PAID

Pregătiți să reconstruim împreună

Transparency Report 2020

POOL-UL DE ASIGURARE ÎMPOTRIVA DEZASTRELOR NATURALE
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Registrul Comerțului București nr. J40/10819/05.11.2009 C.U.I. 26191737
Capital social subscris și vărsat 19.341.819 lei;
Operator date cu caracter personal nr. 16321
Societate autorizată de Autoritatea de Supraveghere Financiară: RA-065
Cod LEI 315700H6SYCXQWPJF410

This report is made in order to align PAID S.A. with the requirements of Regulation No. 9/2019 for the amendment and supplement of the Regulation of the Financial Supervisory Authority (FSA) No. 2/2016 on the implementation of corporate governance principles by the entities that are certified, regulated and supervised by the ASF.

Taking into account the requirements of the regulations mentioned above, PAID S.A. publishes and regularly updates the information subject to the publication requirements.

A. Organizational structure

The management and administration structure of the company is made up by: General Meeting of Shareholders, the Management Board, the General Manager and the Deputy General Manager.

Shareholders of the company:

- ✓ ABC Asigurări Reasigurări S.A.,
- ✓ Societatea de Asigurare-Reasigurare ASTRA S.A. – in bankruptcy,
- ✓ CARPATICA ASIG S.A. - in bankruptcy,
- ✓ CERTASIG Societate de Asigurare şi Reasigurare S.A. - in bankruptcy,
- ✓ Societate de Asigurare şi Reasigurare CITY INSURANCE S.A.,
- ✓ CREDIT EUROPE Asigurări Reasigurări S.A. - currently ERGO Asigurări S.A.,
- ✓ EUROINS ROMANIA Asigurare Reasigurare S.A.,
- ✓ GENERALI ROMANIA Asigurare Reasigurare S.A.,
- ✓ GRAWE ROMANIA Asigurare S.A.,
- ✓ GROUPAMA Asigurări S.A.,
- ✓ GOTHAER Asigurări Reasigurări S.A.,
- ✓ UNIQA Asigurări S.A..

The 5 members of the Management Board are:

- ✓ Mr. Francois Coste - President;
- ✓ Mr. Gabriel Marcu - Vice-President;
- ✓ Mr. Paul Swoboda - Member;
- ✓ Mr. Paul Corneliu Cazacu - Member;
- ✓ Mr. Mesut Yetiskul - Member.

Executive Management:

- ✓ Mrs. Nicoleta Radu - General Manager;
- ✓ Mrs. Natalia Man - Deputy General Manager;

At the level of PAID S.A., there are 8 Committees established: Risk Management Committee, Audit Committee, Damages Committee, Complaints Analysis and Settlement Committee, Investment Committee, Reinsurance Committee, Business Continuity Committee (BCP) and Remuneration Committee.

The persons holding key positions are: Head of Risk Management Department, Compliance Officer, Head of Internal Audit Department and Head of Actuarial Department.

Structural organization:

- ✓ General Secretariat: Head of Compartment, Assistant
- ✓ Actuarial, Risk and Economic Management Department: Chief Financial Officer
- ✓ Actuarial Compartment: Head of Compartment, Actuary
- ✓ Risk Management Compartment: Head of Compartment, Risk Inspector
- ✓ Economic Compartment: Chief Accountant, Economists, Referent
- ✓ Internal Control and Quality Management Compartment: Head of Compartment
- ✓ Human Resources Compartment: Head of Compartment
- ✓ Internal Audit Compartment: Head of Compartment
- ✓ Reinsurance Compartment: Head of Compartment, Insurance Specialists/Reinsurance
- ✓ Legal Department & Compliance: Legal Compartment & Compliance Compartment: Head of Department, Compliance Officer, Legal Advisers
- ✓ Damages Compartment: Head of Compartment, Damages Coordination/Damage Specialty Inspectors
- ✓ Development Department: Sales Manager
- ✓ Distribution/Technical Support Compartment: Head of Compartment, Underwriting Coordination Inspector
- ✓ Marketing/Communication Compartment: Head of Compartment, Marketing Referent
- ✓ Compartment of Underwriting Methodology, Analysis and Reporting: Head of Compartment, Analyst
- ✓ Information Technology Compartment: Head of Compartment, Analyst, Network Administrator

B. The main features of the governance system

The governance system includes organizational structures designed to support meeting strategic objectives and company's activity. PAID S.A. is properly and efficiently organized, and all necessary procedures and operational controls are implemented. Responsibilities are also clearly divided between the different operational areas of the company.

