

The Financial Services Authority
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23 December 2008

Dear Sir

Response to FSA Discussion Paper 08/04 – Insurance Risk Management: The Path To Solvency II

Please find attached our comments in response to FSA Discussion Paper 08/04 “Insurance Risk Management: The Path To Solvency II”. We have numbered our response to match the numbering of questions in the Discussion Paper (“DP”). We have considered all of the questions raised in the DP and focused our response on those areas where we believe we have relevant insights or experience.

We have observed a significant upturn in Solvency II awareness since the publication of the DP. In our view, the DP has gone a long way towards achieving its purpose of stimulating UK insurers’ preparations, increasing awareness and activity at Board and Senior Management level. It has generated a broader understanding of the impact of Solvency II and the potential commercial benefits across Executive, Finance, Risk and Actuarial teams. We fully support the timeliness of the DP in enabling firms and the FSA to plan early for an efficient transition to Solvency II. We believe this foresight will have longer-term benefits for the UK industry.

We do however note that in publishing the DP and timetable for dry-run model approval early, the FSA has set a faster pace for transition to Solvency II than other EEA regulators. It will be important for the FSA to put plans in place for managing any inconsistencies, as these evolve, between the standards set down in the DP and future legislation (Level 2/3). There are particular challenges for UK entities of non-UK domiciled groups. These entities may wish to opt out of the FSA dry-run to avoid undermining the core principle of group supervision, or may have limited influence over the direction or pace taken by their parent and their group supervisor in preparing for model approval. For all UK firms, it is important to understand the impact of potential delays in Solvency II implementation across the EEA, on the FSA’s timetable for dry-run model approval.

We support the emphasis on risk management, governance and Executive/ Senior Management responsibility underlined by the DP and the Level 1 Directive. In the wake of recent market turbulence, this focus is even more appropriate. Embedding risk and capital management is good business practice and will bring commercial benefits to firms; it is very important that these benefits are stressed and that Solvency II is not perceived to be a regulatory compliance exercise.

In this light, it is critically important for the FSA/CEIOPS to set out clear guidance on proportionality to bring the commercial benefits of more sophisticated risk and capital management to a wider audience, including small and medium sized firms. The principle of proportionality is also important to larger firms in defining appropriate management and supervision of less material risks. We appreciate that these issues are likely to be addressed in Level 2 implementation measures.

The majority of large and medium firms we have spoken to intend to opt in for internal model approval. In reality, we believe that there is a lot of work to be done and it is likely that not all firms will be able to meet the criteria for internal model dry-run approval. In our recent London Market briefing¹, 84% of firms said they had not conducted a gap analysis although 60% said they intended to apply for model dry-run approval. It is clear that not all firms have performed a detailed gap analysis to understand exactly the level of investment required in order to meet the criteria. Early guidance on the requirements, including how the FSA will validate a company's ability to meet the use and documentation tests, would benefit all firms in terms of setting and meeting internal and external expectations. Most importantly, it will allow firms sufficient time to prepare for model approval.

We would be happy to discuss our response further. Please contact me (020 7804 5635) or Jim Bichard (0207 804 3792) should you wish to discuss or clarify any matter in the attached response.

Yours faithfully

Kind regards



Mark Batten

¹ London Insurance Club Solvency II - is it time to shift up a gear? Tuesday 11 November 2008

PwC responses to specific questions raised in the DP

Q2 (p15): How do firms consider supervisors should respond to breach of targeted economic capital requirements?

The turbulence in the markets over 2008 has been challenging for insurers' risk management systems and the FSA's supervision. We fully support the move to market consistency under Solvency II and note that in the UK, to date, the largest Life Insurers have been able to manage their with-profits funds using market consistent methodologies through extreme market conditions. Solvency II will bring a more widespread adoption of market consistent liabilities and alignment of firms' processes for managing economic and regulatory capital.

The FSA should recognise that a full market consistent regulatory world may create systemic risks of its own as firms respond to disruptions in the market place. The potential loss of the group support regime has heightened this risk by reducing recognition of diversification of risks and thus capital.

