# Forsikringsselskabet Dansk Sundhedssikring A/S

# Solvency and Financial Condition Report
Financial Year 2021

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## Executive Summary

Forsikringsselskabet Dansk Sundhedssikring A/S (hereafter DSS) is a Danish non-life insurance company with a focus on health-related insurance products. The main focus of business is to offer health insurance to citizens registered in the Scandinavian region (Sweden, Norway, Denmark). Currently, DSS has only a license to sell insurance in Denmark.

DSS helps customers (insured persons) to resolve their health problems, by offering clinically proven treatment according to national standards. This includes physiotherapy, chiropractic, psychology, acupuncture, reflexology, massage and treatment at private hospitals. DSS ensures that all claimants receive treatment to resolve their health problem within 10 working days – to improve health and treat conditions is the purpose of DSS. Besides treatment, DSS offers help to navigate in the public healthcare system and also advises customers on health-related problems for claim, which are not covered by the insurance policy.

DSS has an ambitious growth strategy towards 2024 to have a yearly revenue growth rate of around 14 %. The overall goal is to support more than 500,000 insureds in Denmark with health care-related issues in 2024. To reach this, DSS continuously has to focus on product development and secure scalability through digitalisation and efficient processes.

DSS received an insurance license on 11 December 2020, and year 2021 was the first year with insurance revenue. The technical insurance result for 2021 is equal to DKK 61,096T.
The written premium for 2021 was DKK 897,863T and the earned premium was DKK 430,325T.

The Solvency Capital Requirement at 31 December 2021 is DKK 101,333T and the own funds as of 31 December 2021 is DKK 176,155T, which leads to a solvency ratio of 174%.

# A. Business and Performance

## A.1 Business

**Forsikringsselskabet Dansk Sundhedssikring A/S**

| | |
|---|---|
| Address: | Hørkær 12 B<br>2730 Herlev<br>Denmark |
| Legal form: | Limited Company |
| Supervisory authority: | Finanstilsynet (Danish FSA)<br>Århusgade 110<br>2100 Copenhagen<br>Denmark |
| External auditor: | Deloitte<br>Weidekampsgade 6<br>2300 Copenhagen<br>Denmark |
| Ownership: | Fully owned by OONA Health A/S. |
| Industry: | Non-life insurance, currently restricted to:<br>Insurance class 1. Accident<br>Insurance class 2. Sickness<br>(DSS's license does not include insurance of work-related accidents or diseases) |
| Geography: | Currently DSS only has license to sell insurance in Denmark |

## A.2 Underwriting Performance

The following table shows the profit and loss statement as per 31 December 2021:

| DKK M | 2021 | 2020* |
|---|---|---|
| **Premiums** | 430.3 | - |
| **Claims incurred** | -276.5 | - |
| **Insurance result** | 61.1 | - |
| **Investment result** | -3.2 | -0.3 |
| **Profit before tax** | **66.7** | **-** |
| **Tax** | -14.4 | 0.1 |
| **Profit after tax** | **52.3** | **-0.2** |

* - DSS's premium level and profit reflects that DSS did not receive their license to act as an insurance company until mid-December 2020. Due to this, all premiums and claims are zero for 2020.

## A.3 Investment Performance

DSS had a negative investment result of DKK 3.2 due to the negative price development of the bonds.

| DKK Mill. | 2021 | 2020 |
|---|---|---|
| **Income from investments in affiliated companies** | 0 | 0 |
| **Income from Bonds** | -3.2 | -0.3 |
| **Total investment income** | **-3.2** | **-0.3** |

DSS has a conservative investment strategy, where the focus is placement in liquid and less volatile assets. The current investment assets are shown in chapter D.1.

## A.4 Performance of other activities

In 2021 DSS had DKK 101,351T in other income. This income is related mainly to run off from the MGA business and will be converted to insurance revenue next year. Other expenses ended up at DKK 92,630T and are mainly costs related to runoff ofthe MGA business.

## A.5 Any other information

All material information regarding the business and performance is disclosed in the above sections.

# B. System of Governance

## B.1 General information on the system of governance

DSS Board of Directors should consist of five members. Per Bay Jørgensen is the Chairman of the Board.

The Board of Directors shall be composed in such a way that it possesses all relevant competencies in relation to directing a non-life insurance undertaking. The requirements of the Board of Directors' suitability, integrity and competence are described in detail in the Policy on diversity of the Board of Directors.

The Board of Directors handles the overall management of DSS affairs in collaboration with the Executive Board and under the responsibility of the general meeting.

The task and responsibilities of the Board of Directors are further described in the *document "Rules of procedures for the board".*

***Executive Board***

DSS is led by the Executive Board which consists of the CEO.

The responsibility for the daily operation of DSS is divided between the CEO, CFO, CTO, CCO and COO.

The CEO has the overall responsibility, and the departments responsible for development of products and analysis report to the CEO together with the rest of the management team and the key functions, expect for internal audit, which refers to the Board of Directors.
The CFO is responsible for the finance department.
The CCO is responsible for the sales department and the relation to the distribution network.
The CTO is responsible for the IT operations, which include both development of IT systems in order to execute the business strategy as well as daily operations tasks.
The COO has the responsibility for the health and customer team.

Each department in DSS is led by a manager who is reporting to either the CEO, CFO, CTO, COO or CCO.

***The four key functions***
The Board of Directors has in accordance with *Executive Order on management and governance of insurance companies* (Bekendtgørelse om ledelse og styring af forsikringsselskaber m.v. af den 15. December 2015) established four key functions:

1. Risk management function, described further in section B.3
2. Compliance function, described in section B.4
3. Internal Audit, described in section B.5
4. Actuarial function, described in section B.6

***Remuneration policy***
DSS's remuneration policy and practices related to remuneration are described in the remuneration policy and have the purpose to ensure and promote sound and effective risk management and does not encourage excessive risk-taking that exceeds the company's risk-tolerance limits.
The following legislation has been taken into consideration:

- *Executive Order on salary policy and remuneration in insurance companies, insurance holding companies and company pension funds* (*Executive Order No. 16, 04/01/2019*),
- *Commission Delegated Regulation (EU) 2015/35 regarding the taking-up and pursuit of the business of insurance and reinsurance (Solvency II)*

The remuneration policy applies to DSS as a whole and contains specific arrangements for the Board of Directors, the Executive Board and other employees of DSS whose activities have a significant impact on the risk profile of DSS.

