Banc Ceannais na hÉireann
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Dear Appointed Actuary,

For the purpose of end 2014 valuations of life assurance undertakings, consideration has been given in the light of current circumstances to (i) the future investment rate specified at Section 7 (8) of Annex IV to the European Communities (Life Assurance) Framework Regulations 1994, (ii) the resilience test to be applied, and (iii) the yields on variable interest investments to be used in valuing liabilities.

In regard to (i), the yield to be assumed on investments matching euro liabilities to be made more than three years after the valuation date should not exceed 3.50% (before tax). This rate is a maximum and the actuary's actual assumption would be expected to take account of current yields in the context of the particular valuation and the nature of the business. The assumption actually made should be specified in Schedule 4 of the Statutory Returns. In the case of non-euro liabilities, equivalently prudent assumptions should be used by reference to end year yields in the relevant currencies and, again, the assumptions made should be specified in the Schedule 4 report.

The standard resilience test should be applied on three different scenarios, as follows:

(a) a reduction in fixed interest yields of 0.75% combined with a fall in equity and property values of 15%;

(b) a reduction in fixed interest yields of 0.5% combined with a fall in equity and property values of 25%; and

(c) a rise in fixed interest yields of 1% combined with a fall in equity and property values of 25% (in this scenario, the future investment yield assumption may be relaxed to 4.50%).

The effects of more extreme variations, including movements in credit spreads across all bonds and volatilities, should also be considered in relation to the solvency margin held and analyses on a cash flow basis carried out. To this end an increase in credit spreads of at least 50% of their current level should be included in each scenario above. The Schedule 4 report should specify the resilience and cash flow tests carried out, indicating any additional reserves established as a result. However, simple resilience tests may not be sufficiently sophisticated tools in current environments to ensure that the Appointed Actuary is meeting the requirements of Paragraph 3.2.4 of ASP LA 3 and more detailed analysis may be required.

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Appointed Actuaries may, in the case of listed investments to which Section 7 (6) of Annex IV to the European Communities (Life Assurance) Framework Regulations 1994 apply, use the average of the dividend yield and the current earnings yield on individual stocks, subject to a maximum of 75% of the earnings yield, for the purpose of determining an appropriate yield for valuing liabilities.

With the implementation of Solvency II on 1st January 2016, and notwithstanding the transitional measures available after this date, Companies may be considering changes to the investment portfolios during 2015 to better match their liability profile under Solvency II. Whilst there will be no relaxation of the valuation rules set out in Annex 4 of the 1994 Regulations it is not the intention of the Central Bank to set out minimum standards for the resilience test for the end 2015 valuation. It will be left to the Appointed Actuary's discretion as to how they comply with the requirements of the 1994 Regulations and ASP LA-3 during the latter part of 2015.

Yours sincerely,

Mark Burke
Head, Life Insurance Supervision