NEW IRELAND
ASSURANCE

Miss Helen Guinane,
Risk Division,
Central Bank of Ireland
PO Box No. 559
Dame Street
Dublin 2

24th February 2011

Dear Miss Guinane,

Consultation on Impact Metrics for the Risk Based Supervision of Financial Firms by the Central Bank and on Impact based Levies - CP - 49

Further to the Central Bank's request for responses to the above consultation please find enclosed New Ireland's reply in relation to a number of sections of the paper.

The size and scope of financial service activities is vast and varied and we believe that it is very challenging to find one policy that will universally fit a very broad range of activities.

(The numbers below refer to the corresponding paragraph numbers in the consultation paper).

2.2 The capital requirements in place at the Central Bank of Ireland's instigation and under Central Bank supervision are designed and should be accepted as prudential levels adequate to remove risk to customers and society.

2.3.1 We are of the view that Systematic Risk at an aggregate and interconnected level is only capable of being appropriately assessed by the Central Bank and its European and worldwide counterparts.
It is not clear what is being talked about under *'prudential', 'systematic', 'badly effected', 'reputational risk'* and *'some retail customers'*. We would suggest that precise definitions are needed.
Are there not fundamental differences between for example credit institutions and general insurance companies?

2.3.2 We would suggest that the term *'large number of customers'* needs to be defined. Is this of the firm or of the market?
There should be a definition of *"impact"*. Is this actual loss to the customer or the inconvenience of going to another provider?

Figure 2-1 The word *"failure"* should be defined.

2.4	We would query why a firm is being asked to put in place probability of having an adverse impact on Central Bank objectives. Should not the objectives be specific? 2.2 says measures will be mainly "*quantitative*", this suggests that significant judgement will be required.
Figure 2-2	What are the definitions of a "*business failure*" or "*material compliance failure*"?
2.5	How will "*probability*" be determined? There is very little information provided as to how this will be determined.
2.6	How will poor quality corporate governance be assessed? Perhaps probability could be assessed against each of the Solvency II risk categories. Regulated entities should have the opportunity to discuss any subjective assessments by the Central Bank prior to finalising the probability rating.
3.1	We believe that this may not make sense. We consider that divisors need to take into account gross positions and exposures including off balance sheet items and contingent liabilities and investment or trading exposures and needs to factor in concentration of risk and strength of counterparties.
Figure 3-1	This measure needs to be refined. If it is going to be used should it not be premium by class and should it not also take into account assets or liabilities held for which no premiums are being received.
3.2.2	No examples of weightings appear to be provided.
3.2.3	The suggested approach to metrics is we believe much too basic if it is going to be used as a basis for differentiation.
4.2.1	Is there not an implied correlation between "major institutions" and "high impact firms". Should this not be sector specific as a failure of a smaller firm in one sector could potentially be more disruptive than a failure of a larger firm in a different sector?
4.4	It is not clear from the type of measure proposed to be used that the Central Bank would achieve the outcome it desires. We suggest that it should test this model and provide results to validate its proposed measures.
5.2	Might we suggest that the Central Bank considers structuring a fee based on, for each industry sector, a fixed amount for each firm in that sector and then an additional ad valorem amount.
*5.7 **Question 3***	As answer to ***5.2*** above

6 Category B1 Potential additional Impact Metrics for life assurance

- % free assets
- amount of liabilities with investment guarantees
- amount of annuities in payment
- some concentration metric
- total sums assured
- asset concentration
- reinsurance exposure/concentration

How will probability vary by branch as opposed to locally authorised?

6.2 Rather than everyone coming up with alternatives we suggest that the Central Bank should itself put forward alternatives setting out the outcome in respect of rating and levy costs.

6.3 We consider that it may be optimistic for the Central Bank to believe a small number of measures will capture what it is trying to achieve. On this basis it might as well go for a judgment based decision rather than trying to achieve a result through imperfect measures.

6.4 As answer to ***6.2*** above.

Question 4 As answer to ***6.2*** above.

Question 5 As answer to ***6.2*** above.

Question 6 As answer to ***6.2*** above.

Question 7 We believe Yes as they have different business models. We suggest that the Central Bank should itself put forward alternatives.

Question 8 Rather than everyone coming up with alternatives we suggest that the Central Bank should itself put forward alternatives setting out the outcome in respect of rating and levy costs.

Question 9 As answer to ***Question 8*** above.

7.2 As answer to ***Question 8*** above.

7.3 No, not entirely. As the major impact firms will have a higher level of involvement with the Central Bank there will be an element of cross subsidisation. We would suggest that a fixed amount per firm in each sector should be levied and then an ad valorem amount. If the Central Bank are looking to recover all costs from each industry we need to have a say in the amount of these costs and how cost control and efficiency is managed in the Central Bank.

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7.3 b) Yes, if there will be a benefit to firms from it.

7.4 Rather than everyone coming up with alternatives we suggest that the Central Bank should itself put forward alternatives setting out the outcome in respect of rating and levy costs.

7.5 As answer to *7.4* above.

7.6 As answer to *7.4* above.

7.7 As answer to *7.4* above.

7.8 No.

7.10 No.

May we also raise the following queries/questions;-

- Will there be an appeal process in relation to the risk categorisation of a particular entity?
- How often would the assessment be reviewed (e.g. as risks changed and/or as controls improved)?
- Will ratings be published and could this affect public perception?

We hope that the above comments will be of some assistance in finalising the consultation and would welcome an opportunity to meet with the Central Bank to progress matters in due course.

Yours sincerely,

Paul Dalton
Head of Legal & Compliance