DSS ensures that remuneration is made in accordance with *Executive Order No 16 of 04/01/2019*, and to avoid and control remuneration to significant risk takers, the Board of Directors establishes and prepares a summary of significant risk-takers in DSS. This overview is reviewed at least once a year.

External independent Board members receive compensation. The remuneration of Board members (basic amount) is set according to market standards, taking into account the Board members' individual competencies, the scope of the Board work and the number of meetings.

The Chairman of the board receives twice the basic fee.

For Board members participating in audit committees and risk committees, the fees shall be determined by the general meeting.

## B.2 Fit and proper requirements

The fit and proper requirements of DSS ensure that all persons who effectively run parts of the company, or have other key functions, fulfil the requirements presented in the Solvency II Directive (DIRECTIVE 138/2009/EC) To fulfil the fit and proper requirements members of DSS's Board of Directors, and persons responsible for DSS's key functions, are required to:

- Have sufficient professional skills and resources to perform their work satisfactorily.
- Continuously develop their professional skills and resources through training and experience to maintain a satisfactory level of competence in their respective field.
- Have a sufficiently good reputation.
- Show honesty and integrity.

Specific requirements for the person responsible for each individual key function are described in the description of each individual function. The members of DSS's Board of Directors have further fit and proper requirements. Members of DSS's Board of Directors are required to complete a basic course in the competencies necessary to fulfil the duties and functions required by the members of the Board of Directors of a non-life insurance company no later than 12 months after joining the Board of Directors of the insurance company, i.e. after DSS having obtained the insurance license. The course must be completed by a provider approved by the Danish FSA. DSS shall ensure that adequate staffing and financial resources are allocated for introductory and continuing training and education courses required for the Board of Directors. This also includes cases where the Board of Directors finds that knowledge and competencies are lacking in specific areas.

At least once a year, the DSS Board of Directors shall assess the Board of Directors' overall competencies in order to ensure that the Board possesses the necessary competencies to operate DSS in a proper and efficient manner. If the Board of Directors finds that competencies are lacking in certain areas, the Board of Directors shall find a solution to this, which may be for example taking on a new Board member or providing additional training for existing Board members, where this training is sufficient according to the Danish FSA. As part of the self-evaluation, the Board of Directors shall:

- Identify the necessary board competencies for the entire board on the basis of the DSS business model and risk profile.
- Assess the knowledge, professional competencies and experience of individual board members against the overall competence requirements of DSS.
- Evaluate the form of board work, working environment, management, quality and the Board of Directors' evaluation of the management.

## B.3 Risk management system including the own risk and solvency assessment

DSS's management appoints a key person, approved by the Board, for the risk management function who actively participates in the development of the risk management strategy. The key person ensures that the risk management function plans performs and reports on the function's work in accordance with the policy and function description for risk management. The risk management key person must be consulted on all decisions deemed significant by the Board of Directors. The following types of decisions require consultation with the risk management key person:

- Decisions that lead to changes in policies, risk limits or business model.
- Investments that require the approval of the Board of Directors.
- Decisions that have a significant impact on the solvency margin.

***Risk Management Function***

DSS's risk management function holds the following responsibilities:

- To maintain an overall updated overview of the company's risks.
- To ensure that the board of directors and the management have an adequate and reassuring basis for decision-making.
- To continuously assess whether the risk management and risk management system in DSS are appropriate.
- To ensure that all DSS's risks are correctly identified, measured, managed and reported.
- To ensure that DSS's investments are managed in accordance with the Prudent Person Principle (PPP) defined in solvency II article 132.
- To advise the Management and the Board of Directors on risk management issues, including strategic matters such as business strategy, mergers and acquisitions and major projects and investments.
- Control and ensure the quality of capital requirements calculated by the finance department and controlled by the actuarial function-.
- Ensure correct calculation of capital requirements, cf. the Eiopa solvency II standard model.

The management of DSS establishes specific guidelines for the work of the risk management function. Furthermore, the risk management function must be organisationally and functionally separated from the units that take out and process insurance. The risk management function is therefore able to work independently and without conflicts of interest.

***Own Risk Solvency Assessment (ORSA)***

At least once a year, the DSS Board of Directors shall conduct an ORSA process and document it. The Board of Directors shall also carry out an ORSA process if there are significant changes to the DSS business model, risk profile, risk limits or budgets in relation to the most recently completed ORSA process. At a minimum, significant changes are deemed to include the following:

- Changed products or product options
- Changed geographic areas for sales
- Changed budgets for the strategic planning period
- A deviation of more than 10 percent between budgeted and realised gross premiums
- A deviation of more than 5 percent point between budgeted and realised gross claims percentage
- A deviation of more than 3 percent points between budgeted and realised cost percentage
- A realised loss due to an operational incident exceeding DKK 10 million
- Restructuring of the investment assets resulting in a change in the Solvency Capital Requirement to market risks in the standard formula of more than 10%
- Changed reinsurance program
- A decline in the financial markets resulting in a change in the value of total investment of more than 10 percent
- Changes in the quality and composition of the capital base that are not included in the most recent ORSA process
- Changed risk tolerance limits

