

On-site inspections of pension funds and insurers

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DeNederlandscheBank

EUROSYSTEEM

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Introduction

At De Nederlandsche Bank (DNB), we seek to safeguard financial stability and thus contribute to sustainable prosperity in the Netherlands. We supervise pension funds and insurers to ensure sound and ethical financial institutions.

Our supervision is risk-based. This means that our supervisory choices depend on factors such as an institution's impact class. The impact class in turn depends on the importance of the institution to the stability of the financial system. On-site inspections (on-sites) are part of the range of supervisory tools available for the supervision of pension funds and insurers with a medium to high impact class.

The aim of this brochure is to inform institutions subject to our supervision about our method of operation for on-sites. The scope of this brochure is limited to on-site inspections conducted at insurers and pension funds. For on-sites at banks, please refer to the European Central Bank's 'Guide to on-site inspections and internal model investigations'¹

¹ [Guide to on-site inspections and internal model investigations \(europa.eu\)](#)

What is an on-site inspection?

An on-site inspection is an in-depth supervisory examination that is mainly conducted at the offices of a financial institution. In terms of time commitment and depth, it is the most intensive supervisory tool available to us. The examination is aimed at obtaining an in-depth overview of risks and achieving effective improvements, and is complementary to regular account supervision activities.

Our on-site inspections focus on specific topics or themes identified at individual institutions or at a selection of institutions. The main characteristics of an on-site are the following:

- It is a high-intensity examination conducted by a dedicated and independent inspection team
- The inspection is conducted mainly on-site at an institution
- It is a tailored examination, with a high degree of flexibility in scope
- It entails the identification of risks assessed against the legal framework
- It results in a final report focusing on specific action points for effective improvements

We distinguish three types of on-site inspections for pension funds and insurers:

1. A **targeted on-site**, which is an intensive examination prompted by a risk identified at a single institution.
2. A **thematic on-site**, which is an intensive examination prompted by a risk identified at a selection of institutions.
3. An **on-site validation**, which is an intensive examination prompted by findings identified in the course of an improvement process at an institution. The aim of an on-site validation is to determine whether the findings we had previously established, for example during another on-site, have been resolved.

The exact scope of an on-site is institution-specific and determined in cooperation with the institution's account supervisors. Many examinations touch on multiple topics and/or risk categories and connect to relevant societal developments, such as the implementation of new legislation related to ESG risks or the transition to the new pension system.

Who is involved in an on-site inspection?

Account Supervision

Account supervision is responsible for regular supervision of an institution, which includes setting the annual Supervision Calendar of supervisory activities for an institution in the upcoming year. If risks are identified at a medium-impact or high-impact class institution, account supervision can request an on-site inspection.

Account supervision will be closely involved in the preparatory phase of the on-site inspection. During the examination phase, the on-site inspection team will make an independent assessment of the situation and prepare a report. The final report is shared with both account supervision and the institution. Account supervision is then responsible for following up on the on-site inspection.

On-site inspection team

An on-site inspection team usually consists of 3-5 DNB staff members in the following composition:

1. The Head of Mission (HoM) is the project leader and the central point of contact for the inspection. The HoM liaises with the institution and stakeholders within DNB and ensures smooth cooperation.
2. One or more staff members of the On-site Supervision of Pension Funds & Insurers (OTPV) department. The OTPV team members have broad experience and expertise within various sectors and risk areas.
3. One or more staff members from the expert centres in the Pension Supervision (TP), Insurance Supervision (TV) or Horizontal Functions & Integrity Supervision (THI) departments.

Several other DNB staff members are involved in a quality assurance role to ensure the quality and consistency of the inspections. In some cases, we may also insource external experts to complement the on-site team.

Pension fund or insurer

The institution appoints at least one contact person to be the point of contact for DNB during the inspection. During the inspection, the institution provides the necessary documents and information to DNB and organises meetings in close consultation with the HoM. There is a strong focus on substantive coordination between the institution and the on-site team to ensure that all parties have a concurring view on the risks identified.

How does an on-site inspection proceed?

An on-site inspection consists of the following phases: the preparatory phase, the examination phase, the report phase, the handover phase and the evaluation phase. Figure 1 shows the course of a 12-week on-site inspection. The final timeline may vary from one inspection to another.

Preparatory phase

Account supervision determines overall risk scores per institution as part of the ATM process.² A high risk score may prompt the deployment of a supervisory tool, including an on-site inspection. In December, account supervision informs the institution selected

for on-site inspection via the Supervision Calendar³ and the OTPV department prepares a plan of action.

