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RISK RELATED TO INSURANCE ACTIVITIES

IN BRIEF

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16.1 MANAGEMENT OF INSURANCE RISKS

There are two main types of insurance risks:

- underwriting risks, particularly risk through life insurance, individual personal protection and non-life insurance. This risk can be biometrical: disability, longevity, mortality, or related to policyholders' behavior (risk of lapses). To a lesser extent, the Insurance business line is also exposed to non-life and health risks. Such risks can come from pricing, selection, claims management or catastrophic risk;
- risks related to financial markets and ALM: the Insurance business line, mainly through life insurance on the French market, is exposed to instabilities on the financial markets (changes in interest rates and stock market fluctuations) which can be made worse by policyholder behavior.

Managing these risks is key to the Insurance business line's activity. It is carried out by qualified and experienced teams, with major bespoke IT resources. Risks are monitored and regularly reported, they are framed by risk policies validated by the Board of Directors of each entity.

Risk management techniques are based on the following:

- heightened security for the risk acceptance process, with the aim of guaranteeing that the price schedule matches the policyholder's risk profile and the guarantees provided;
- regular monitoring of indicators on product claims rates in order to adjust certain product parameters, such as pricing or the level of guarantee, if necessary;
- implementation of a reinsurance plan to protect the business line from major/serial claims;
- application of policies on risk, provisioning and reinsurance.

Management of risks linked to the financial markets and to ALM is an integral part of the investment strategy as long-term performance objectives. The optimization of these two factors is highly influenced by the asset/liability balance. Liability commitments (guarantees offered to customers, maturity of policies), as well as the amounts booked under the major items on the balance sheet (shareholders' equity, income, provisions, reserves, etc.) are analyzed by the Finance and Risk Departments of the Insurance business line.

Risk management related to financial markets (interest rates, credit and shares) and to ALM is based on the following:

- monitoring short- and long-term cash flows (match between the term of a liability and the term of an asset, liquidity risk management);
- particular monitoring of policyholder behavior (redemption);
- close monitoring of financial markets;
- hedging against exchange rate risks (both rising and falling);
- hedging downside equity risk;
- defining thresholds and limits per counterparty, per issuer rating and assets class;
- stress tests, the results of which are presented annually at entities' Board of Directors' meetings, as part of the ORSA Report (Own Risk and Solvency Assessment), transferred to the ACPR after approval by the Board;
- application of policies related to ALM and investment risks.

16.2 INSURANCE RISK MODELING

The models are reviewed by the Insurance Risks Department, which is the second line of defense in the context of model risk management. The review works relate to the theoretical robustness (evaluation of the quality of design and development) of the models, the use of the model, the conformity of the implementation and the continuous monitoring of the relevance of the model over time. The independent

review process ends with (i) a report describing the scope of the review, the tests performed, the results of the review, conclusions or recommendations and by (ii) validation Committees. The model control system gives rise to recurring reporting to the appropriate bodies.