The assessment of own risk and solvency (ORSA) shall be based on DSS's current business model, risk profile and risk limits, as well as agreed budgets. The assessment shall be made based on "going concern" and shall include an assessment of whether the calculated Solvency Capital Requirement (SCR) has taken sufficient account of the impact of all of the most significant risks for the next 12 months. The assessment shall also cover whether DSS can comply with both the Solvency Capital Requirement and the Minimum Capital Requirement within a time frame of 12 months and for a period corresponding to the strategic planning period used by DSS, however, a minimum of two years ahead. The assessment shall include the effect of possible changes in:

- The nature or quality of the elements of the capital base
- The risk profiles
- Risk limits and management
- The economic or financial environment
- Operational risks

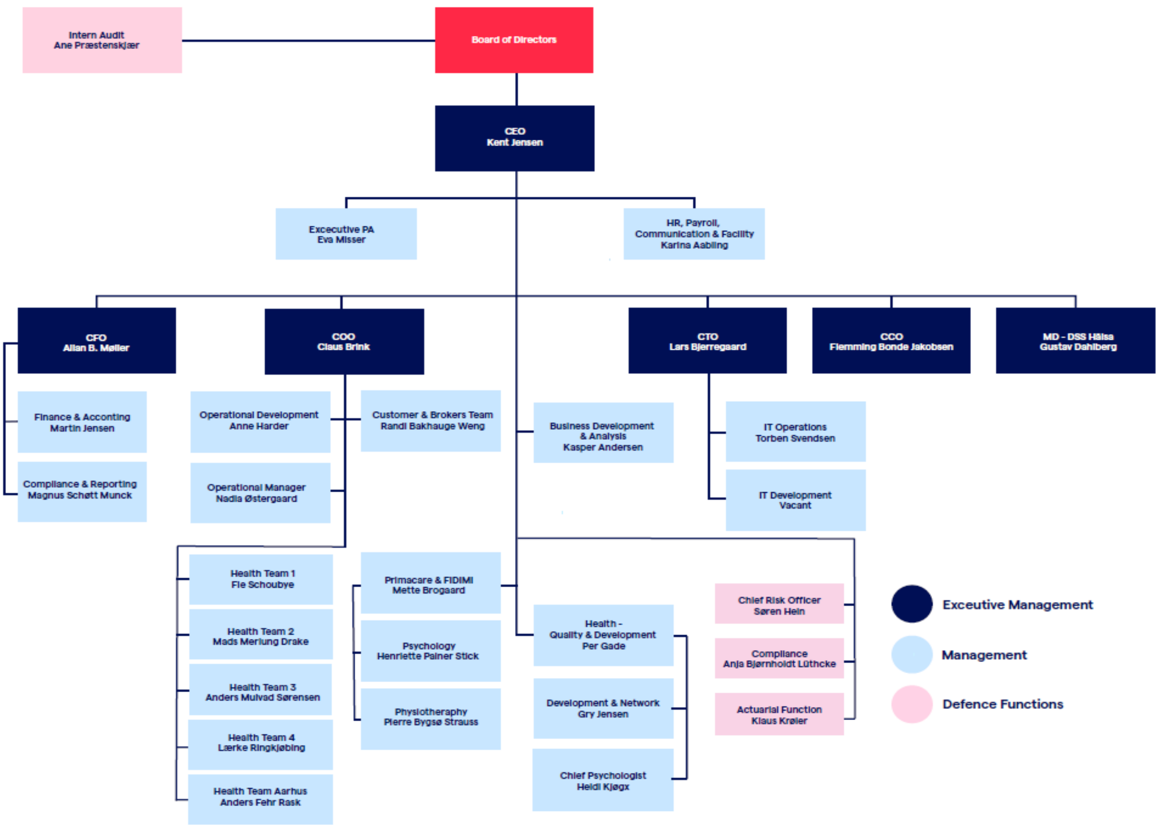
For risks that are included in the standard model and where DSS considers that these risks are sufficiently covered by this calculation, the corresponding solvency requirement shall be calculated using the standard model. For risks that are included in the standard model, but where DSS considers that these risks are not adequately covered by this method, changes to the model must be considered. If the risks are more closely correlated than in the standard model, a separate supplement corresponding to the difference shall be calculated. Alternatively, the risks in question are considered outside of the standard model and the corresponding solvency requirement is adjusted accordingly.

For operational risks, a comparison shall be made between the capital requirement separately allocated to this risk in the standard model, and the company's history of operational risk incidents and general risk catalogue. If the capital requirement from the standard model is less than the historical events or what is included in the general risk catalogue, the difference must be explicitly addressed.

## B.4 Internal control system

The control system in DSS is designed with separation between the reporting functions and the organisation, who takes on risk on behalf of DSS. Management must ensure that the framework regarding controls is sufficient and appropriate to deal with the risks and potential impacts on DSS, but meanwhile also taking into account the cost of the control in question.

The organisation is as seen below:




DSS continues to work on their control framework, and as a result of that a meeting with all of the key functions has been arranged, such that there is consistency with the annual plan of the board and the work of the key functions.
In relation to the system around 'Lines of defence' the control system in DSS can be described by the following:

- 1st line: The 'daily' business defined by documented processes and functions, which organisation-wise is referring to CEO Kent Jensen.
- 2nd line: The key functions risk management, compliance and actuarial refer to the CEO, Kent Jensen. The key person for the risk function is CRO, Søren Hein, who is supported by Karin Elbæk Nielsen, EY. The actuarial function is placed with Klaus Krøier. Finally, the compliance function is placed with Anja Bjørnholt Lüthcke. Klaus and Anja are also the key persons for the actuarial and compliance function, respectively.
- 3rd line: The internal audit function will perform audit procedures to evaluate the efficiency of 2nd line– risk, actuarial and compliance. Organisationally, the Internal Audit is placed with the Bord of Directors, and the key person is Ane W. Præstekjær.
- Behind all lines of defence, we have the external auditor, who is chosen at the annual general meeting. Currently, Deloitte is the external auditor of DSS.