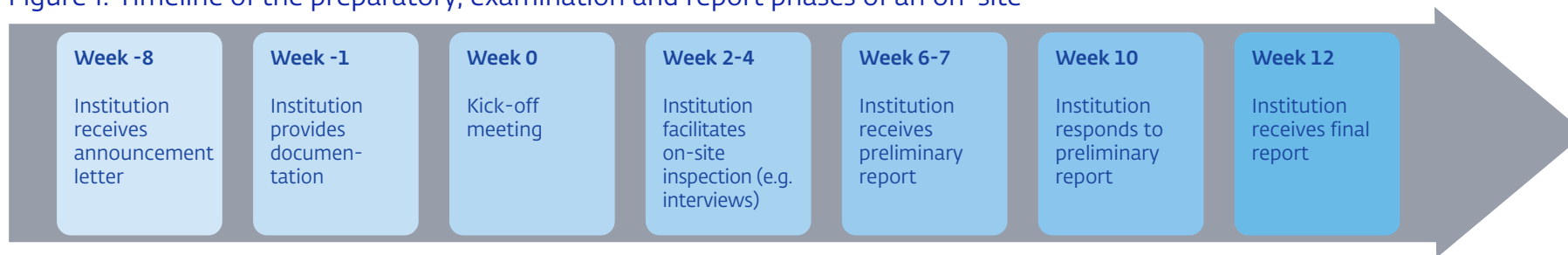
About eight weeks before the kick-off meeting, the institution will receive an announcement letter with more details about the on-site inspection, including an outline plan of action. The letter includes a request to provide relevant documentation and, optionally, to complete an (initial) questionnaire. The institution is also asked to schedule interviews with relevant people within the institution in a given time period. In this phase, the institution will be busy collecting the requested documentation and preparing for

the interviews and we will initiate informal contact with the institution to answer possible questions and discuss practical matters.

Examination phase

The kick-off meeting marks the beginning of the examination phase. The on-site team gives a presentation on the inspection questions and the on-site methodology. This is usually followed by a short presentation by the institution that outlines the situation regarding the inspection questions. The purpose of the kick-off meeting is to get acquainted and to explain the reason for the

Figure 1: Timeline of the preparatory, examination and report phases of an on-site



² See the brochure "[Our redesigned supervisory approach](#)" for more information about the ATM process.

³ In exceptional cases and in specific situations, on-site inspections may be announced ad hoc without advance notice in the Supervision Calendar.

on-site inspection. The kick-off meeting includes a number of stakeholders from the institution, such as board or management members and staff directly involved in the inspection, as well as the on-site team and account supervision staff on behalf of DNB.

Based on the documentation provided, reports already available and other information about an institution, the on-site team prepares an overview of the situation regarding the inspection questions, which is verified and expanded during interviews with the institution. The interviews are intended to get a better understanding of the situation at the institution, for example to check whether the organisational set-up described also complies with laws and regulations in practice. In addition to interviews, the on-site team can also deploy other methods such as knowledge sessions, system demonstrations, process mining and/or observations during meetings.

During the examination phase, the on-site team uses a list of intermediate questions (the Q&A process). The institution is expected to respond to these and/or send the relevant documents within a few days.

Report phase

After the interviews, the on-site team documents its observations in a preliminary report which it shares with the institution. The report describes the situation at the institution, with the main focus on identifying shortcomings against a statutory standard, i.e.

findings. The findings are formulated in such a way as to best suit any follow-up process, but do not prescribe or suggest any possible solutions. The report may also include observations that the on-site team considers relevant from a forward-looking perspective, but where no shortcoming has been identified against a statutory standard.

The shortcomings in the preliminary report are substantiated with facts and tested against applicable laws and regulations. The shortcomings are assigned a risk score. See the Framework for assigning risk scores in Figure 2. In determining the risk score, we look at the probability of the risk (associated with the shortcoming) materialising and the impact this would have.

Figure 2: Framework for assigning risk scores

		Probability			
		Low	Medium-low	Medium-high	High
Impact	High	3	4	4	4
	Medium-high	2	3	3	4
	Medium-low	1	2	2	3
	Low	1	1	1	2

Probability = probability of a risk materialising and causing impact

Impact = degree of prudential impact if the risk materialises

	Observation (no shortcoming against statutory standard)
1	Shortcoming: low risk
2	Shortcoming: medium-low risk
3	Shortcoming: medium-high risk
4	Shortcoming: high risk

After receiving the preliminary report, the institution is given the opportunity to respond to the report (right to be heard) within 2-3 weeks of receiving it. In principle, the on-site team then takes 2-3 weeks to incorporate the institution's response into the final report. In most cases, the on-site team organises a final meeting with the institution to discuss the response to the preliminary report.

Handover phase

After sending the final report to the institution, the on-site team also hands it over to account supervision. In this phase an assessment is made of whether the on-site inspection will lead to an adjustment of the institution's risk score and whether an improvement process must be started. Ultimately, account supervision decides on the necessary follow-up to the report. Follow-up prioritisation is based on the risk scores from the on-site inspection report.

Depending on the nature and design of the on-site inspection, there may also be other forms of follow-up, such as:

- A sector-wide report of findings
- Good practices following a thematic examination

Evaluation phase

After each on-site inspection, we conduct an evaluation to improve our on-site inspection practices. To this end, we ask the institution to complete an evaluation form, which in some cases is discussed during a meeting.