The question of whether it is appropriate for the regulator to intervene based on breaches of economic, as opposed to regulatory, capital should be considered. Feedback from our clients suggests that some see the monitoring of economic capital by the supervisor as a potential restriction on their management of the business on a commercial basis. We do believe, however, that early dialogue following downward movements in economic capital is beneficial for all parties including shareholders, policyholders, senior management and the FSA. Better understanding of potential adverse scenarios enables management to develop enhanced reporting (e.g. monitoring pre-set limits or KRI's) and action plans to deal with adverse scenarios. In turn, this can lead to more meaningful dialogue with the regulator regarding contingency plans. We support the proposals set out by CEIOPS² for ongoing monitoring of downwards trends in regulatory solvency. We believe the use of 'early warning' signals are, in this light, both sensible and pragmatic. It would also be, in our view, appropriate for the regulator to ask questions about breaches of economic capital (in hindsight) to inform their view on the appropriateness of procedures for monitoring and managing regulatory solvency.

Any future legislation should continue to acknowledge that supervisors' oversight and enforcement of the SCR will be significantly different to that for the MCR. Again, the plan for a "supervisory ladder" set out by CEIOPS appears pragmatic and appropriate. In addition, it might also be appropriate for the FSA to take comfort from a strongly capitalised group standing behind weaker subsidiaries particularly where subsidiaries are under CEIOPS oversight, even if explicit group support proposals are ultimately deleted from the Solvency II text.

Chapter 4

Q3 (p22): What steps are firms taking to develop the appropriate valuation systems needed to calculate technical provisions under Solvency II? How is this work linked in the implementation of International Financial Reporting Standards ("IFRS") standards?

Whilst many firms are in the process of setting up Solvency II projects, they are only now beginning to appreciate the full impact of switching to a Solvency II valuation basis. Until very recently Solvency II has been seen as the responsibility of the Chief Actuary or Chief Risk Officer, and it is only in the wake of the FSA DP that we are seeing more ownership of the Solvency II project by CFO's.

² CEIOPS issues paper, Supervisory Review Process and Undertakings' Reporting Requirements, August 2008

Many Life firms are better prepared than their General Insurance peers. Most produce realistic balance sheets and have projects in place to report Market Consistent Embedded Values (MCEV) at 2008 or 2009 year ends. However, very few of these projects include Solvency II and/or IFRS Phase II in their scope, and in our view there is further work to be done to convert, for example, existing ICAS and MCEV systems. Even if we focus on MCEV alone, the current economic conditions have raised a number of practical challenges for conducting market consistent valuations. Firms are struggling to identify an appropriate risk free discount rate and how closely they should adhere to market values when the market no longer appears to be deep or liquid. We have seen some UK Life firms deciding to delay IFRS Phase II projects given the recent market turbulence and uncertainty in the timing of the IFRS Phase II timetable.

For General Insurance firms, we have seen few full attempts to produce technical provisions on a Solvency II valuation basis. Whilst some clients do produce discounted best estimates (for example, as part of their ICA) many do not and these are often not part of standard reporting to the Reserve Committee. We note that, during QIS 4, many relied heavily on the use of proxies to produce discounted best estimates (e.g. generic market mean term assumptions). This was largely due to the mismatch between company data splits and the QIS 4 lines of business.

Many London Market and Commercial Lines firms feel the proposed risk margin using a Cost of Capital approach does not capture the market value of liabilities appropriately. The challenges presented by adapting ICA models to produce risk margin estimates (based on modelled future SCR's) are only now beginning to be fully understood and researched by the industry and third party software providers. Further research and guidance on suitable approaches is needed to enable firms to move forward in this area.

In our view, the discussion on IFRS Phase II and Solvency II valuation bases to date has often focused on the differences, at the expense of the significant overlaps or similarities between the two valuation bases. As a result, the need for common data and systems, and the importance of being able to reconcile between the two bases, has been overshadowed. Whilst we recognise that there is still uncertainty in the timing and detailed approach of IFRS Phase II, both the Solvency II and Phase II initiatives have sufficient clarity for firms to start to consider the combined impact on their valuation systems. We are recommending that firms should take steps to assess the potential impacts on data, valuation, financial reporting and the supporting IT systems. Dovetailing Solvency II and IFRS Phase II implementation would enable firms to rationalise and realise potential synergies in data, modelling and reporting systems. This would have benefits of enhancing long-term operational efficiency and removing concerns about consistency in reporting. We have assisted several of our clients in considering the potential impact of Solvency II on their valuation systems and expect this work to increase now that CFO's are taking on increasing responsibility for the Solvency II project.