### *Compliance function*

DSS' compliance function has the responsibility to ensure that DSS complies with applicable legislation, which includes compliance with the following:

- Financial Business Act and all related executive orders
- Solvency II Regulation (2015/35 / EU).
- POG Regulation (2017/2358 / EU)
- Personal Data Regulation (2016/679 / EU)
- Act on insurance mediation
- Act on Guarantee Fund for Non-life Insurance Companies
- Act on public and private limited companies

- To maintain a compliance risk assessment and compliance plan.
- To continuously assess whether the measures taken by DSS to avoid non-compliance are sufficient.
- To prepare an annual compliance report to the Board of Directors. The compliance report must describe the reactions and initiatives that the previous year's compliance work has given rise to.
- To advise the Management and the Board of Directors on compliance with financial legislation.
- To assess the consequences of legislative changes.

## B.5 Internal audit function

DSS has established an Internal Audit function according to the Solvency II directive 2009/138, article 47, and Solvency II delegated act 2015/35, article 271.
DSS´s management appoints a responsible key person, who is currently Ane W. Præstekjær. The Internal Audit key person reports directly to the board´s audit committee, which guarantees independency from the management who is responsible for running the daily business. The key person for the Internal Audit cannot be responsible for any other key functions within DSS and can only carry out work in DSS related to Internal Audit activities. To the extent deemed necessary, and in order to obtain sufficient resources and independence, the Board of Directors may decide that the work of the internal audit function should be outsourced. The role of key person for the internal audit function cannot be outsourced. The Internal Audit is responsible for setting up a yearly audit plan based on a risk-based approach. The audit plan takes into account DSS's management system and considers all of DSS's activities. The Internal Audit function of DSS is required to do the following:

- Continuously review internal control systems and governance processes and make sure that these are adequate and effective.
- Assess the performance of the other key functions and the performance of the internal controls described in B.5.
- Regularly report to the Audit Committee of the Board of Directors and, at least once a year, submit a written report on the function's controls, results and recommendations.
- Perform its work using a risk-based approach so that the areas that are assessed to have the greatest risks are reviewed first. However, the internal audit function must ensure that all parts of DSS's internal control system etc. are treated over a period of three years.

## B.6 Actuarial function

The tasks of the actuarial function are described in detail in the Executive Order on the management and control of insurance companies, among others, of 16/12/2015, Annex 8 and Commission Delegated Regulation (EU) 2015/35 regarding the taking-up and pursuit of the business of insurance and reinsurance (Solvency II), Articles 19 and 272.

The actuarial function is responsible for verifying the calculation of the insurance provisions including ensuring the quality of the data. In addition, the actuarial function has been assigned several other tasks, which include commenting on the insurance risk policy and the preparation of actuarial reports for DSS management. The actuarial function shall ensure the correct and adequate calculation of the insurance provisions. The tasks of the function in calculating the insurance provisions include the following:

- Coordinating the calculation of the insurance provisions and ensuring that the calculations comply with the requirements of the legislation.
- Assessing uncertainties associated with the estimates that are included in the calculation of the provisions.
- Ensuring that methods, underlying models and assumptions used in calculating provisions are adequate.
- Assessing the adequacy and quality of data used for the calculation, including any limitations to the data used.
- Ensuring that the most relevant approximations are used to calculate best estimates where DSS does not possess satisfactory quality data in certain cases.

- Comparing best estimates with experience and assessing the uncertainties in the estimations.
- Ensuring that homogeneous risk groups are identified for insurance and reinsurance obligations in order to properly assess the underlying risks.
- Considering relevant information from the financial markets as well as generally available information on insurance risks and ensuring that it is included in the assessment of provisions.
- Ensuring that a proper assessment of options and guarantees is carried out in insurance and reinsurance contracts.
- Comparing and justifying any significant differences in the calculations from year to year
- Supervising the calculation of the insurance provisions.

In relation to the calculation of the insurance provisions, the actuarial function shall explain any significant consequence of changes in data, methods or assumptions between the timing of valuation of the insurance provisions. With respect to the DSS IT systems, the actuarial function shall assess whether the IT systems support the actuarial and statistical procedures used for the calculation. The actuarial function shall ensure a strong and close dialogue with the parts of DSS's business that receive and use the calculations regarding the insurance provisions, including claims, risk management and control activities.

The actuarial function shall express an opinion on insurance policy as well as an opinion on whether possible reinsurance programmes are satisfactory. The actuarial function shall further inform the Executive Board and the Board of Directors whether the calculation of the insurance provisions is credible and adequate. The actuarial function shall furthermore contribute to the effective implementation of the risk management system, in particular with regard to the risk models that are used in the calculation of DSS's capital requirements and DSS's own risk and solvency assessment. The key person for the actuarial function shall ensure that business procedures and job descriptions are prepared for all relevant tasks in the actuarial function. At the end of the year, the actuarial function shall prepare a written actuarial report to the management summarising the activities completed by the actuarial function as well as the derived results, recommendations, and proposals.

## B.7 Outsourcing

Outsourcing of critical or important operational functions or activities shall be decided by the Board of Directors. The following activities are deemed critical or important:

- Accounting functions and reporting
- Statement of the capital base and Solvency Capital Requirements
- Operation of IT Systems (including cloud services)
- Asset management and liquidity management
- Supports to Actuarial function
- Supports to Compliance
- Supports to Risk management
- Supports to Internal Audit
- Claims processing

The decision to outsource is made based on a recommendation from the management. The Board of Directors' responsibility for making sure that the outsourced task is completed (solved properly) cannot be outsourced. In order for the Board of Directors to make a final decision on outsourcing, the following should be available:

- An assessment of the extent to which the company can fulfil its regulatory and business obligations if the proposed outsourcing is carried out.
- Requirements for quality, reporting and follow-up of the outsourcing arrangement should be established and defined.
- A contingency plan: it must be described how the outsourced activities can be outsourced or moved to another supplier.

