



Banc Ceannais na hÉireann
Central Bank of Ireland

Eurosystem

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22nd December 2011

Dear *Chief Executive Officer*,

As you are aware, the “Corporate Governance Code for Credit Institutions and Insurance Undertakings” (the ‘Code’), published by the Central Bank of Ireland in 2010, requires undertakings to have a Risk Appetite Statement (‘RAS’) in place. The Code states that the Central Bank will monitor adherence to the Code through its on-going supervision of undertakings. Thus we decided in October that the Insurance Supervision Directorate would carry out a review, on a sample basis, of these statements to assess the general quality of documents being produced.

We believe that the results of this study indicate that the statements being produced are not to an acceptable standard. We have identified the following areas where we believe an improvement is warranted:

- The Risk Appetite Statement must be approved by the Board.
- It is important to include all material risks in the Risk Appetite Statement. Some companies failed to document the firms risk appetite with respect to material risks such as underwriting and market risk.
- The RAS needs to express risk appetite in quantitative measures as well as qualitative terms. Risk appetite should be measurable and quantifiable. A Risk Appetite Statement written solely in the context of current solvency capital requirements is not acceptable.
- The statement should separately address risk appetite over short, medium and long term horizons (e.g. over the cycle). Most of the statements reviewed did not make any reference to risk appetite over a number of time horizons, as required.
- There must be clear trigger levels for each material risk. As well as material breach limits, statements need to include interim limits which when breached will require remedial action.
- There needs to be a clearly documented and communicated escalation procedure in place. The statement should outline both internal and external escalation procedures as well as identifying what constitutes a material breach.
- The statement must identify who is responsible for monitoring and escalation.
- The statement must be communicated to all relevant staff, including those responsible for producing, monitoring or using the risk measures on a regular basis.



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This is one of a series of initiatives in the Insurance Supervision Directorate designed to ensure that over the short term the firm's Risk Appetite Statement is used to improve each firm's consideration and documentation of their risk appetite and risk/reward trade-off. As we implement PRISM and move to design our inspection schedule for 2012 we urge you to re-examine your Risk Appetite Statement in this regard in order to strengthen the enterprise risk management of your firm.

If you would like to discuss the content of this letter further please do not hesitate to contact me.

I would like to take this opportunity to send you and your families season's greetings and to wish you all the best in your business endeavours in 2012.

Yours sincerely,

Fiona Muldoon
Director, Insurance Supervision