The company operates several systems that have the role of ensuring corporate governance, namely:

- ✓ an efficient system for communicating and transmitting information to stakeholders;
- ✓ an efficient risk management system;
- ✓ an efficient internal control system;

Also, at the company level, a series of policies and procedures were adopted and implemented, among which: policies for the smooth running of the activity, adequacy policies; remuneration policies; information security policies; outsourcing policy; Solvency II policy; and so on. They are regularly subject to the review and approval process, taking into account the nature, scope and complexity of the activities both at the individual level and at the level of the whole company.

The Company's objectives regarding the governance system are focused primarily on:

- ✓ adapting to the latest changes;
- ✓ building stakeholder confidence;
- ✓ clearly defined and communicated governance processes and capabilities;
- ✓ permanent optimization of the risk management and internal control system;
- ✓ alignment with legal requirements

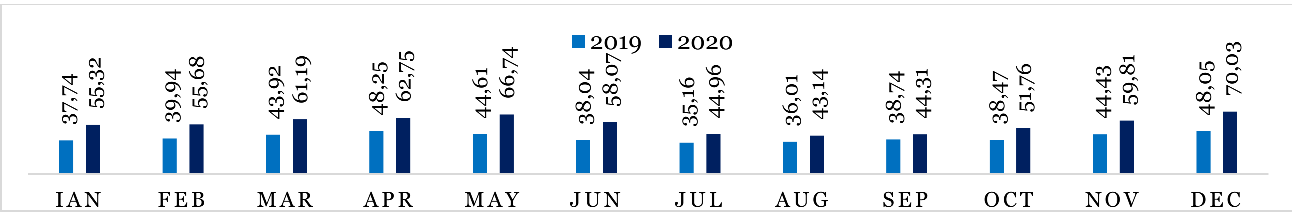
Further details on the corporate governance framework are available in the **Solvency and Financial Condition Report (SFCR) Chap. B.**

C. Conclusions of the assessment of the financial position

Main financial indicators of the company, according to the statutory accounting and financial reporting standards:

	2019	**2020**
Gross Premiums Earned (lei)	155.431.880	162.617.146
Damage rate	2,94%	2,15%
Reinsurance rate	43,69%	42,04%
Rate of other technical reserves (catastrophe reserve)	15,41%	15,25%
Expenditure rate (commissions, variation of acquisition expenses, administrative expenses, new project expenses, provisions)	19,79%	21,42%
The combined rate	81,83%	80,86%
Net result (lei)	**31.243.490**	**35.152.323**

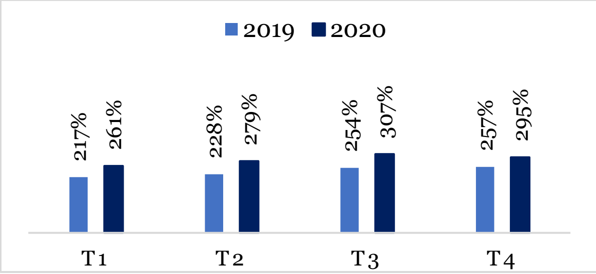
Evolution of the liquidity ratio:

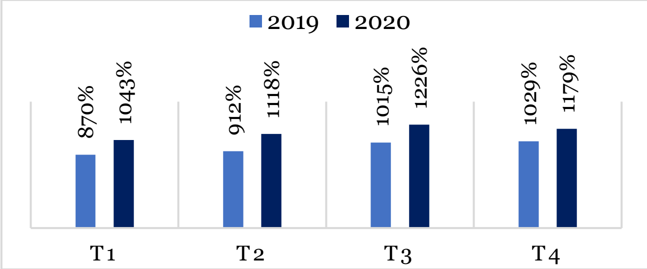


Main financial stability indicators of the company, in Solvency II reporting regime, calculated according to Standard Formula:

Solvency:

