



To the member companies  
in the Norwegian Natural Perils Pool

Oslo, 21 February 2018

## **Circular no. 01/18 Changes in the natural perils audit**

Pursuant to Section 13 of the Regulations concerning instructions for the Norwegian Natural Perils Pool (hereinafter called "NP"), the Loss Committee has the authority to review any claim a company requires settled in NP. As is well known, natural perils audits are currently organised such that the Audit Committee, which consists of representatives of the four largest member companies, audits these four companies. The members of the Loss Committee and the administration of NP audit the other companies. The Audit Committee reports to the Loss Committee. Once the annual round of audits has been concluded, the Loss Committee submits its audit report to the Board of Directors.

The current basis for extracting cases for audit comprises claims processed in the period 1 July in one year through 30 June of the following year. All claims above NOK 500,000 are extracted for audit. For claims under NOK 500,000, ten per cent are selected at random for audit (and at least four claims of less than NOK 500,000 must be audited). The current audit procedure has been applied unchanged for many years.

In autumn 2017, the Board of Directors of NP adopted a new scheme for natural perils audits. As a consequence of this decision, the Audit Committee will be discontinued in 2018. In addition, the members of the Loss Committee will no longer be tasked with audit assignments. Instead, the NP administration will be appointing three loss auditors. These auditors will be working full-time with inspections and audits, and will be reporting to the Loss Committee pursuant to Section 13 of the instructions. The Loss Committee will remain responsible for reporting the audit results to the Board of Directors.

Changes will also be made to the extraction rules. All claims above NOK 100,000 are now to be audited, and claims will be extracted for audit in the month after they were processed. This means that the audit will take place more shortly after the claim in question was concluded. The future audits – as outlined in this circular – will therefore be "fresh goods" for the member companies. As a consequence, it is expected that the learning effect will be significantly improved as compared to the current scheme. Under the present audit rules, a claim will typically be approx. 1–2 years old before the audit result is officially ready for the member companies. This long period between a claim being concluded and the final audit result being presented often means that the current audits are less relevant and have only a limited learning effect.

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The companies will now, in principle, be responsible for quality assurance of natural perils claims valued at less than NOK 100,000, while the new claims auditors will be taking random samples in this segment.

From 1 January 2019, only monthly audits will be performed on the basis of claims concluded in the previous month. 2018 will thus be a “transition year” where the old scheme is gradually phased out, with monthly audits being introduced over the autumn. This means, for example, that in 2018, the natural perils audits will be somewhat limited in comparison with previous years. The Loss Committee and the administration of NP will be taking this as their starting point:

### **Audit of claims concluded in the period 1 July 2016 through 30 June 2017**

This audit, which is currently ongoing, is being performed under the old scheme, and will be concluded when the Board of Directors has approved the audit report in June 2018.

### **Audit of claims concluded in the period 1 July 2017 through 30 June 2018**

This audit will be more limited with regard to the number of claims that are extracted for review. It will also be carried out under the “old” scheme, and by the members of the Audit Committee and Loss Committee. The results of this audit must be ready by the end of 2018.

### **Audit of claims concluded in or after July 2018**

These claims will be audited by the new claims auditors in the month after they were concluded. Claims concluded in July will thus be audited in August. Claims concluded in August will be audited in September, and so on.

As from 1 January 2019, all auditing will be performed by the new claims auditors on a monthly basis. The Audit Committee will have been discontinued, and the Loss Committee will serve as an informal appeals board between the claims auditors and the Board of Directors.

Recruitment of claims auditors is under way, and it is expected that the new employees will join the organisation no later than 1 June this year. Following a training period, the new claims auditors will commence their practical audit work as from autumn this year.

The future audit process is intended to allow claims auditors employed by NP to have direct access to the companies’ claims systems. This will relieve the companies of a great deal of extra work with regard to creating copy folders of the claims documents and sending them to the NP administration. Another objective is to make extensive use of the upload function in NINA, such that the case documents are entered directly in the audit section of NINA. A key intention behind the audit changes is to reduce the need for hard-copy duplicate folders to a minimum – and ideally to eliminate it completely.



If it becomes necessary for your company to allow NP direct access (read-only access) to your claims system, we will ask you to contact us at [pool@finansnorge.no](mailto:pool@finansnorge.no).

The changes will allow “pinpoint” inspections if actual problem areas are discovered in the claims processing procedure.

In summary, the new setup of the natural perils audits is expected to provide companies with the following benefits:

- more frequent audits (monthly), which will make the results more relevant (“fresh goods”).
- elimination of the need to create copy folders
- “neutral” claims auditors, without affiliation to any company
- easier dialogue between claims auditors and the company
- opportunities to have claims auditors participate in internal meetings at the company to present the audit results
- opportunities for claims auditors occasionally to spend time at the company that is being audited – which should provide valuable contact between the claims auditor and the company’s claim processors
- greater flexibility – opportunities for “pinpoint” inspections

The administration of NP is currently working to prepare and lay the groundwork for the changes described in this circular.

Please email any questions you may have about the changes to us at [pool@finansnorge.no](mailto:pool@finansnorge.no).

Yours faithfully,

The Norwegian Natural Perils Pool

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