The management may outsource operational functions that are not considered to be critical or vitally important. When the management enters into an outsourcing agreement, the management shall perform the tasks otherwise carried out by the Board of Directors listed above. When the management recommends a supplier to the Board of Directors or independently enters into an outsourcing agreement, the management must ensure that:

- A detailed study is carried out to ensure that the potential service provider has the ability, capacity and any statutory authorisation to provide the necessary functions or activities satisfactorily.
- The service provider has taken all measures to ensure that there are no expressed or potential conflicts of interest that will hinder the fulfilment of the health security needs of DSS.
- A written agreement is concluded between DSS and the supplier, which clearly defines DSS's rights and the suppliers' respective rights and obligations.
- The outsourcing does not result in a breach of any law, in particular with regard to data protection regulation.
- The supplier is subject to the same provisions regarding the security and confidentiality of information regarding DSS, its policyholders or the beneficiaries that apply to DSS.

If DSS outsources critical or important operational functions or activities, the following requirements must be met:

- It shall be ensured that the relevant aspects of the service provider's risk management and internal control systems are sufficient to ensure that the outsourcing does not lead to a significant deterioration of the quality of the management system in DSS. It shall also be ensured that the outsourcing does not lead to an unjustified increase in the operational risks.
- It must be ensured that the service provider has the necessary financial resources to perform the tasks properly and reliably, and that all service provider employees who are engaged in the outsourced functions or activities are qualified and reliable.
- It must be ensured that the service provider has adequate contingency plans to deal with emergencies or business disruptions, and that regular testing is done of the backup functions where necessary, taking into account the outsourced functions and activities.
- It must be ensured that outsourcing does not impair the ability of regulators to verify DSS's compliance.
- It must be ensured that the outsourcing does not prevent DSS from continually offering satisfactory service to policyholders.

The written agreement concluded between the company and the supplier shall include the following:

- The duties and responsibilities of both parties.
- The supplier's obligation to comply with all applicable laws, regulatory requirements and the company's policies and guidelines, as well as a cooperation with the Danish Financial Supervisory Authority with respect to the outsourced activities.
- The obligation of the supplier to disclose any incident that may have a significant impact on its ability to perform the outsourced activities effectively and in accordance with the applicable laws and regulatory requirements.
- A notice of termination of the contract by the supplier, which is sufficiently long to enable the company to find an alternative solution.
- DSS must be able, if necessary, to terminate the contract without interrupting or impairing the quality of the supply of services and benefits to policyholders.
- DSS shall reserve the right to be informed about the outsourced activities and the supplier's execution thereof, as well as the right to issue general guidelines and individual instructions to the supplier in respect of taking it into account when performing the outsourced activities.
- The supplier must protect any possible confidential information regarding DSS and its policyholders, employees, contracting parties and all other persons.
- The company, its external auditor, and the Danish FSA (Finanstilsynet) shall have effective access to all information on the outsourced activities, including for the purposes of carrying out checks at the premises of the supplier.
- The Danish FSA shall, where appropriate and necessary for supervision, be able to ask questions directly to the supplier, to which the supplier must respond.
- The supplier's duties and responsibilities under the agreement must not be affected by further outsourcing.

The management shall report regularly to the Board of Directors on the outsourcing of the critical or important areas of activity in order for the Board of Directors to continuously and actively assess whether the outsourcing activity is being resolved satisfactorily and in accordance with applicable legislation. As a minimum, reporting shall take place at least at each Board meeting. As a minimum, reporting at the Board meetings shall include:

- Information on the supplier's fulfilment of specific objectives in the agreement.
- Information about any possible failures from the supplier in terms of complying with the agreement.
- Information about the supplier's compliance with the applicable rules in the specific outsourcing area.

The management is required to continuously monitor the supplier's compliance with the obligations in the outsourcing agreement and take appropriate measures if the supplier does not comply with the outsourcing agreement and the applicable law. The management must immediately report to the Board of Directors if the supplier fails to meet the obligations in the outsourcing agreement.

## B.8 Any other information

No additional information.

# C. Risk Profile

DSS takes as an insurance company a number of risks, among these the underwriting risk connected to the core of their business – to support the customers in resolving their health-related issues. On top of this, DSS takes financial risks concerning the liquidity and investment strategy as well as a number of operational risks, which DSS is exposed to. Managing the risks of running an insurance company is a primary management focus area as uncontrolled risks can cause negative financial movements. Risk management issues are therefore discussed on a regular basis, and tools are in place to qualitatively and quantitatively measure and handle identified risks.
Furthermore, the board assesses the greatest risks as part of the own risk and solvency assessment (ORSA) once a year. The data used in the assessments are already well-established as DSS has been focusing on having solid data and enabling data for many years as an MGA.

## C.1 Underwriting risk

Underwriting risk is the risk of a change in value due to a deviation of the actual claims payments from the expected amount of claims payments. DSS has identified the following main areas of underwriting risk:

- Premium risk
- Claims provision risk
- Catastrophe risk
- Risks of changing of medical assessment and diagnostic practices
- Claims inflation

Premium risk is defined as the risk that expenses for claims and costs exceed the premium income. The risk is measured by continuously assessing the insured's risks and the claims incurred. To the extent deemed necessary, the risk must be reduced using reinsurance.

Claims provision risk is measured by comparing observed and expected outcomes and monitoring indicators for treatment choices. The actuarial function is responsible for calculating risks associated with provisions. The actuary must report regularly and report to the Management and the Board of Directors on developments regarding claims provision risk at least every quarter.

Catastrophe risk is defined by DSS as the risk of extreme incidents, including primary health incidents, natural disasters, terrorist events and the risk of major injuries. To the extent deemed necessary, catastrophe risk must be reduced using reinsurance.

