How the undertaking intends to set aside capital in the calculation of the adequate base capital to cover operational risks may be based on a specific assessment of the individual undertaking.
55. Operational risks include human errors, non-compliance with procedures, system errors and external occurrences. An example of operational risk is uncertainties regarding registration systems. This is linked to the extent, relevance, and actuality of registration and the interaction between the insurance systems, the financial system and the payment systems.
56. In the assessment of operational risk it will be possible to use the experience gathered as regards operational risk losses. Uncertainty about the size of the operational risk losses should give rise to considerations about an increased individual solvency need. To the extent that the undertaking is able to measure its operational risks, e.g. by collecting information about losses over a longer period, the individual solvency need should not be subject to uncertainty to the same extent as if the undertaking does not monitor the area closely.

### *Control risk*

57. The control environment is a generic description for the resources applied by the undertaking to minimize the risks of carrying out financial business activities. The undertaking must make a qualitative assessment of its control environment.
58. Naturally, the control environment will vary from undertaking to undertaking. The quality of the control environment is the result of active management choices. When the board of directors and the board of management accept that the undertaking may incur losses as a consequence of more, or less, limited management tools and control tools, it must be considered whether it has allocated adequate capital to cover these potential losses.
59. The management of the undertaking is crucial for the undertaking's future conduct. When assessing the adequate base capital, it would be natural for the board of directors and the board of management to also assess the interplay between the board of directors, board of management and other management levels, including the general organisation of the undertaking. If the undertaking does not have sufficient knowledge and expertise within certain risk areas, this would give rise to an increase in the adequate base capital.

60. Furthermore, emphasis will be on management abilities and perspective, professional knowledge within the organisation, dependency on key persons, the extent of instructions and written procedures, the extent of risk management, segregation of duties, internal controls, independent reporting etc.
61. If written procedures, segregation of duties, internal controls and management reporting about the undertaking's risks are not applied actively as part of risk management, the undertaking will have to consider whether the adequate base capital must be increased.
62. The assessment must furthermore consider how market risks are managed by the undertaking. If the board of directors and the board of management have decided that no resources are to be allocated to close and ongoing follow-up to the undertaking's market risks, the board of directors and the board of management must assess whether adequate capital has been allocated for this.
63. A fully developed organisational structure, where risk management is supported by procedures, segregation of duties, internal controls, management reporting etc., will not give rise to the undertaking making any deductions from the calculated adequate base capital. A less developed organisational structure, where the risk of errors, etc. is relatively higher, should cause the board of directors and the board of management to consider increasing the adequate base capital.
64. Small undertakings will typically have an extensive and specialized organisation which is able to cover potential losses due to operational and management risks. These small undertakings should obviously compare the need for an extensive and specialized organisational structure with the types of business activities they carry out.
65. It must be assumed that the solvency need in some small undertakings will be higher than in other undertakings because of a less developed organisational structure. It should be added, however, that an individual assessment must always be carried out and this must include the complexity of the undertaking's business as a natural element.

#### *The size of the undertaking*

66. It must be assessed whether the complexity and size of the undertaking necessitates considerations about adjustments to the adequate base capital, for instance with regard to the resources that the undertaking has at its disposal. These considerations should take into account whether the undertaking in any other way has tried to cover these risks by e.g. strengthening or expanding the control environment or increasing any heightened concentration risk.

#### *Settlement risk*

67. Undertakings with large settlement risks must consider how these might be included in the adequate base capital. Settlement risks are the risk that the undertaking delivers an asset sold or money to a counterparty without at the same time receiving money or the asset purchased as expected.

#### *Strategic risk*

68. The undertaking must consider the strategic risks. Strategic risks are risks that might affect earnings or the capital as a consequence of changes in the competitive situation, wrong decisions, inadequate implementation of decisions taken or lack of ability to adapt to the competitive situation.

#### *Reputation risk*

69. The undertaking must consider whether capital needs to be set aside in order to cover reputation risks. Reputation risks are risks of losses of earnings and capital due to the undertaking's bad reputation among customers, investors and suppliers.

#### *External risk*

70. The undertaking must consider whether external factors might affect the adequate capital. This may for instance be risks arising due to changes in legislation or financial and business conditions and which are not covered by the risks above.

