Business Model and Risk Management

Sampo Group companies operate in business areas where a specific feature of value creation is pricing of risks and active management of risk portfolios in addition to sound client services.

To create value for stakeholders, Sampo Group companies must, in addition to financial flexibility (adequate capital and liquidity), have intellectual capital (comprehensive proprietary actuarial data and analytical tools in place to convert this data to information), human capital (skillful and motivated employees) and social and relationship capital (good relationships with society and clients to understand their changing needs).

At company level, management is using these capitals when implementing the following core activities related to risk pricing, risk taking and active management of risk portfolios.

Appropriate selection and pricing of underwriting risks

- Underwriting risks are selected carefully and priced reflecting their inherent risk levels.
- Insurance products are developed proactively.

Effective management of insurance exposures

- Diversification is sought actively.
- Reinsurance is used effectively to reduce largest exposures.

Careful selection and execution of investment transactions

- Risk return ratios of separate investments are analyzed carefully.
- Transactions are executed effectively.

Effective mitigation of consequential risks

- Counterparty default risks are mitigated by selecting counterparties carefully, using collaterals and assuring adequate diversification.
- High quality and cost efficient business processes are maintained, continuity of operations is planned and recovery is ensured.

Effective management of investment portfolios and balance sheet

- Balance between expected returns and risks in investment portfolios and the balance sheet is optimized, taking into account the features of insurance liabilities, internally assessed capital needs, regulatory solvency and asset coverage rules and rating requirements.
- Liquidity risks are managed by having adequate portion of investments in liquid instruments. The portion is mainly dependent on the features of liabilities.

At group level the risk management focus is on group wide capitalization and liquidity. It is essential to identify potential risk concentrations and to have a thorough understanding of how reported profits of companies would behave under different scenarios in general. These concentrations and correlations may have an effect on group level capitalization and liquidity buffers as well as on group level management actions.

When the above-mentioned core activities are successfully implemented, a balance between earnings, risks and capitalization can be achieved on a company and group level and shareholder value can be created.