Q5 (p26): What further guidance, in addition to that in the QIS4 technical specification, would be useful for firms on the application of the Solvency Capital Requirement ("SCR") standard formula for their business?

We have just completed an exercise collecting cross-border feedback from our European clients on the QIS 4 standard formula. There are a number of issues our clients have identified on which they would appreciate further guidance. For example, issues included supporting analysis for standard formula parameters, intra-group reinsurance, use of own data and the treatment of deferred tax. We will be meeting and discussing our findings with the European Commission, and would be happy to share the results with the FSA should you wish.

We note that in the UK, almost all our clients have said that they intend to use their ICA model as a base for internal model approval under Solvency II. Additional information enabling firms to

compare and contrast the standard formula to internal model results, and to adapt ICAS models to Solvency II models, is urgently needed.

It is unclear why the Solvency II Directive adopts a confidence interval of 99.5% over a one year holding period while the Capital Requirements Directive applies Basel II formulae using 99.9% over one year. Explanation of this inconsistency would be useful for bancassurers.

Q6 (p27): How do you think firms could best demonstrate compliance with the Pillar 1 requirements on a real time and prospective basis?

We believe the emphasis here should be on firms having appropriate procedures to understand and manage capital on an ongoing basis, rather than continuous revaluation of the balance sheet. Real-time, market consistent valuation of technical provisions might theoretically be possible using, for example, replicating portfolios. However, there are a number of practical problems with this approach and it is not readily applicable to General Insurers.

Effective capital management requires ongoing monitoring of required and available capital. The latter depends on information from financial and accounting systems. In our experience the comparison between available and required would be monitored most commonly on a monthly basis. Liquidity and funding positions are of course monitored more frequently (usually daily). It is also normal practice to forecast future (prospective) capital positions and the comparisons between required and available capital. This should be a visible input into management decision-making. We would also expect management to review out-turns and perform variance analysis to inform the capital forecasting process.

Producing the information that management need to monitor risk and capital on an ongoing basis is an area of rapidly evolving best practice for insurers. It is unrealistic to require firms to monitor capital strength on a “continuous” basis and we believe the use of the word “ongoing” is more appropriate (and we support the amendment to Article 44 of the Directive to this effect). We are advising our clients to put in place a regular cycle of risk and capital reporting, on a monthly or quarterly basis, supported by ongoing ‘exception reporting’. We would expect to see the regular reporting covering capital requirements (MCR, SCR and economic capital), available capital and risk profile. As regards interim ‘exception reporting’, in our view insurers need to be able to demonstrate to supervisors that financial risks crystallising in the interim period are immediately identified and reported to management. This might be achieved through ongoing monitoring of pre-defined ‘limits’ triggering immediate escalation, with defined roles/responsibilities/procedures e.g. for de-risking, internal model or reserving model re-runs where appropriate.

Chapter 5

Q7 (p30): To what extent does this description reflect the firms’ current and planned future internal models?

This IAIS definition of an internal model:

... internal model refers to “a risk management system developed by an insurer to analyse the overall risk position, to quantify risks and to determine the economic capital required to meet those risks. An internal model may also be used to determine the insurer’s regulatory capital requirements on the basis of the insurer’s specific risk profile and the defined level of safety of the solvency regime.”

We support expanding the definition of an ‘internal model’ to a ‘risk management system’. However, we believe that this would be best described as a “risk and capital management framework”.

The description is consistent with firms’ plans for developing internal models but is aspirational at this stage. We believe there is a general acceptance in the market that, in the wake of recent

market turbulence, there should be greater emphasis on risk management (and strong governance around it) as well as robust stress testing. The model should be viewed as one part of the overall approach to risk management.

This view is supported by PricewaterhouseCoopers' June 2008 survey: '*Does ERM Matter?: Enterprise risk management in the insurance industry*'. Three-quarters of insurers said they had successfully developed an economic model. However, nearly 60% said that the control environment around the model was weak, and that the integration of risk and capital measurement into their Enterprise Risk Management ("ERM") framework was cited as a key motivator for further development of the model.

We would like to highlight that there is a risk that small to medium sized firms will be left behind in this space. Whilst best practice is evolving rapidly, we have not seen a 'scalable' approach to ERM being implemented by smaller firms. Further practical guidance would be very well received in this area, to enable smaller firms to benefit from internal model approval and enhanced risk management. This is an important area, which we believe should be covered and will help to develop Level 2 measures on proportionality.