Risks of changing medical assessment and diagnostic practices in connection with treatment can be defined as a risk of a modification in a health assessment in the context of the injury treatment. The importance of altered practices may result in the previously used development triangles of DSS being no longer true to the claims provisions. The risk is mitigated by continuously updating DSS's claims handlers on recent practices and informing DSS's management of changes in practice that may affect the course and treatment of the injury.

To mitigate the underwriting risk the management of DSS is quarterly required to report the following key figures to the Board of Directors:

- Covered premiums
- 12-month budget
- New coverages
- Conversion rates
- Reported injuries
- Open claims
- Closed claims
- Claims payments
- Claims provisions
- Injury history

- All major claims - major claims are defined as claims that are expected to be over DKK 500,000.

Using the key figures above the Board of Directors must make a thorough assessment of whether the identification of the company's underwriting risks is correct at least once a year.

Overall, the products sold by DSS are related to a high frequency with regards to claims. The severity is, however, expected to be very low, resulting in single exposures not being relevant. DSS has currently no reinsurance protection meaning that their gross exposure is equal to their net exposures. DSS's maximum possible net exposures undertaken is set by the Board of Directors as a yearly maximum of DKK 1.0M per insured and coverage of three months runoff on claims. DSS is currently compliant with this policy.

***Underwriting risk concentration***
DSS continuously measures the concentration of risks by identifying the sources of concentrated risks. Currently, the DSS Board of Directors has identified the following potential sources of risk concentration:

- Customer concentration
- Geographic concentration
- Industry concentration
- Disasters, including health disasters
- Supply of products

DSS has a spread in the insurance portfolio where the location of the insured is spread across many companies, both geographically and in industry. The most significant concentration risks of DSS is the risk of health disasters, which have, however, been rare. Given this and in view of DSS's narrow range of insurance products, there is a minimal risk of risk concentration.

## C.2 Market risk

Market risk covers risks related to changes in the market such as interest rate risk, currency risks, etc. triggered by macroeconomic/market events, which lead to changes in the price of financial assets and currencies. DSS's Board of Directors have identified the following categories of market risk:

- Interest rate risks (including changes in a yield curve and spread risks)
- Currency risks
- Equity risks
- Commodity risks
- Risks from property investment

To mitigate market risk DSS follows a clear investment strategy documented in the policy for investment risk. DSS's investment policy is that the company's capital must be invested in order to achieve stable returns and low risk that can correspond to the company's insurance liabilities. DSS invests in highly liquid instruments. Thus, the company does not want large market risks.

To mitigate currency risk DSS has a limit on the fraction of the company's total investment assets (excluding restricted cash that may be invested) and cash equivalents that can be invested in certain currencies. The limit on the fraction of total investment assets in different currencies is displayed in the table below.

| Currency | Limit |
|---|---|
| **DKK** | No limit |
| **EUR** | 25 % |
| **USD** | 0 % |
| **GBP** | 0 % |
| **CHF** | 0 % |

| | |
|---|---|
| **SEK** | 10 % |
| **NOK** | 0 % |
| **Other** | 0% |

To further mitigate market risk DSS's policy for investment risk also includes regulations for what types of asset classes the company invests in. These are listed in the table below.

| Asset class | Investment policy |
|---|---|
| **Bonds** | The Board of Directors allows investments in Danish mortgage bonds and government bonds mentioned in the list in the Board of Directors' instructions to the management. |
| **Stocks** | The Board does not allow investments in stocks. |
| **Property** | The Board does not allow investments in property. |
| **Commodities** | The Board does not allow investments in commodities. |
| **Alternative Investments** | The Board does not allow alternative investments. |
| **Other** | The Board does not allow investments in other asset classes. |

For each investment, a benchmark is defined that reflects the investment's characteristics in terms of risk and return. The following table displays the benchmark used when evaluating the return on DSS's investment activities.

| Asset class | Benchmark weight %) |
|---|---|
| **Mortgage and government bonds** | Nordea Constant Maturity 2 Yea. (50%) |
| | Nordea MTG Callable CM 5Y. (50%) |

DSS weights it's duration risk as a weighted average between cash and bonds. As of 31st of December the weighted duration is 1.75, and in the range set out in the investment management policy for the company.

DSS is compliant with its investment policy. The current investments can be found in section D.1.

Since DSS exclusively invests in a select range of Danish government and mortgage bonds the overall market risk for the company is low. The largest market risk is the inherent interest rate and inflation risk that comes with a portfolio consisting of only fixed-income investments. To mitigate the inflation- and interest rate risk the management of DSS is required to continuously assess and quantify the market risk that the business model gives rise to.

## C.3 Credit risk

The credit risk of DSS covers default risk as a result of having a loan/bond portfolio, and counterparty risk related to having a custodian, bank, etc. The main trigger is a bankruptcy of a counterparty or in the loan portfolio. A change in the rating of one of DSS's held bonds or counterparties is also regarded as a trigger by the Board of Directors. The Board of Directors mitigates credit risks through specific guidelines for acceptable credit ratings and amount limits for deposits with banks. The company places a maximum of 5 % of the investment assets of an asset that is dependent on the same company/debtor. Furthermore, the company has established minimum ratings/geographic limits for counterparties within, bonds, equities and financial institutions. Excess liquidity may be placed in the following financial institutions (with a maximum of DKK 50M in each institution except Sydbank where 100M is allowed and Nordea where 300M is allowed also stated in politics Liquidity Risk Management Policy):

- Danske Bank A/S
- Jyske Bank A/S
- Sydbank A/S

- Nordea

The credit risk also includes the risk that DSS will not receive payment of premiums from policyholders. The risk is mitigated by requiring prepayment of premiums. In the event that the policyholder does not pay after receiving reminders, the insurance contract must then be terminated by DSS.

DSS's largest counterparty is Nordea which -has a S&P credit rating of AA-.