SCR coverage **MCR coverage**





	31.12.2020	31.12.2019
Own Funds	**260.482.379**	**198.380.687**
Capital requirement for market risk	**25.389.737**	**16.895.485**
for interest rate risk	12.679.148	14.452.591
for the risk of devaluation of shares	368.273	-
for the risk of devaluation of real estate	587.464	-
for credit margin risk	7.344.397	3.783.016
for concentration risk	19.592.284	7.884.629
for currency risk	2.780.849	11.112
Capital requirement for counterparty risk	**20.097.888**	**21.174.479**
for Type 1 exposures	19.188.904	20.179.472
for Type 2 exposures	1.191.372	1.303.270
Capital requirement for underwriting risk	**77.495.610**	**61.940.504**
for the risk of premiums and reserves	19.617.227	19.583.769
for the risk of natural disasters	70.227.485	54.070.762
Diversification	**-23.733.207**	**-18.867.792**
Basic Solvency Capital Requirement (BSCR)	**99.250.028**	**81.142.676**
Capital requirement for operational risk	**4.878.514**	**4.662.956**
Solvency capital requirement before adjustment	**104.128.543**	**85.805.632**
Adjustment of Loss Absorbing Capacity of Deferred Taxes (LAC DT)	**-15.730.017**	**-8.721.974**
Total Solvency Capital Requirement SCR	**88.398.526**	**77.083.659**
Minimum Capital Requirement MCR	**22.099.631**	**19.270.915**
SCR rate	**295%**	**257%**
MCR rate	**1179%**	**1029%**

To cover the risk of catastrophe, PAID S.A. had in force on December 31st, 2020 one of the largest reinsurance programs in Europe, in which 41 reinsurers participate. The program is of excess of loss type and has a maximum capacity of 950,000,000 EURO for earthquake, landslide and flood risks, its own withholding being limited to 8 million EURO for earthquake risk and 6 million EURO for landslide risks and floods.

Starting with June 1, 2021, the capacity of the reinsurance program was increased to 1,000,000,000 EURO.

D. Main features of the formal framework for the implementation of financial reporting principles and practices

PAID S.A. draws up **statutory financial statements** in accordance with Financial Supervisory Authority Rule No. 41/2015 for the approval of the Accounting Regulations on the individual annual financial statements and consolidated annual financial statements of entities carrying out insurance and/or reinsurance activities.

The annual financial statements are audited by an independent auditor. The financial statements package for the fiscal year 2020 was audited by Mazars Romania SRL.

In accordance with the provisions of ASF Rule No. 19/30.10.2015, the company draws up and publishes annual financial statements below **IFRS standard** since 2015 as parallel reporting.

Solvency Reports II (SII)

In accordance with the financial reporting requirements of Law No. 237/2015 on the certification and supervision of the insurance and reinsurance activity and of Regulation No. 21/2016 on reports on insurance and/or reinsurance activity, with subsequent amendments and supplements, PAID S.A. draws up and reports:

- ✓ Quarterly and annual Quantitative Report Tools (**QRT**)
- ✓ Solvency and Financial Condition Report(**SFCR**);
- ✓ Regular Supervisory Report (**RSR**).

In addition, in accordance with the provisions of Solvency II, the Delegated Regulation and the Internal Policy, PAID S.A. draws up annually or whenever significant changes occur in the risk profile or appetite, a prospective own risk and solvency assessment report carried out at the level of the group (the **ORSA** report).

At the level of PAID S.A., the "Reporting Policy" has been developed and implemented, which aims to ensure the completion and timely transmission of all mandatory reports, as well as to ensure their accuracy and completeness.

The Audit Committee is the forum for approving statutory and Solvency II reports before they are submitted for approval to the Board of Directors and/or the General Meeting of Shareholders.

E. Main features of the risk management system

Management of the Risk Management System at the level of the Company is carried out through the planning, coordination and control of the Risk Management activity. It establishes specific strategies, develops policies and procedures for identifying, assessing, monitoring, managing/reducing and reporting risks in a timely manner, with the aim of optimizing them and creating a risk awareness culture.

The risk management system is subject to a continuous process of streamlining, with the aim of protecting the company by supporting its objectives, as follows:

- ✓ establishing an appropriate organisational framework to optimise decision-making, planning and prioritisation;
- ✓ the efficient use/allocation of capital and resources within the company, aiming at the protection and consolidation of the company's assets and image;
- ✓ optimising procedures for significant risks;
- ✓ establishing a system of limits on risk exposures and a way of monitoring those limits in accordance with the undertaken risk profile;
- ✓ establishing a system for reporting risk exposures and other risk issues;
- ✓ establishing criteria for the recruitment and remuneration of employees and ensuring a framework for the continuous professional development of employees;
- ✓ increase of operational efficiency.

