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# Risk-based supervision in the Netherlands using FIRM

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# Aspects of risk-based supervision

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- Risk-based solvency rule
- Requirements for risk management
- Risk-scoring model (FIRM)
- Organisation of supervisor

# Driving factors in adopting risk-based supervision

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- Increasing complexity of instruments and markets
- Efficient use of supervisory resources
- Reduce risk of underfunding (Vie d'Or failure in 1993, stock market crash in early 2000s)
- Spill-over from methods applied to banking sector (in integrated supervisor)

# Financial Assessment Framework for pension funds

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- Market valuation of assets and liabilities
- Short-term solvency test
- Long-term continuity analysis
- Specified recovery periods when short-fall

# Key objectives of Dutch risk-scoring model (FIRM)

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- Structured risk analysis process
- Induce build-up of internal risk-management capacity.
- Consistency (risk language)
- Resource allocation
- Transparency (internal/external)

# Application of FIRM

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- Four steps:
  1. Profile of the pension fund
  2. Structure of the pension fund
  3. Risk assessment
  4. Assessment of risk controls
- Inherent risks -/- mitigating controls = net risk

# Risk assessment: categories

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- Matching risk
- Market risk
- Credit risk
- Insurance risk
- Business risk
- Operational risk
- Outsourcing risk
- IT risk
- Integrity risk
- Legal risk

# Control assessment

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- Risk-specific controls
- Risk-transcending controls
- Risk-mitigating effects at management level



# Overall aggregation of scores

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- Algorithm emphasises high risks and poor controls (no averaging out)
- Compare to own judgement
- Combining risks and controls leads to net risk profile

# Recent trends are at least partly driven by risk-based supervision

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- Fair premium levels
- Conditional indexation of benefits.
- Increased duration of bond portfolio (but not lower share of equity!)
- Restructuring of pension fund industry (concentration, outsourcing).

# Lessons learned

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- Risk-assessment tool must be embedded in the organisation ...
- ... and be shared with the industry  
[www.dnb.nl/openboek/extern/id/en/all/41-117136.html](http://www.dnb.nl/openboek/extern/id/en/all/41-117136.html)
- Risk-scoring can be demanding for supervisors ...
- ... and must be balanced by common sense

Financial Institutions Risk analysis Method Manual - De Nederlandsche Bank - Microsoft Internet Explorer

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Adres <http://www.dnb.nl/openboek/extern/id/en/all/41-117136.html> Links

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## Financial Institutions Risk analysis Method Manual

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**General**  
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