## C.4 Liquidity risk

Liquidity risks are defined as the risk that DSS will not be able to meet its financial obligations in the short term. DSS's Board of Directors has identified the following sources of liquidity risk:

- Liquidity being tied up in assets that are illiquid, e.g. fixed assets or unlisted shares
- Having too many reports of injuries at the same time due to too high concentration and/or cumulative risk
- Large prepayments
- Large receivables
- There being a large value gap between purchase and sale transactions when settling securities transactions
- Investing client funds in illiquid assets

Overall, the Board of Directors seeks for the liquidity risk to be kept at a low level. Accordingly, the company must always have a sound liquidity reserve and a sound financing structure. The responsibility for investing the company's funds lies with DSS's CFO, who prepares a liquidity budget on a quarterly basis with ongoing follow-up. If there are significant developments in the portfolio of customers, the budget must be updated. DSS measures its liquidity risks at the liquidity outflow. DSS has thus established a minimum framework of one month's normal operating administration costs and insurance benefits in the policy for liquidity risk management. The framework must be calculated on a monthly basis and approved by the key person for the risk management function. In order to avoid violating the minimum requirement for liquidity, the Executive Board must manage according to an objective of having liquidity for two months of normal operation. DSS is currently compliant with the liquidity requirements set out by the Board of Directors. Furthermore, the company's business model only gives rise to limited liquidity risks, having regard for the following observations:

- Stable **inflow** of liquidity
- The premium payments in DSS are predictable and stable
- DSS customers comply with payment deadlines
- DSS has growth in premiums that are prepaid, why liquidity will be constantly coming in

- Predictable **outflow** without major fluctuations
- The majority of DSS payments for claims and the treatment of injuries are characterised by a high frequency and low amounts
- The outflow is therefore stable and predictable
- The largest pay-out due to a single event was approximately DKK 110,000 in 2021

- DSS has good **governance**
- DSS has prepared management documents to manage the liquidity risk
- DSS has a control setup for the ongoing control of liquidity risk

The observations above, coupled with the current liquidity balance, imply that DSS's liquidity risks are low.

## C.5 Operational risk

Operational risks refer to the risk of loss due to inappropriate or defective internal procedures, human error and systemic errors or as a result of external events, including legal risks. The management defines the following types of operational incidents:

- Minor incidents: Loss (or potential loss) below DKK 25,000-100,000
- Medium events: Loss (or potential loss) between DKK 100,000 – 500,000

- Major incidents: Loss (or potential loss) over DKK 500,000.

The Board of Directors has identified the sources of operational risks listed in the table below.

| Area | Operational risk source | Risk assessment |
|---|---|---|
| **Internal conditions** | Human and system errors in the handling of injury claims. | Medium |
| **Internal conditions** | Human and system errors when issuing tenders for new policies. | Medium |
| **Internal conditions** | Mistakes made the processing of claims resulting in either an aggravation of the damage or an increase in liability. | Medium |
| **Internal conditions** | Breakdown on internal systems. | Low |
| **External relations** | Mistakes made in outsourced functions within administration and IT. | Low |
| **External relations** | Errors in date from external sources. | Low |
| **External relations** | DSS relies on subcontractors, which involves natural operational risks. | Low |
| **Organizational Risks** | The risk of loss due to the resignation of key employees. | Low |
| **Organizational Risks** | The risk of loss in the absence of separation of functions and adequate internal controls. | Low |
| **Legal risks** | Errors in interpreting the legal practice for a type of damage. | Low |
| **Legal risks** | The risk of loss arising from acts which are contrary to Danish employment law. | Low |
| **Legal risks** | Breach of the financial legislation which gives rise to costs for DSS. | Low |
| **Legal risks** | Breaches of GDPR provisions that give rise to costs for DSS. | Low |
| **Physical security** | The risk of loss due to inadequate safety procedures. | Low |
| **Accidents and natural disasters** | The risk of losses arising from accidents and natural disasters. | Low |
| **Fraud (internal and external)** | The risk of loss as a result of deliberate actions by an internal or external party with the intention of fraud, theft, circumvention of legislation, etc. resulting in damage to DSS and/or a third party. | Low |

The Board of Directors seeks for the DSS administration to limit the identified operational risks through controls and procedures. A low level of the identified risks is permitted by the Board of Directors, as it is deemed necessary in order to implement the desired business model. All major operational incidents must result in a plan of compensatory measures to avoid subsequent similar incidents. It is the Board of Directors' aim that the losses or potential losses due to necessary operational risks are, on average, below DKK 1 million and maximum DKK 20 million for all operational risks per annum.

## C.6 Other material risks

There are no other material risks.

## C.7 Any other information

All material information is included in the sections above.

# D. Valuation for Solvency Purposes

## D.1 Assets

The assets are valued and recognised in the Solvency II balance sheet at fair value using the same principles as for the statutory accounts. The intangible assets and the goodwill are set to zero in the Solvency II balance sheet in accordance with the Solvency II requirements. The assets as of 31 December 2021 consist of:

| DKK M (31.12.2021) | Statutory values | Solvency II | Difference |
|---|---|---|---|
| Intangible assets | 40.0 | - | -40.0 |
| Goodwill | 0.0 | - | - |
| Property, plant and equipment held for own use | 17.0 | 17.0 | - |
| Bonds | 119.9 | 119.9 | - |
| Cash and cash equivalents | 150.9 | 150.9 | - |
| Other receivables | 395.9 | 395.9 | - |
| Other assets | 125.3 | 125.3 | - |
| **Total assets** | **849.0** | **809.0** | **-40.0** |

## D.2 Technical provisions

The value of the technical provisions is determined in accordance with the Solvency II directives article 77, as best estimate plus a risk margin. There are no reinsurance agreements in place such that the gross technical provisions equal the net technical provisions.

| DKK M, 31.12.2021, gross | Statutory values | Solvency II | Difference |
|---|---|---|---|
| Health – claim provision | 76.3 | 76.3 | - |
| Health – premium provisions | 415.7 | 415.7 | - |
| Risk margin | 7.7 | 7.7 | - |
| **Total technical provisions** | **499.7** | **499.7** | **-** |

***Claim provision***

The claim provisions under statutory accounting are calculated using actuarial models and methods that are built on historical data regarding claims – in particular, data from when DSS served as an MGA. DSS has not made any significant change in the way to calculate the technical provisions compared to earlier periods.