Q9i (p33): Does this outline cover all the key dimensions of capital management activities within the industry?

Paragraph 5.19 of the DP states "An important part of the risk management function is to allocate economic capital at an appropriate level of granularity (e.g. by business unit, line of business, homogeneous risk group) to enable management to use this within internal reporting (e.g. risk adjusted return or return on allocated capital). This process ensures that capital allocation reflects the risks inherent in each area of the business."

We believe that risk and capital allocation is a key part of robust capital management practice. Key capital management activities include setting risk-adjusted performance targets (for pricing, underwriting and performance monitoring), risk budgeting and monitoring changes in risk profile. Incentives should be linked to risk adjusted performance.

The PwC 2008 survey³ indicated that benefits from adopting an ERM approach were seen to be:

- Better allocation of capital than under a regulatory capital model;
- Greater support for the allocation of risk and risk limits;
- Freeing up of capital for use elsewhere in the business;
- Changes in the pricing of products to better reflect risk; and,
- Changes in strategic direction after assessing risk-adjusted performance, including business discontinuation.

We believe that to comply with the use test, firms need to do more than simply allocate capital in a way that reflects the risks inherent in writing the business. Capital should be allocated at an appropriate level of granularity such that operational decisions are informed by the outcomes of the allocation and modelling analysis. To ensure this is the case, it is our view that incentivisation is an essential part of this and needs to be addressed explicitly.

However it is important to recognise that allocation often requires judgements and assumptions. This is also true when firms attempt to estimate returns on allocated capital (for example this may require cost allocation assumptions).

³ PwC June 2008 survey '*Does ERM Matter?: Enterprise risk management in the insurance industry*'

It is our view that it is important that management incentives should be aligned with risk-based performance measures. Otherwise there is a danger that economic capital models are introduced that merely provide secondary or tertiary inputs to management decisions.

We do not believe that it is necessary to specify how granular any allocation of capital needs to be. However, it is likely that, at a minimum, allocation is needed by business unit and by line of business. Note that firms will need to allocate capital by legal entity to comply with the SRP and Pillar 3 reporting requirements of Solvency II. This will pose a modelling challenge to some EEA groups where business units may not align to legal entity structures.

Q9ii (p33): How does this compare with current industry practice?

Under the existing ICAS regime, few firms have successfully developed and fully embedded an approach to capital allocation. For many, especially the smaller firms, the ICAS model is used as an overall check on business plans rather than a driver of risk budgeting or performance monitoring at a business unit or line of business level. Firms that are beginning to use more technical risk based approaches to capital allocation, are finding that in reality the implementation of such models is fraught with difficulty and needs to be carefully managed to ensure that counter-intuitive or counter-productive results are avoided. The difficulties of implementing a practical and robust approach to allocating capital should not be underestimated.

Having said this, we support proposals for capital allocation to be a key part of the use test. In our experience, enhanced capital allocation is critical in getting value from the model in business planning and decision making. This will, in our view, lead to greater scrutiny of the capital model by management and will in turn lead to greater buy-in as the model becomes an essential business planning, pricing and risk management tool. Many firms are now seeking to extend the use of their ICAS models in this area, and the rating agencies are increasingly emphasising the importance of embedded ERM frameworks (with capital allocation seen as a key enabler/indicator of good ERM) in supporting a company's scoring and outlook.

There is a risk that capital allocation is seen within firms as a technical modelling exercise. In our view, any guidance set down by CEIOPS or the FSA needs to allow for the fact that the technical results must be combined using management experience and business judgement. The internal model and capital allocation approaches are important tools in this process, but their limitations need to be understood by management and the regulator.

We recognise that pricing decisions are often complex (influenced, for example, by competition, market structure and business strategy) and cannot be simply driven by modelling results.

Q10i (p34): What are firms doing to evaluate and improve data?

Firms are beginning to recognise that data inputs are as important to model results as the models themselves. However, the approach adopted by firms still remains relatively reactive, with many identifying data issues on an ad-hoc basis using the results of the models, rather than adopting a more proactive approach of reviewing the source data, in advance of the model runs.

Improvements to data are also typically being made to meet the needs of the models, rather than as part of a wider business initiative. Consequently, corrections are often being made downstream by the actuarial team, without improving the underlying business processes and correcting data problems at the source.

