Banc Ceannais na hÉireann
Central Bank of Ireland
Eurosystem

13 May 2015

<u>Re: Forward Looking Assessment of Own Risks</u>

Dear CEO,

Thank you for submitting a copy of your 2014 Forward Looking Assessment of Own Risks (“FLAOR”). The Central Bank of Ireland (“Central Bank”) has completed a review of the FLAORs submitted as part of the Solvency II preparatory phase.

Arising from the review and in addition to the Central Bank’s ‘Guidelines on Preparing for Solvency II – Forward Looking Assessment of Own Risks’ issued in 2014, I now outline some general feedback, which the Central Bank expects undertakings to consider when preparing their next FLAOR report.

Board Ownership: At this stage in the development of the FLAOR process, it appears that for certain undertakings the board acted as a ‘reviewer’ of the FLAOR. Rather the board needs to demonstrate that it has actively considered the FLAOR process, and that the process is top-down. In turn the undertaking should be able to demonstrate that the process is embedded within the undertaking.

For certain undertakings which are part of a group, the FLAOR process and the report format appear to be largely driven at the group level. Where the group FLAOR is used for a local undertaking, it must adequately capture the material risks arising from the local undertaking in question, and when the FLAOR is developed locally it should be specific and be driven by the local undertaking.

Assessment of Key Risks: The Central Bank’s ‘Guidelines for Preparing for Solvency II – FLAOR’ state that “it is crucial that the board of directors of the undertaking is aware of all material risks the undertaking faces, regardless of whether the risks are captured by the SCR calculation and whether they are quantifiable”. In some cases significant risks were not always considered in the assessment, for example, pension risk, reputational risk, group risk, liquidity risk, operational risk, cyber risk, expense risk, and strategic risks. In general, consideration should be given to all material quantifiable and non-quantifiable risks and appropriate mitigants should be described.

Assessment of Overall Solvency Needs: The Central Bank would like to highlight the fact that the overall solvency needs assessment constitutes the undertaking’s *own view* of the material risks which it faces. The assessment should allow for any limitations of the SCR in respect of your undertaking. In line with the general requirements on determining the overall solvency needs, as stated in the Central Bank’s ‘Guidelines for Preparing for Solvency II – FLAOR’ (Guidelines 10-12), undertakings should use the overall solvency needs assessment process to establish and justify an appropriate capital level for the undertaking.

Assessment of Continuous Compliance with SCR: The quantitative aspect of this portion of the FLAOR will be required in the second FLAOR, as per Guideline 2 of Central Bank's 'Guidelines on Preparing for Solvency II – FLAOR' which states that "High impact and medium-high impact undertakings should also perform an assessment of whether the undertaking would comply on a continuous basis with the Solvency II regulatory capital requirements and the requirements on the Solvency II technical provisions starting in 2015".

In general the significance of the deviations of the risk profile from the assumptions underlying the SCR was not appropriately assessed, as set out in the Central Bank's 'Guidelines for Preparing for Solvency II – FLAOR' (Guidelines 15, applying to high/medium high undertakings). The level of reliance on the standard formula or an internal model was very high; therefore the assessment of how the risk profile deviates from the assumptions underlying the calculation of the required capital is an important aspect and should be fully discussed in the FLAOR reports in 2015.

Time Horizon: In general it was noted that the focus appeared to be on the short term horizon. However guideline 12 of the Central Bank's 'Guidelines for Preparing for Solvency II – FLAOR' states that "The undertaking's assessment of the overall solvency needs should be forward-looking, including a medium-term or long-term perspective as appropriate".

Yours sincerely,

Sylvia Cronin
Director of Insurance Supervision
Central Bank of Ireland