

# Counterparty Default Risks

Counterparty Default Risk (Counterparty Risk) is one type of consequential risk, which Sampo Group is exposed to through its activities. Default risk related to reinsurance counterparties mainly concerns If P&C, as the use of reinsurance in Mandatum Life is relatively limited.

In the case of financial derivatives the situation is the opposite. Mandatum Life and the parent company are frequent users of interest rate derivatives and are therefore inherently more exposed to the default risk of derivative counterparties than If P&C, which mainly uses short-term foreign exchange derivatives.

In addition, counterparty default risk arises from receivables from policyholders and other receivables

related to commercial transactions. Risk exposure towards policyholders is very limited, because non-payment of premiums generally results in the cancellation of the insurance policies. Also, the risk exposures arising from other receivables related to commercial transactions are minor in Sampo Group.

Risk definitions related to counterparty default risks may be found in [Appendix 2 \(Risk Definitions\)](#).

The distribution of reinsurance receivables and reinsurers' portion of outstanding claims in If P&C on 31 December 2015 per rating category is presented in the table Reinsurance Recoverables, If P&C, 31 December 2015 and 31 December 2014.

## Reinsurance Recoverables

If P&C, 31 December 2015 and 31 December 2014

Rating	31 Dec 2015		31 Dec 2014	
	Total EURm	% of total	Total EURm	% of total
AAA	0	0%	0	0%
AA+ - A-	97	94%	107	97%
BBB+ - BBB-	4	4%	2	2%
BB+ - C	0	0%	0	0%
D	0	0%	0	0%
Non-rated	2	2%	2	2%
<b>Total</b>	<b>103</b>	<b>100%</b>	<b>111</b>	<b>100%</b>

In the table, EUR 143 million (EUR 130 million in 2014) are excluded, which mainly relates to captives and statutory pool solutions. Thus the total recoverables are EUR 246 million. The ten largest individual reinsurance recoverables amounted to EUR 167 million, representing 68 per cent of the total reinsurance recoverables. If P&C's largest individual reinsurer is Munich Re (AA-). They account for 17 per cent of the total reinsurance recoverables.

The amount of ceded treaty and facultative premiums was EUR 63.3 million. Of this amount, 100 per cent related to reinsurance counterparties with a credit rating of A- or higher.

In Mandatum Life, the importance of reinsurance agreements is limited and thus the credit risk of reinsurance counterparties in Mandatum Life is immaterial.

## Counterparty Default Risk Management

In Sampo Group, the default risk of derivative counterparties is a by-product of managing market risks. The risk is mitigated by careful selection of counterparties, diversification of counterparties to prevent risk concentrations and by using collateral techniques, e.g. ISDA Master Agreements backed by Credit Support Annexes. This is the case especially in Sampo plc and Mandatum Life which are frequent users of long-term derivatives.

The Reinsurance Committee (RC) is a collaboration forum for reinsurance related issues and shall give its opinion on and propose actions in respect of such issues. The committee shall consider and propose changes to the Reinsurance Policy and the Internal Reinsurance Policy. The Chairman is responsible for the reporting of policy deviations and other issues dealt with by the committee.

The Reinsurance Security Committee (RSC) shall give input and suggestions to decisions in respect of various issues regarding reinsurance default risk and risk exposure, as well as proposed deviations from the Reinsurance Security Policy. The Chairman is responsible for the reporting of policy deviations and other issues dealt with by the committee.

At inception of the reinsurance, the default risk of the reinsurer is considered. The default risks of reinsurance assets are monitored continuously.

To limit and control default risk associated with ceded reinsurance, If P&C has a Reinsurance Security Policy that sets requirements for the reinsurers' minimum credit ratings and the maximum exposure to individual reinsurers. Credit ratings from rating agencies are used to determine the assessment of the creditworthiness of reinsurance companies.