In our view, for firms to manage data well, they should embed business processes into their operating model to ensure ownership and accountability for data. Recommended activities include:

1. Reporting of key aspects of data quality: This provides a basis for demonstrating to the FSA that they have a means to continuously monitor and react to data quality issues that may impact Solvency II reporting.
2. Responding to data issues: Processes to receive and react to reported data appropriately and on a timely basis to either correct the data issues and/ or revise or change the data capture, transmission or consolidation processes.
3. Allocating responsibility: Changing the reward and measurement processes to include data as one of the success criteria.

Whilst some firms are making progress on point 1, there is much less activity on points 2 and 3 as yet.

The scope of the data requirement (for 'accurate, complete and appropriate data', Art 119) needs clarification. We note there is some confusion amongst firms as to whether data quality requirements apply to detailed policy, claims and other data maintained by the company; or to the key inputs and aggregations to the capital model. Also we have found that whilst some firms have improved internal policy data, there is much to do over externally maintained or outsourced data, other model assumptions and benchmarking.

Data quality improvement is an area where we believe the insurance sector could learn from the data cleansing experience of banks that use the Internal Ratings Based approaches under Basel II.

Q14ii (p37): How do you think we should test the adequacy of internal models – for example, should we require evidence of peer review, benchmark by industry sector, require external audit, run benchmark portfolios or develop our own capital model? What other possibilities do you consider appropriate?

Our understanding is that it is unlikely that firms will be required to obtain public assurance over model processes, systems and controls. We agree with this approach, as necessitating such public assurance will be very onerous on firms, in particular small and medium sized entities. In addition, there is a risk that the internal models do not become fully embedded in the business if the responsibility for sign-off sits externally.

In respect of external assurance over model verification, we believe that it should be the responsibility of firms to obtain appropriate levels of assurance over the internal models they seek to use. There may be differing ways of achieving this, depending on the complexity of the model and the capability within the firm. As part of this process, firms may choose to seek private external assurance but we do not believe this should be mandated in all cases. We believe that it would be appropriate for the FSA to articulate the nature of evidence that should be submitted to support an application for internal model approval but do not see a need to be prescriptive regarding the method firms should employ to obtain that evidence. Where further assurance is deemed necessary, the FSA may seek external assurance via the Section 166 mechanism in a focused, risk-based way.

Whilst comfort can be taken from model governance and controls, there will be a need for the regulator or peer reviewer to 'open the black box' and challenge underlying statistical quality. One way to do this is for supervisors to require firms to run benchmark portfolios, but the FSA should be clear on the resource impact firms in making such requests. Industry benchmarks and comparison to the standard formula SCR will also be a basic tool in challenging model results.

We would support a clear set of criteria being established by the FSA, in conjunction with CEIOPS, for model approval. We recognise that there are drawbacks to overly prescriptive or detailed guidance. However, the UK industry would benefit from early publication of the principles for model

approval covering the design/build of the model ('statistical quality') as well as model governance and controls. We look forward to the publication of the CEIOPS paper on Internal Models and hope that this provides the clarity needed for firms to move forward in this area.

Q15 (p37): Firms using an internal model will need to demonstrate that the internal model generates output figures that are consistent with actual experience. The firm will need to be able to explain the changes it has made to the internal model as a result of its analysis of experience. How do firms presently carry out this activity and how will it be developed towards Solvency II implementation?

In the insurance industry, it is not common for back-testing to be conducted on economic capital models. Back-testing inherently requires a multitude of data, whereas business or expert judgement underpins many key assumptions. (The analogy to banking, where back-testing is more common, is weak. For example, banks might back-test repeatedly over 14 day periods, whereas insurers might back-test reserving assumptions only quarterly or annually.)

We do, however, believe that using actual experience to test assumptions underlying the modelled risk distribution is a key part of the model validation cycle. This is particularly true for modelling nearer-term outcomes, which we would expect to see driving the use of the model in day-to-day business decisions. Key considerations include:

- the level of back-testing that should be conducted: in total, by business unit/ line of business, by risk category;
- the stability of model assumptions over time and the extent to which model assumptions should react to additional data points year-on-year; and
- limitations of this analysis – e.g. benign experience may validate a weak model.

