Survey of 2014 FLAOR submissions March 2015

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INTRODUCTION

Under the Central Bank of Ireland's Guidelines on Preparing for Solvency II, all insurance and reinsurance undertakings were required to prepare a Forward Looking Assessment of Own Risks ("FLAOR") in 2014. Those companies rated as low or medium-low under the Central Bank's PRISM impact rating system were required to make an online submission of some of the FLAOR outputs using the Central Bank's prescribed online template.

In order to gain some insight into the 2014 FLAOR process for low and medium-low PRISM impact companies, we have conducted an analysis of the completed templates for those 20 companies which agreed to participate in our survey. This note summarises our findings from this analysis.

FINDINGS

Observations from the analysis of the templates included the following:

Completion Date

Perhaps not too surprisingly, all companies surveyed completed their FLAOR in the final quarter of 2014 and, in fact, 80% were completed in December[1].

Projection Basis

In terms of the projection basis used, 25% of those surveyed indicated that they had used a Solvency I projection basis only and 35% used Solvency II whilst 40% produced figures on both a Solvency I and Solvency II basis.

The use of a Solvency I valuation basis by one in four participants indicates that there is still likely to be significant devlopment work required by such companies in 2015 in order to move towards a Solvency II valuation and projection basis.

Projection Period

For the 14 companies which indicated the projection period used, none of these chose a projection period in excess of five years. The choice of projection period was split evenly between three and five years.

Policies and FLAOR Record

All bar one company stated that both their FLAOR policy and record were fully compliant with the criteria listed. We did not have sight of the full FLAOR documents, but based on our past experience of reviewing such documents, we expect that whilst the documents address the various criteria, there will be significant variation in the level of detail covered under each section.

Optional medium or long-term solvency needs

As well as showing the solvency needs over one year, there was an option for companies to also show their medium or long-term solvency needs. Only 15% of companies provided this additional information. Perhaps this was because there was some ambiguity over what was required here, e.g., should this column reflect the Solvency Capital Requirement (SCR) at a future point in respect of existing business or the SCR at a future point including new business to that point or indeed should this include the capital needs arising from continuing to writing new business over the projection period and establishing the required technical provisions and SCR.

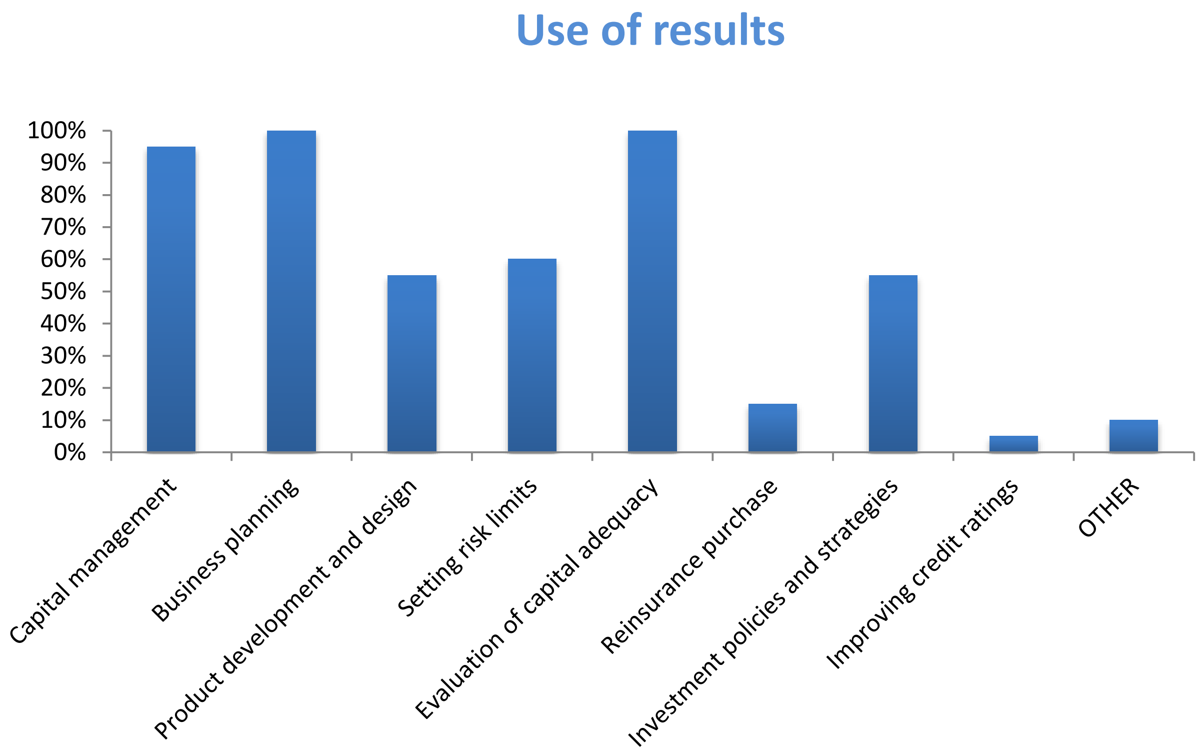
Use of Results

The online template required companies to indicate which of the areas listed used the results of the FLAOR process.

Interesting to note that only 55% of companies stated that the results of the FLAOR were used in the product development and design process although this is one of those areas where the results should "at least" be used.

The following table shows the percent of companies which selected each of the categories.

[1] We have taken the completion date to be the date the Board approved the results and conclusions



General comment on the online template

In undertaking our review, we noted some practical issues with the template itself.

- The section containing the overall solvency needs appears to have been designed for Solvency II SCR type results (e.g., splitting by underwriting risk, etc.) although other valuation bases were possible, which would not naturally lend themselves to producing results in this format.
- It was also unclear where the diversification benefit should be shown as the overall solvency needs section did not permit negative amounts.
- The number of characters that could be entered in a cell was fixed, which caused issues for the qualitative answers.
- For certain questions, the template only allowed the user to provide further explanation if “no” was selected whereas the user may have wished to add additional information even if they had answered “yes” to a requirement.

HOW MILLIMAN CAN HELP

Our consultants have been involved in advising clients on Solvency II issues since its conception. We have undertaken a range of work for clients across all three Pillars of Solvency II including:

- Extensive experience of modelling for technical provisions and SCR calculations, including Independent Review;
- Assisted with the design, calibration, validation documentation and review of Internal Models;
- Design and implementation of Risk Management Systems and Own Risk and Solvency Assessment;
- Provided Solvency II training courses for senior management and directors; and
- Advised on Pillar 3 reporting requirements.

Milliman also has a range of software available to support companies in their implementation of Solvency II including:

- Vega: An automated Pillar 3 reporting and standard formula aggregation system (link)
- Solvency II Readiness Assessment Tool (link)
- Navi: A liability proxy modelling tool (link)

As a result, we have a wide range of experience that can be brought to bear to benefit your business. Above all, we remain focussed on efficiency and practical delivery.

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CONTACT

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