On-site supervision also pays ongoing attention to developments both in research methodologies and within the sector. Process mining is an example of an innovative technique we recently deployed in an on-site inspection (see box).

Innovative techniques in on-site inspections: process mining

Process mining is a research method for analysing data such as mutations and claims payments. These data are recorded in event logs that track when an action took place and who initiated it. Unlike a sample, analysis using process mining is based on the full data file of logged events. Based on event logs, the process steps that prompt a mutation are identified.

Cooperation with the institution

We used process mining in an on-site inspection as a means of retrospectively determining in detail whether a process had been managed according to the expectations and design of the process. Cooperation with the institution was a decisive factor in making the inspection a success. In particular, it involved the deployment of IT professionals to extract data from the systems in a controlled manner and subject-matter experts to interpret the results from the process analysis.

Challenges

Compared to a traditional interview-based inspection, this case involved more people which made the process more intensive. More coordination was needed, partly because data had to be retrieved from different information systems.

The result

Process mining makes it possible to create an objective representation of the process flow of premium collection. This reduces the chances of overlooking risky situations. It also makes it easier to detect where irregularities occur in the process or to detect bottlenecks in handling, such as complaints not being resolved. The process analysis also reveals what is going well in the process. The exercise provided both our own organisation and the institution concerned with in-depth information on the process.

Experience has shown that process mining is suitable as an (additional) supervisory examination tool to effectively map the actual process flow in a digitised environment. The intention is to use this data-driven method more often in the future. In particular, this applies to examinations into high-frequency operational processes that are highly automated.

Frequently asked questions

We are aware of the operational impact an on-site inspection can have on a pension fund or an insurer. This section of the brochure answers some frequently asked questions about on-site supervision, which may help to manage institutions' expectations of the on-site inspection process. We will periodically update this section and add new FAQs to it when relevant.

How does an on-site inspection differ from other DNB examinations?

Account supervisors can use a range of supervisory tools, which differ mainly in terms of intensity. For instance, they can organise a risk-identifying interview (RIG), in addition to the regular interviews, for a more comprehensive assessment of one or more specific risks. They can also initiate a deep dive examination, with in-depth desktop research and possibly a few interviews, to better identify a particular risk at an institution. RIGs and deep dives can prompt an on-site inspection.

An on-site inspection is generally more extensive and is mainly conducted at the institution's premises. On-site supervision and account supervision activities are complementary. They are conducted independently, but well-coordinated. This means that

findings can be identified outside the context of regular supervision and that follow-up by account supervision can explicitly take into account all aspects relevant to supervision.

How do on-site inspections differ in intensity?

On-site inspections may vary in intensity. This depends, for example, on the scope of the examination, the type of on-site inspection, the methods used and the size of the institution. When announcing the on-site inspection, the expected timelines are therefore always communicated and explained.

What can I expect from the optional questionnaire at the beginning of an on-site inspection?

In some cases, we ask an institution to complete a questionnaire at the beginning of the examination phase. This helps us in processing the documentation provided and can serve as a basis for answering the inspection questions. We will only request existing documentation in the context of an on-site inspection. While completing the questionnaire is optional, it may be time-consuming for the institution because of internal coordination processes.

How can I raise any concerns with DNB during the on-site inspection?

We try to include the institution in the examination process as much as possible, for example by organising a kick-off meeting and by providing oral feedback on the first observations of the inspection. Prior to the kick-off meeting there is also contact about the on-site inspection with the institution's account supervisor and/or the Head of Mission for the inspection. We invite institutions to contact us about issues such as scope and timelines at an early stage in order to ensure clarity.

How can I prepare for several DNB examinations in a short period of time?

Different examinations and/or inspections may take place sequentially, possibly focusing on different topics. Institutions can prepare in advance for these examinations and/or inspections and free up the necessary capacity by consulting the Supervision Calendar for their institution.

What is the follow-up to the on-site inspection after the report is completed?

The account supervisor is responsible for following up on an on-site inspection. Depending on the outcomes, follow-up may include a remediation programme.

Can I share the information in this brochure with outsourcing partners (such as a pension administration organisation) if the on-site inspection affects them?

We encourage you to also share this brochure with any outsourcing partners or other stakeholders if an on-site inspection affects them, as this information can help them prepare.

If you have any questions about this brochure, please contact our Information Desk at info@dnb.nl. They can refer you to the On-site Supervision of Pension Funds & Insurers (OTPV) department.

Relevant links and publications

- For more information on our supervisory strategy see [Supervisory Strategy 2021-2024](#)
- For other information on our supervision see the [Open Book on Supervision \(dnb.nl\)](#)
- For more information on our ATM process see the brochure [Redesigned supervisory approach](#)
- For more information on on-site supervision of banks see [Guide to on-site inspections and internal model investigations \(europa.eu\)](#)

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