The Solvency II claim provisions correspond to the discounted statutory claim provisions. The discounting is based on EIOPA’s risk-free interest curves without volatility adjustment.

There are no reinsurance agreements in place such that the gross claim provisions equal the net claim provisions.

***Premium provision***

Under statutory accounting, premium provisions are measured and recognized proportionally over the period of coverage and, where necessary, adjusted to reflect any time variation of the risk. Premium provisions are calculated according to a best estimate of expected payments throughout the agreed risk period.

DSS includes future profit in the calculation of premium provisions. This is calculated as the expected profit on the non-expired parts of the risk periods for the insurance contracts that DSS has entered into.

***Risk margin***

The risk margin is calculated in accordance with Article 37 of the Commission Delegated Regulation. The risk margin is seen as a cost of capital for a third party when taking over the company's portfolio of liabilities.

The risk margin is calculated as the product of the one-year discounted SCR, cost of capital (at 6%) and duration (at present this is rated at one year).

## D.3 Other liabilities

The following table shows the other liabilities as per 31st of December 2021.

| DKK M (31.12.2021) | Statutory values | Solvency II | Difference |
|---|---|---|---|
| **Other liabilities** | 60.6 | 60.6 | - |
| **Other payables** | 0.0 | 0.0 | - |
| **Accruals and deferred income** | 2.5 | 2.5 | - |
| **Deferred tax liabilities** | 8.4 | 8.4 | - |
| **Total Other liabilities** | **71.5** | **71.5** | **-** |

There are no differences between statutory and Solvency II values for the other liabilities.

## D.4 Alternative valuation method

DSS does not use any alternative valuation methods.

## D.5 Any other information

DSS considers, that any relevant information in terms of valuation of assets and liabilities is stated above, and that there is no other relevant information.

# E. Capital Management

## E.1 Own funds

The own funds under Solvency II is equal to the statutory equity less intangible assets and goodwill.
The own funds are classified after Solvency II as tier 1 capital and is equal to DKK 176,5M at the end of 2021.

| DKK M | 31.12.2021 | 31.12.2020 | Difference |
|---|---|---|---|
| **Ordinary share capital** | 0.7 | 0.7 | 0.0 |
| **Accumulated profit** | 215.4 | 188.1 | 27.3 |
| **Intangible assets** | -40.0 | -23.6 | -16.4 |
| **Proposed dividend** | -40.0 | -25.0 | -15.0 |
| **Expected profit included in future premiums** | 40.4 | 0.0 | 40.4 |
| **Total own funds** | **176.5** | **140.2** | **26.3** |

DSS aims to keep its own funds stable to ensure a healthy solvency ratio, which, as of 31 December, was 213 %.
DSS has lined up precautions in case the capital position is challenged. This is qualified through a management tracking of the capital position and the means available is classified as being either in the green, yellow or red zone.

It’s prioritised that DSS continuously has enough capital to deliver on the strategy.
An increase in own funds will come from retained earnings, and DSS projections show that in an average performing year DSS should be able to increase its solid own funds.
In the past, the underlying insurance business in DSS has shown itself to be quite stable (when it was as an MGA). Due to the conservative investment strategy, DSS does not expect that high volatility.

The conclusion is due to the stable insurance and operational risk, even in case of smaller changes, there should be enough capital to cover the solvency requirement.

## E.2 Solvency Capital Requirement and Minimum Capital Requirement

DSS uses the Solvency II standard model to calculate the capital requirement. DSS does not use any company-specific parameters or simplified calculations in the calculation of the solvency capital requirement (SCR) and the minimum capital requirement (MCR).

| DKK M | 31.12.2021 | 31.12.2020 | Difference | Difference in % |
|---|---|---|---|---|
| **Market risk** | 3.2 | 3.7 | -0.5 | -14% |
| **Counterparty** | 4.5 | 1.2 | 3.3 | 275% |
| **Health underwriting risk** | 102.0 | 60.0 | 42.0 | 70% |
| **Non-life underwriting risk** | - | - | 0.0 | 0% |
| **Life underwriting risk** | - | - | 0.0 | 0% |
| **Diversification** | -5.6 | -3.6 | -2.0 | 56% |
| **Basic SCR** | **104.1** | **61.4** | 0.0 | 70% |
| | | | | |
| **Operational risk** | 25.8 | - | 25.8 | Na |
| **LACDT** | -28.6 | - | -28.6 | Na |
| **SCR** | **101.3** | **61.4** | 39.9 | 65% |
| | | | | |
| **Available capital** | **176.2** | **165.2** | 11.0 | 7% |
| **Solvency ratio** | **174 %** | **269 %** | 95% | -35% |

| | | | | |
|---|---|---|---|---|
| **MCR** | **58.5** | **18.6** | 39.9 | 215% |

## E.3 Use of the duration-based equity risk sub-module in the calculation of the Solvency Capital Requirement

DSS does not use the sub-module for maturity-based equity risks for calculating the Solvency Capital Requirement.

## E.4 Differences between the standard formula and any internal model used

DSS uses the Solvency II standard model to calculate the solvency capital requirement. At the moment, DSS assesses this to be the most suitable model to calculate the risk of its business.

## E.5 Non-compliance with the Minimum Capital Requirement and non-compliance with the Solvency Capital Requirement

DSS has a goal of having a solvency ratio of at least 150 %. As of 31 December, the solvency ratio was 175 %. DSS does not see any funding issues.

## E.6 Any other information

All important information to understand the solvency situation in DSS appears in the above sections of this report and is consistent with other information provided to the public authorities.