We would highlight that stress and scenario testing, including testing of actual or potential events versus modelled outcomes, is a core component of model validation. This test has the benefit of promoting management understanding and buy-in to the model. We note that the Directive does not refer to stress and scenario testing of models although recent CEIOPS and FSA issues papers do promote stress and scenario assessments as a key attribute of good operational risk management.

Q16 (p38): How do firms validate internal models currently – and to what extent do their processes meet the above indicated criteria?

Paragraph 5.51 of the DP states "As part of the internal model design, the firm must include a regular cycle of validation and necessary updates of the internal model. However, firms may need to update their internal models more frequently than they had planned in some circumstances, for example, as a firm's situation changes (new management, new strategy, new lines of business, new competitor action, unexpected loss emergence etc)."

The level of validation currently undertaken by firms varies widely, depending on their sophistication.

In our view⁴, validation of an economic capital model should at least include a robust assessment of the:

- adequacy of data inputs;
- appropriate historic and prospective validation of assumptions;
- appropriateness of model algorithms and implementation;

⁴ PwC Green Paper: Gaining comfort: Capital model validation for insurers* - November 2008

- reasonableness of outputs;
- sensitivity of results to changes in assumptions and inputs;
- adequacy of the model control environment and documentation; and
- appropriateness of the model usage.

We believe that the industry is only now moving to extensive model validation. It is our view that model validation should encompass the processes that trigger amendment to the model in the light of external or internal changes. We believe the identification of new risks, or the alteration of existing risks, must be an integral part of the model/risk governance design.

Ultimately, the value of the economic capital framework depends on how well it is understood within the business and genuinely integrated into decision-making – if the model could be likened to a car, then management and business teams are the drivers. The person at the wheel may not need to know exactly how the engine works, but like all good drivers they need to know how to get the best out of the car and be able to recognise any problem signs. ‘Good driving’ also requires attention to the culture and mindset of the business rather than just the mathematics of the model. This is a fundamental part of the increasing challenge of the model by the business and hence the use test.

Q17i (p39): One simple guideline for documentation might be that it is extensive enough for the firm to replicate its model in a different platform and in the absence of original developers. To what extent do firms already have this in place?

It will be challenging for firms to document their models to such a standard that exact copies of the model could be produced. This is for many reasons:

- Imperfect level of documentation historically;
- Complexity of some models;
- Legacy models and products (particularly in the Life sector); and
- The amount of change that models have undergone in recent years.

The scope and complexity of model documentation varies widely between firms. Our clients recognise that producing good model documentation is a resource intensive activity and they would like to start now, ahead of the first dry-run. We believe that clear, practical and proportionate guidelines on the documentation requirements for the dry-run would be welcomed by firms.

In our view, core components of documentation would include:

- Model design and methodology;
- Parameterisation;
- User guide;
- Audit trail;
- Controls documentation;
- Communication to Board and Senior Management of model results, setting out the uncertainties underlying the model, its strengths and weaknesses; and
- Communication of controls and internal audit results.

We would stress that documentation needs to be ‘live’ (i.e. regularly updated and accessible) for it to remain relevant to the organisation. Good, live documentation does underpin the governance system so we support the FSA’s focus on this area.

Q18 (p42): Should the internal model be subject to formal independent challenge? If so, what form should this take- for example, peer review, internal audit or external audit?

Please refer to Q14ii.

Q19 (p42): How might firms ensure that senior executives acquire the relevant knowledge and understanding to fulfil the duties imposed upon them in respect of internal models review under the risk management framework? How might this be demonstrated?

We agree with the principle that Senior Management are responsible for the overall approach of the model and acknowledge that more work is required to embed the internal model (currently the ICA) as part of the overall risk and capital management framework.

In our view, examples of key questions that Boards need to consider include:

- Does management take decisions in line with our risk appetite?
- Is risk and capital management embedded effectively in the firm's business processes?
- Is risk mitigation appropriate and how well will it perform in adverse scenarios?
- How do we gain assurance within the firm that our data and our internal models are appropriately controlled and based on sound assumptions?
- Does management appreciate the limitations of the firm's internal models?
- Have we subjected our model to appropriate sensitivity and back-testing? For example, how well did our model project the impact from the current market turbulence? Is management comfortable with the results?

It is appropriate for the Board to demonstrate that they have sufficient comfort that these questions are being dealt with effectively on an ongoing basis. Linking risk and capital management on a day to day basis to remuneration, and extending the scope of Arrow visits, may help facilitate embedding.