#### *Other conditions*

71. There may be other requirements laid down by legislation that may influence the assessment by the board of directors and the board of management of adequate base capital. One example may be limitations as to how much of a risk an undertaking must have for one individual undertaking or group of mutually connected undertakings, cf. section 164 of the Financial Business Act. The board of directors and the board of management must then make an assessment as to the effect of the largest exposures on the adequate base capital.
72. Whether other legislative requirements are to have decisive influence on the assessment by the board of directors and the board of management of the size of the individual solvency need, will be subject to a specific assessment of whether it is an investment the undertaking wishes to maintain and whether the undertaking is able to dispose of the investment.

#### **Reassessment and monitoring**

73. The calculation of the adequate base capital must be reassessed as often as necessary to ensure that all risks are covered adequately, and in order to ensure that the adequate base capital reflects the current risk profile. All changes in the undertaking's strategy, business activities, financial or business conditions, or other circumstances that have a significant influence on the assumptions or methods used as the basis for calculating the adequate base capital, must entail adjustments to the adequate base capital. If the undertaking assumes or undertakes new risks, these must be identified and included in the calculation of the adequate base capital.
74. Reassessments must be made at least once every year.
75. The calculation of the adequate base capital must call for an independent assessment. The unit making the assessment is not allowed to participate in the ongoing business operations of the undertaking. The result of the assessment must be reported to the board of directors.
76. At small and medium sized undertakings with uncomplicated transactions; for instance where there is sufficient and valid statistical material, checks by the board of directors may be deemed to satisfy the requirement for an independent assessment.

#### **Reporting**

77. The board of directors must be informed about the undertaking's calculation of adequate base capital and the individual solvency need to the same extent as the board of directors is informed about compliance with the solvency requirement. Further, section 75(3) of the Financial Business Act stipulates that:

"Where a member of the board of directors, board of management, external auditors, or responsible actuary of a financial undertaking has cause to believe that the undertaking does not comply with the capital requirement of sections 124-126 of the Financial Business Act or the individual solvency need under section 126(8) such person shall immediately notify the Danish FSA of this fact."

78. Further, section 75(1) of the Financial Business Act stipulates that:  
"The financial undertaking shall immediately inform the Danish FSA of matters which are of material significance to the continued operation of said financial undertaking".
79. The group of persons covered by this provision is required to notify the Danish FSA immediately if the undertaking's capital becomes less than the individual solvency need. Thus, this duty to give notification is not different from the duty to give notification if the capital becomes less than the capital requirement or a higher solvency requirement laid down by the Danish FSA.
80. The adequate base capital and the individual solvency need must be calculated regularly by the individual undertaking but must only be reported to the Danish FSA at regular intervals, cf. section 16(3) of the Executive Order on Solvency and Operating Plans for Insurance Companies. The changes in the individual solvency need which an undertaking decides itself are not required to be reported to the Danish FSA.
81. If the circumstances giving rise to the change in the individual solvency need are of such a nature that reporting is required under section 75(1) of the Financial Business Act, the circumstances mentioned will obviously have to be reported. The undertaking shall, at the same time, report the increased individual solvency need.
82. The requirement to give immediate notification, cf. section 75(3) of the Financial Business Act, thus only applies if the base capital becomes less than the individual solvency need or the solvency requirement calculated by the undertaking.
83. There is no requirement that the undertaking is to make the calculated individual solvency need public. However, there is no ban against making the solvency need public.

#### **Documentation**

84. The calculation of adequate capital and the individual solvency need must be documented in writing. The documentation must include a description of the methods, assumptions and procedures applied in the calculation of the adequate capital and the individual solvency need. The extent of the documentation will typically grow in line with the undertaking's size and the complexity of its business areas.
85. The precise design the documentation must be made by the individual undertaking. However, the following must be documented:
- a) That the calculation of the adequate capital and the solvency need has been approved by the board of directors, cf. point 12
  - b) The plan of the board of directors for the acquisition of capital and contingency plans, cf. point 16
  - c) The stress test applied by the undertaking, cf. point 23
  - d) A description of the internal process for calculation of the adequate base capital and the individual solvency need, cf. points 12-16
  - e) A description of the process for calculation of the adequate base capital and the individual solvency need applied by the undertaking, cf. points 17-24
  - f) A description of the conditions included in the calculation, cf. points 25-72
  - g) Procedures and business procedures for reassessment of the calculation of the adequate base capital and the individual solvency need cf. points 73 and 76
  - h) Who makes the independent assessment, cf. points 75 and 76
  - i) How internal reporting takes place.

**While this translation was carried out by a professional translation agency, the text is to be regarded as an unofficial translation based on the latest official Guidelines on adequate base capital and individual solvency needs. Only the Danish document has legal validity.**

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86. The documentation must be formulated in a way that makes it possible to submit a request to the Danish FSA in writing or through another durable medium.