The specific risk management strategy is an integral part of the Company's overall strategy, with the following as fundamental objectives: compliance with the capital requirements of SCR and MCR and ensuring an increased solvency rate, the achievement of an optimal reinsurance programme and efficient profit-oriented management and capitalisation, all with the unitary aim of maintaining the financial stability of the PAID S.A., so that all financial obligations to the Client are respected.

Each year, PAID S.A. draws up a Risk Plan presenting the objectives and measures for each significant risk, which is subject to debate and approval by the Management Board.

The PAID risk strategy is based on the following principles:

- ✓ Developing adequate governance in relation to the PAID strategy;
- ✓ Risk management is an integral part of the management system based on standards and rules;
- ✓ The risk strategy is an integral part of PAID S.A.'s business strategy, supported by taking into account for the business strategy, processes of compliance with risk appetite, own funds and capital requirements (SCR);
- ✓ The company's management will provide a strong capital base and prudent solvency rates;
- ✓ An adequate reinsurance programme;
- ✓ Investment policy based on the 'safety vs. profit' principle, which provides for both asset class limits and avoids excessive concentration on a financial institution;

- ✓ Continuous improvement of performance indicators and their monitoring so that alarm signals can be identified in a timely manner;
- ✓ The strategic and operational planning process is supported by the results of the ORSA;
- ✓ Use of operational risk mitigation techniques (internal control system, business continuity plans, IT security and disaster recovery plan, protection and security measures for persons and assets);
- ✓ Process optimisation.

The company's main strategic objectives remain linked to the 4 pillars of sustainable development of the company, namely:

1. **Governance**: ensuring a framework of operation fully consistent with legal requirements;
2. **Financial sustainability**: reflected by the company's solvency level and the appropriate size of the structure and level of reinsurance protection;
3. **Operational sustainability**: reflected in the ability to cope at any time with a number of operations much higher than the usual average in the event of major events;
4. **Development**: increase of the penetration rate and by default of the portfolio.

The activity of PAID S.A. is analysed in terms of exposure to the following risks: Underwriting Risk, Liquidity Risk, Credit Risk, Market Risk, Operational Risk, Reputation Risk and Strategic Risk. Risks are treated individually, but also collectively. PAID S.A. calculates the capital requirement using the Standard Formula. The results obtained provide an overview of how risks are distributed by different risk categories and determine capital and solvency requirements in accordance with Solvency II.

Based on the financial results of recent years, PAID is in the process of accumulating its own funds and optimising the capital requirement to ensure a more comfortable solvency rate.

Risk analyses are drawn up at company level in accordance with the specifications of risk policies and procedures.

The most important risks are:

- ✓ ***Underwriting:*** It represents the company's most important risk. Compared to the same period last year, there was an increase in premiums and reserve SCR and an increase in SCR Nat Cat, generated by the increase in own retention for flood risk.

- ✓ ***Market:*** As of June 30, 2020, market risk becomes the second largest risk for PAID, which is significantly increasing due to the increase in the risk of concentration and credit margin as a result of the elimination of transitional measures on Euro-denominated Government securities and the introduction of SCR Real Estate and SCR shares sub-modules. Another element of growth is the increase in the volume of financial assets (in particular government securities).
- ✓ ***Counterpart:*** It represents a very significant risk for the company as a result of the reinsurance programme, which has a significant reinsurance capacity provided by a large number of reinsurers. Compared to the same period of 2019, it decreased slightly, as a result of the decrease in Type 1 exposures, under the new reinsurance programme (increased retention for flood risk).
- ✓ ***Operational:*** is slightly higher than in the previous year as a result of portfolio growth.

More details on the risk management system are presented in the **Solvency and Financial Condition Report (SFCR) Chapter B (subchapter B.3) and Chapter C.**

F. Conclusions of the assessment of the efficiency of the risk management system

Risk appetite and significance thresholds set within the management system are approved by the Management Board.

The Risk Management Function and, where appropriate, the Risk Management Committee reports the risk situation to the Management Board through a risk report.

Periodically, the Risk Management Department/Risk Management Committee presents to the Executive Management/Management Board the specific risk management indicators, their reporting to the benchmarks, proposes for analysis, debate and approval procedures specific to risk management, reports, Operational Risk Matrix, etc.

The management of the company considers that the risk management system is adequate, complete and adequately covers all areas of activity.